

**OFFICIAL STATEMENT**  
**Dated September 17, 2024**

**NEW ISSUE - BOOK-ENTRY-ONLY**

**Rating: S&P – “AA”/“A+” (Enhanced/Unenhanced)**  
**(See “OTHER PERTINENT INFORMATION -**  
**Municipal Bond Rating,” “BOND INSURANCE” and**  
**“BOND INSURANCE GENERAL RISKS” herein)**

*In the opinion of Bond Counsel (defined herein), assuming continuing compliance by the City (defined herein) after the date of initial delivery of the Certificates (defined herein) with certain covenants contained in the Ordinance (defined herein) and subject to the matters set forth under “TAX MATTERS” herein, interest on the Certificates for federal income tax purposes under existing statutes, regulations, published rulings, and court decisions (1) will be excludable from the gross income of the owners thereof pursuant to section 103 of the Internal Revenue Code of 1986, as amended to the date of initial delivery of the Certificates, and (2) will not be included in computing the alternative minimum taxable income of the owners thereof who are individuals. See “TAX MATTERS” herein.*

**THE CERTIFICATES HAVE BEEN DESIGNATED AS “QUALIFIED TAX-EXEMPT OBLIGATIONS” FOR FINANCIAL INSTITUTIONS**

**\$6,760,000**

**CITY OF MERCEDES, TEXAS**

**(A political subdivision of the State of Texas located in Hidalgo County)**

**COMBINATION TAX AND LIMITED PLEDGE REVENUE**

**CERTIFICATES OF OBLIGATION, SERIES 2024**

**Dated Date: September 1, 2024**

**Due: February 15, as shown on page -i- herein**

The City of Mercedes, Texas Combination Tax and Limited Pledge Revenue Certificates of Obligation, Series 2024 (the “Certificates”) are being issued pursuant to the Constitution and general laws of the State of Texas (the “State”), including the Certificate of Obligation Act of 1971, as amended, Texas Local Government Code, Section 271.041 through Section 271.064, Chapter 1502, as amended, Texas Government Code, an ordinance (the “Ordinance”) of the City Commission of the City of Mercedes, Texas (the “City”) adopted on September 17, 2024 and the City’s Home Rule Charter.

The Certificates constitute direct and general obligations of the City payable primarily from ad valorem taxes levied against all taxable property therein, within the limits prescribed by law. (See “AD VALOREM PROPERTY TAXATION.”) In addition, the Certificates are further secured by a lien on and pledge of the Pledged Revenues (being a limited amount of the Net Revenues derived from the operation of the City’s combined waterworks and sewer system (the “System”) not to exceed \$1,000 during the entire period the Certificates or interest thereon remain outstanding) such lien and pledge, however, being subordinate and inferior to the lien on and pledge of the Net Revenues which are or may be pledged to the payment of the City’s currently outstanding Prior Lien Obligations and Subordinate Lien Obligations or any Additional Prior Lien Obligations, Junior Lien Obligations, or Additional Subordinate Lien Obligations hereafter issued by the City (as each such term is described and defined in the Ordinance). In the Ordinance, the City has reserved the right to issue Additional Prior Lien Obligations, Junior Lien Obligations, Additional Subordinate Lien Obligations, and Additional Limited Pledge Obligations without limitation as to principal amount but subject to any terms, conditions, or restrictions as may be applicable thereto under law or otherwise. (See “THE CERTIFICATES

- Security for Payment” and “AD VALOREM PROPERTY TAXATION” herein.)

Interest on the Certificates will accrue from the Delivery Date as shown below and will be payable on February 15 and August 15 of each year, commencing February 15, 2025, until stated maturity or prior redemption, and will be calculated on the basis of a 360-day year of twelve 30-day months. The definitive Certificates will be issued as fully registered obligations in book-entry form only and when issued will be registered in the name of Cede & Co., as nominee of The Depository Trust Company (“DTC”), New York, New York. DTC will act as securities depository. Book entry interests in the Certificates will be made available for purchase in the principal amount of \$5,000 or any integral multiple thereof. Purchasers of the Certificates (“Beneficial Owners”) will not receive physical delivery of certificates representing their interest in the Certificates purchased. So long as DTC or its nominee is the registered owner of the Certificates, the principal of and interest on the Certificates will be payable by U.S. Bank Trust Company, National Association, Houston, Texas as the initial paying agent/registrant (the “Paying Agent/Registrar”) to the securities depository, which will in turn remit such principal and interest to its participants, which will in turn remit such principal and interest to the Beneficial Owners of the Certificates. (See “BOOK-ENTRY-ONLY SYSTEM” herein.)

The proceeds of the Certificates will be used for the purpose or purposes of: paying contractual obligations of the City to be incurred for making permanent public improvements and for other public purposes, to-wit: (1) designing, planning, building, improving, extending, enlarging, and repairing the City’s utility system; (2) constructing street and bridge improvements (including utilities repair, replacement, and relocation), curbs, gutters, street lighting, technology improvements, signage, acquiring lands and rights-of way necessary for streets, bridges, and sidewalk improvements, including drainage and landscaping incidental thereto; (3) acquiring vehicles and equipment for various City departments, including a brush truck; (4) the purchase of materials, supplies, equipment, machinery, landscaping, land, and rights-of-way for authorized needs and purposes; and (5) payment for professional services relating to the design, construction, project management, and financing of the aforementioned projects. (See “THE CERTIFICATES - Use of Proceeds herein.”)



The scheduled payment of principal and interest on the Certificates when due will be guaranteed under a municipal bond insurance policy to be issued concurrently with the delivery of the Certificates by Build America Mutual Assurance Company (“BAM”) (see “BOND INSURANCE,” “BOND INSURANCE RISK FACTORS,” and “OTHER INFORMATION - Ratings” herein).

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**For Maturity Schedule, Principal Amounts, Interest Rates, Initial Yields, CUSIP Numbers, and Redemption Provisions for the Certificates See Inside page Of This Front Cover.**

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*The Certificates are offered for delivery, when, as and if issued and received by the initial purchaser thereof named below (the “Underwriter”) and subject to the approving opinion of the Attorney General of the State of Texas and the approval of certain legal matters by Norton Rose Fulbright US LLP, Austin, Texas, Bond Counsel. See “LEGAL MATTERS” herein for a discussion of Bond Counsel’s legal opinion. Certain legal matters also will be passed upon for the Underwriter by its counsel, Orrick, Herrington & Sutcliffe LLP, Austin, Texas. It is expected that the Certificates will be available for delivery through the services of DTC on or about October 3, 2024 (the “Delivery Date”).*

**SAMCO CAPITAL**

**\$6,760,000**  
**COMBINATION TAX AND LIMITED PLEDGE REVENUE**  
**CERTIFICATES OF OBLIGATION, SERIES 2024**

**CUSIP NO. PREFIX: 587686**

**\$4,140,000 Serial Certificates**

Maturity (February 15)	Principal Amount	Interest Rate	Initial Yield	CUSIP <sup>(1)</sup> Suffix
2025	\$ 680,000	5.00%	3.00%	PJ9
2026	50,000	5.00%	2.91%	PK6
2027	100,000	5.00%	2.94%	PL4
2028	150,000	5.00%	2.95%	PM2
2029	160,000	5.00%	3.00%	PN0
2030	170,000	5.00%	3.00%	PP5
2031	175,000	5.00%	3.07%	PQ3
2032	185,000	5.00%	3.15%	PR1
2033	195,000	5.00%	3.17%	PS9
2034	205,000	5.00%	3.21%	PT7
2035	215,000	5.00%	3.28%	<sup>(2)</sup> PU4
2036	225,000	5.00%	3.32%	<sup>(2)</sup> PV2
2037	240,000	5.00%	3.36%	<sup>(2)</sup> PW0
2038	250,000	5.00%	3.42%	<sup>(2)</sup> PX8
2039	265,000	5.00%	3.50%	<sup>(2)</sup> PY6
2040	280,000	5.00%	3.58%	<sup>(2)</sup> PZ3
2041	290,000	5.00%	3.65%	<sup>(2)</sup> QA7
2042	305,000	5.00%	3.69%	<sup>(2)</sup> QB5

(Interest to accrue from the Delivery Date)

**\$2,620,000 Term Certificates**

\$665,000 – 5.00% - Term Bonds Due February 15, 2044 – Priced to Yield 3.77%<sup>(2)</sup> CUSIP No. Suffix QF6<sup>(1)</sup>

\$730,000 – 5.00% - Term Bonds Due February 15, 2046 – Priced to Yield 3.86%<sup>(2)</sup> CUSIP No. Suffix QD1<sup>(1)</sup>

\$1,225,000 – 4.00% - Term Bonds Due February 15, 2049 – Priced to Yield 4.16% CUSIP No. Suffix QE9<sup>(1)</sup>

(Interest to accrue from the Delivery Date)

The City reserves the right to redeem the Certificates maturing on and after February 15, 2035 in whole or in part, in the principal amount of \$5,000 or any integral multiple thereof (and, if less than all Certificates within a stated maturity are redeemed, selected by lot by the Paying Agent/Registrar), on February 15, 2034, or any date thereafter, at the redemption price of par plus accrued interest to the date fixed for redemption. In addition, the Certificates maturing on February 15, 2044, February 15, 2046, and February 15, 2049 are also subject to mandatory sinking fund redemption. (See "THE CERTIFICATES – Redemption Provisions of the Certificates" herein).

<sup>(1)</sup> CUSIP numbers are included solely for the convenience of owners of the Certificates. CUSIP is a registered trademark of the American Bankers Association. CUSIP data herein is provided by CUSIP Global Services, managed by FactSet Research Systems, Inc., on behalf of American Bankers Association. CUSIP numbers have been assigned to this issue by the CUSIP Service Bureau and are included solely for convenience of the owners of the Certificates. This data is not intended to create a database and does not serve in any way as a substitute for the CUSIP Services. None of the Underwriter, the City or the Financial Advisor is responsible for the selection or correctness of the CUSIP numbers set forth herein.

<sup>(2)</sup> Yield calculated based on the assumption that the Certificates denoted and sold at a premium will be redeemed February 15, 2034, the first optional call date for the Certificates, at a redemption price of par, plus accrued interest to the redemption date.

**CITY OF MERCEDES, TEXAS  
400 South Ohio  
Mercedes, Texas 78570**

**CITY COMMISSION**

<b>Name</b>	<b>Position</b>	<b>Years of Service</b>	<b>Term Expires</b>	<b>Occupation</b>
Oscar D. Montoya Sr.	Mayor	4 years	May, 2026	Law Enforcement
Dr. Ruben J. Saldaña	Mayor Pro-Tem	2 years	May, 2025	Administrator
Dr. Jacob C. Howell	Commissioner	4 years	May, 2026	Educator/Business Owner
Armando Garcia	Commissioner	2 years	May, 2025	Insurance Agent
Joe Martinez	Commissioner	4 years	May, 2026	Law Clerk/Owner Laguna Cowboy

**ADMINISTRATION**

<b>Name</b>	<b>Position</b>	<b>Years of Service with City</b>
Alberto Perez	City Manager	3 years
Joselynn Castillo	City Secretary	12 years
Meredith Hernandez	Assistant Finance Director	20 years

**CONSULTANTS AND ADVISORS**

Adrian Webb, CPA Edinburg, Texas	Auditors
Norton Rose Fulbright US LLP Austin and San Antonio, Texas	Bond Counsel
Estrada Hinojosa San Antonio and Edinburg, Texas	Financial Advisor

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## USE OF INFORMATION IN OFFICIAL STATEMENT

No dealer, broker, salesman, or other person has been authorized by the City to give any information or to make any representation with respect to the Certificates, other than as contained in this Official Statement, and if given or made, such other information or representations must not be relied upon as having been authorized by either of the foregoing.

This Official Statement, which includes the cover page and appendices thereto, does not constitute an offer to sell or a solicitation of an offer to buy, nor shall there be any sale of the Certificates by any person, in any jurisdiction in which it is unlawful for such person to make such offer, solicitation, or sale. The information set forth herein has been obtained from sources which are believed to be reliable but is not guaranteed as to accuracy or completeness and is not to be construed as a representation by the Underwriter.

The information and expressions of opinion herein are subject to change without notice, and neither the delivery of this Official Statement nor any sale made hereunder shall under any circumstances create any implication that there has been no change in the information or opinions set forth herein after the date of this Official Statement.

The Underwriter has provided the following sentence for inclusion in this Official Statement. The Underwriter has reviewed the information in this Official Statement pursuant to its responsibilities to investors under the federal securities laws, but the Underwriter does not guarantee the accuracy or completeness of such information.

THE CERTIFICATES ARE EXEMPT FROM REGISTRATION WITH THE UNITED STATES SECURITIES AND EXCHANGE COMMISSION AND CONSEQUENTLY HAVE NOT BEEN REGISTERED THEREWITH. THE REGISTRATION, QUALIFICATION, OR EXEMPTION OF THE CERTIFICATES IN ACCORDANCE WITH APPLICABLE SECURITIES LAW PROVISIONS OF THE JURISDICTIONS IN WHICH THESE CERTIFICATES HAVE BEEN REGISTERED, QUALIFIED, OR EXEMPTED SHOULD NOT BE REGARDED AS A RECOMMENDATION FOR THE PURCHASE THEREOF.

IN CONNECTION WITH THIS OFFERING, THE UNDERWRITER MAY OVER-ALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE THE MARKET PRICE OF THIS ISSUE AT A LEVEL ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

None of the City, the Financial Advisor, or the Underwriter makes any representation or warranty with respect to the information contained in this Official Statement regarding The Depository Trust Company ("DTC") or its book-entry-only system described under the caption "BOOK-ENTRY-ONLY SYSTEM", or BAM and its municipal bond insurance policy described herein (or incorporated by reference) under the heading "BOND INSURANCE", as such information has been provided by DTC and BAM, respectively.

The agreements of the City and others related to the Certificates are contained solely in the contracts described herein. Neither this Official Statement, nor any other statement made in connection with the offer or sale of the Certificates, is to be construed as constituting an agreement with the purchasers of the Certificates. INVESTORS SHOULD READ THE ENTIRE OFFICIAL STATEMENT, INCLUDING ALL APPENDICES ATTACHED HERETO, TO OBTAIN INFORMATION ESSENTIAL TO MAKING AN INFORMED INVESTMENT DECISION WITH RESPECT TO THE CERTIFICATES.

Build America Mutual Assurance Company ("BAM") makes no representation regarding the Bonds or the advisability of investing in the Bonds. In addition, BAM has not independently verified, makes no representation regarding, and does not accept any responsibility for the accuracy or completeness of this Official Statement or any information or disclosure contained herein, or omitted herefrom, other than with respect to the accuracy of the information regarding BAM, supplied by BAM and presented under the heading "Bond Insurance" and "Appendix E - Specimen Municipal Bond Insurance Policy".

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The cover page hereof, the appendices herein and any addenda, supplement or amendment hereto are part of this Official Statement.

**OFFICIAL STATEMENT SUMMARY INFORMATION**

The following information is qualified in its entirety by more detailed information and financial statements appearing elsewhere in this Official Statement:

THE ISSUER .....	The City of Mercedes, Texas (the "City") is a home rule municipality operating under its own Home Rule Charter and is a political subdivision of the State of Texas (the "State"), located in Hidalgo County, Texas. For more information regarding the City and its economy, see "APPENDIX B – GENERAL INFORMATION REGARDING THE CITY OF MERCEDES AND ITS ECONOMY."
THE CERTIFICATES .....	The Certificates are issued as "City of Mercedes, Texas Combination Tax and Limited Pledge Revenue Certificates of Obligation, Series 2024" (the "Certificates"). The Certificates are being issued pursuant to the Constitution and general laws of the State of Texas (the "State"), including the Certificate of Obligation Act of 1971, as amended, Texas Local Government Code, Section 271.041 through Section 271.064, Chapter 1502, as amended, Texas Government Code, an ordinance (the "Ordinance") of the City Commission of the City of Mercedes, Texas (the "City") adopted on September 17, 2024 and the City's Home Rule Charter.
DATED DATE .....	September 1, 2024.
REDEMPTION .....	Certificates stated to mature on and after February 15, 2035 are subject to optional redemption, in whole or in part, in principal amounts of \$5,000 or any integral multiple thereof (and, if less than all Certificates within a stated maturity are redeemed, selected by lot by the Paying Agent/Registrar) on February 15, 2034, or any date thereafter, at a price of par (100%) plus accrued interest to the date fixed for redemption. In addition, the Certificates maturing on February 15, 2044, February 15, 2046, and February 15, 2049 are also subject to mandatory sinking fund redemption. (See "THE CERTIFICATES - Redemption Provisions of the Certificates" herein.)
PAYING AGENT/REGISTRAR .....	The initial Paying Agent/Registrar is U.S. Bank Trust Company, National Association, Houston, Texas.
SECURITY FOR THE CERTIFICATES .....	The Certificates constitute direct and general obligations of the City payable primarily from ad valorem taxes levied annually against all taxable property therein, within the limits prescribed by law. (See "THE CERTIFICATES - Security for Payment" and "AD VALOREM PROPERTY TAXATION" herein). In addition, the Certificates are further secured by a lien on and pledge of the Pledged Revenues (being a limited amount of the Net Revenues derived from the operation of the City's combined waterworks and sewer system (the "System") not to exceed \$1,000 during the entire period the Certificates or interest thereon remain outstanding) such lien and pledge, however, being subordinate and inferior to the lien on and pledge of the Net Revenues which are or may be pledged to the payment of the City's currently outstanding Prior Lien Obligations and Subordinate Lien Obligations or any Additional Prior Lien Obligations, Junior Lien Obligations, or Additional Subordinate Lien Obligations hereafter issued by the City (as each such term is described and defined in the Ordinance). In the Ordinance, the City has reserved the right to issue Additional Prior Lien Obligations, Junior Lien Obligations, Additional Subordinate Lien Obligations, and Additional Limited Pledge Obligations without limitation as to principal amount but subject to any terms, conditions, or restrictions as may be applicable thereto under law or otherwise. (See "THE CERTIFICATES - Security for Payment" and "AD VALOREM PROPERTY TAXATION" herein.)

Book-Entry-Only System .....	The City intends to utilize the Book-Entry-Only System of The Depository Trust Company, New York, New York relating to the method and timing of payment as to principal and interest of the Certificates and the method of transfer. (See "BOOK-ENTRY-ONLY SYSTEM" herein.)
TAX EXEMPTION .....	In the opinion of Bond Counsel, the interest on the Certificates will be excludable from gross income for federal tax purposes under statutes, regulations, published rulings and court decisions existing on the date thereof, subject to the matters described under the caption "TAX MATTERS" herein, including the alternative minimum tax of the owners thereof who are individuals.
USE OF PROCEEDS .....	The proceeds of the Certificates will be used for the purpose or purposes of: paying contractual obligations of the City to be incurred for making permanent public improvements and for other public purposes, to-wit: (1) designing, planning, building, improving, extending, enlarging, and repairing the City's utility system; (2) constructing street and bridge improvements (including utilities repair, replacement, and relocation), curbs, gutters, street lighting, technology improvements, signage, acquiring lands and rights-of way necessary for streets, bridges, and sidewalk improvements, including drainage and landscaping incidental thereto; (3) acquiring vehicles and equipment for various City departments, including a brush truck; (4) the purchase of materials, supplies, equipment, machinery, landscaping, land, and rights-of-way for authorized needs and purposes; and (5) payment for professional services relating to the design, construction, project management, and financing of the aforementioned projects. See "THE CERTIFICATES - Use of Proceeds" herein.)
RATING .....	S&P Global Ratings, a business unit of Standard & Poor's Financial Services LLC ("S&P") has assigned a rating of "AA" (stable outlook) to the Certificates based on the financial guaranty insurance policy of BAM to be issued simultaneously with the delivery of the Certificates. The Certificates and the presently outstanding ad valorem tax debt of the City have an unenhanced rating of "A+" (Stable Outlook) by S&P Global Ratings, a business unit of Standard & Poor's Financial Services LLC ("S&P"). (See "BOND INSURANCE" and "OTHER PERTINENT INFORMATION – Municipal Bond Rating" herein.)
QUALIFIED TAX-EXEMPT OBLIGATIONS .....	The City has designated the Certificates as "Qualified Tax-Exempt Obligations" for financial institutions. (See "TAX MATTERS – Qualified Tax-Exempt Obligations for Financial Institutions" herein.)
FUTURE BOND ISSUES.....	The City has made application to the Texas Water Development Board (TWDB) and does anticipate an additional debt issuance supported by the Utility System in Fiscal Year 2025, however, the amount is still being determined.
PAYMENT RECORD .....	The City has never defaulted on general obligation bonds since refunding bonds were issued at par for original indebtedness under a forced refunding which involved a reduction in interest rate. However in 1941, all bonds were again refunded at par pursuant to a Federal Court decree entered in a proceeding filed under the Municipal Composition Act, such decree providing for the settlement of 3% interest coupons due May 1, 1941 on the basis of 1½ %. Since the 1941 refunding, the City retired \$582,000 in principal at varying discounts pursuant to bonds tendered in accordance with the plan of refunding. On April 24, 1961, the Federal Court decree covering this issue was dismissed and the balance of \$475,000 refunded by an issue dated May 1, 1961 is now retired. (See "THE CERTIFICATES – Payment Record" herein.)
DELIVERY DATE.....	When issued, anticipated on or about October 3, 2024.
LEGALITY .....	The Certificates are subject to the approval of legality by the Attorney General of the State of Texas and the approval of certain legal matters by Norton Rose Fulbright US LLP, Austin and San Antonio, Texas, as Bond Counsel. (See "APPENDIX D – FORM OF OPINION OF BOND COUNSEL" herein.)
BOND INSURANCE .....	The scheduled payment of principal and interest on the Certificates when due will be guaranteed under a municipal bond insurance policy to be issued concurrently with the delivery of the Certificates by Build America Mutual Assurance Company. (See "BOND INSURANCE" and "BOND INSURANCE GENERAL RISKS" herein.)

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**OFFICIAL STATEMENT RELATED TO**  
**\$6,760,000**  
**CITY OF MERCEDES, TEXAS**  
**(A political subdivision of the State of Texas located in Hidalgo County, Texas)**  
**COMBINATION TAX AND LIMITED PLEDGE REVENUE**  
**CERTIFICATES OF OBLIGATION, SERIES 2024**

**INTRODUCTION**

This Official Statement of the City of Mercedes, Texas (the "City") is provided to furnish certain information in connection with the sale of the City's \$6,760,000 Combination Tax and Limited Pledge Revenue Certificates of Obligation, Series 2024 (the "Certificates").

This Official Statement, which includes the cover page and the appendices hereto, provides certain information about the City and its finances. All descriptions of documents contained herein are only summaries and are qualified in their entirety by reference to each such document. Copies of such documents may be obtained upon request from the City and, during the offering period, from the City's Financial Advisor, Estrada Hinojosa, 14414 Blanco Road, Suite 320, San Antonio, Texas 78216, by electronic mail or upon payment of reasonable copying, mailing, and handling charges.

This Official Statement speaks only as to its date, and the information contained herein is subject to change. A copy of the Official Statement pertaining to the Certificates will be filed by the Underwriter with the Municipal Securities Rulemaking Board through its Electronic Municipal Markets Access ("EMMA") system. See "CONTINUING DISCLOSURE OF INFORMATION" herein for a description of the City's undertaking to provide certain information on a continuing basis. Capitalized terms used, but not defined herein, shall have the meanings ascribed thereto in the Ordinance (defined below).

**THE CERTIFICATES**

**Authority for Issuance**

The Certificates are being issued pursuant to the Constitution and general laws of the State of Texas (the "State"), including the Certificate of Obligation Act of 1971, as amended, Texas Local Government Code Section 271.041 through Section 271.064, Chapter 1502, as amended, Texas Government Code, an ordinance (the "Ordinance") adopted by the City Commission of the City on September 17, 2024 and the City's Home Rule Charter.

**General Description**

The Certificates are dated September 1, 2024 (the "Dated Date") and will accrue interest from the Delivery Date (hereinafter defined), and such interest shall be payable on February 15 and August 15 in each year, commencing February 15, 2025, until stated maturity or prior redemption. The Certificates will mature on the dates, in the principal amounts and will bear interest at the rates set forth on the inside cover page of this Official Statement.

Interest on the Certificates is payable to the registered owners appearing on the bond registration books of the Paying Agent/Registrar on the Record Date (defined below) and such interest shall be paid by the Paying Agent/Registrar (i) by check sent by United States mail, first class postage prepaid, to the address of the registered owner recorded in the bond register or (ii) by such other method, acceptable to the Paying Agent/Registrar, requested by, and at the risk and expense of, the registered owner. The principal of the Certificates is payable at maturity or redemption, upon their presentation and surrender to the Paying Agent/Registrar. The Certificates will be issued only in fully registered form in any integral multiple of \$5,000 principal for any one maturity.

Initially the Certificates will be registered and delivered only to Cede & Co., the nominee of The Depository Trust Company ("DTC") pursuant to the Book-Entry-Only System described herein. **No physical delivery of the Certificates will be made to the owners thereof.** Notwithstanding the foregoing, as long as the Certificates are held in the Book-Entry-Only System, principal of, premium, if any, and interest on the Certificates will be payable by the Paying Agent/Registrar to Cede & Co., which will make distribution of the amounts so paid to the participating members of DTC for subsequent payment to the Beneficial Owners of the Certificates. See "BOOK-ENTRY-ONLY SYSTEM" herein.

**Use of Proceeds**

The proceeds of the Certificates will be used for the purpose or purposes of: paying contractual obligations of the City to be incurred for making permanent public improvements and for other public purposes, to-wit: (1) designing, planning, building, improving, extending, enlarging, and repairing the City's utility system; (2) constructing street and bridge improvements (including utilities repair, replacement, and relocation), curbs, gutters, street lighting, technology improvements, signage, acquiring lands and rights-of way necessary for streets, bridges, and sidewalk improvements, including drainage and landscaping incidental thereto; (3) acquiring vehicles and equipment for various City departments, including a brush truck; (4) the purchase of materials, supplies, equipment, machinery, landscaping, land, and rights-of-way for authorized needs and purposes; and (5) payment for professional services relating to the design, construction, project management, and financing of the aforementioned projects.

## Security for Payment

The Certificates constitute direct and general obligations of the City payable primarily from ad valorem taxes levied annually against all taxable property therein, within the limits prescribed by law. See "AD VALOREM PROPERTY TAXATION." In addition, the Certificates are further secured by a lien on and pledge of the Pledged Revenues (being a limited amount of the Net Revenues derived from the operation of the City's combined waterworks and sewer system (the "System") not to exceed \$1,000 during the entire period the Certificates or interest thereon remain outstanding) such lien and pledge, however, being subordinate and inferior to the lien on and pledge of the Net Revenues which are or may be pledged to the payment of the City's currently outstanding Prior Lien Obligations and Subordinate Lien Obligations or any Additional Prior Lien Obligations, Junior Lien Obligations, or Additional Subordinate Lien Obligations hereafter issued by the City (as each such term is described and defined in the Ordinance). In the Ordinance, the City has reserved the right to issue Additional Prior Lien Obligations, Junior Lien Obligations, Additional Subordinate Lien Obligations, and Additional Limited Pledge Obligations without limitation as to principal amount but subject to any terms, conditions, or restrictions as may be applicable thereto under law or otherwise. See "AD VALOREM PROPERTY TAXATION" herein.

## Redemption Provisions of the Certificates

**Optional Redemption.** The City reserves the right to redeem the Certificates maturing on and after February 15, 2035 in whole or in part, in the principal amount of \$5,000 or any integral multiple thereof, on February 15, 2034, or any date thereafter, at the redemption price of par plus accrued interest to the date fixed for redemption. The years of maturity of the Certificates called for redemption shall be selected by the City.

**Mandatory Sinking Fund Redemption.** The Certificates maturing on February 15, 2044, February 15, 2046, and February 15, 2049 (the "Term Certificates") will also be subject to mandatory sinking fund redemption. The Term Notes are subject to mandatory sinking fund redemption in part prior to their stated maturity, and will be redeemed by the Issuer at the redemption prices equal to the principal amounts thereof plus interest accrued thereon to the redemption dates, on the dates and in the principal amounts shown in the following schedule:

Term Bonds - 5.00%		Term Bonds - 5.00%		Term Bonds - 4.00%	
<u>Maturing February 15, 2044</u>		<u>Maturing February 15, 2046</u>		<u>Maturing February 15, 2049</u>	
<u>Redemption</u>	<u>Principal</u>	<u>Redemption</u>	<u>Principal</u>	<u>Redemption</u>	<u>Principal</u>
<u>Date (2/15)</u>	<u>Amount (\$)</u>	<u>Date (2/15)</u>	<u>Amount (\$)</u>	<u>Date (2/15)</u>	<u>Amount (\$)</u>
2043	325,000	2045	355,000	2047	390,000
2044*	340,000	2046*	375,000	2048	410,000
				2049*	425,000

\*Stated Maturity.

The principal amount of Term Certificates required to be redeemed on any mandatory redemption date pursuant to the operation of the mandatory sinking fund redemption provisions shall be reduced, at the option of the City, by the principal amount of any Term Certificates which, at least forty-five (45) days prior to a mandatory redemption date (1) shall have been acquired by the City at a price not exceeding the principal amount of such Term Certificates plus accrued interest to the date of purchase thereof, and delivered to the Paying Agent/Registrar for cancellation, (2) shall have been purchased and canceled by the Paying Agent/Registrar at the request of the City at a price not exceeding the principal amount of such Term Certificates plus accrued interest to the date of purchase, or (3) shall have been redeemed pursuant to the optional redemption provisions and not theretofore credited against a mandatory redemption requirement.

## Selection of Certificates for Redemption

If less than all of the Certificates are redeemed within a stated maturity at any time, the Certificates to be redeemed shall be selected by the Paying Agent/Registrar at random and by lot or other customary method in multiples of \$5,000 within any stated maturity.

## Notice of Redemption

Not less than 30 days prior to a redemption date for the Certificates, the City shall cause a notice of redemption to be sent by United States mail, first class, postage prepaid, to each registered owner of a Certificate to be redeemed, in whole or in part, at the address of the registered owner appearing on the registration books relating to the Certificates kept by the Paying Agent/Registrar (the "Security Register") at the close of business on the business day next preceding the date of mailing such notice. ANY NOTICE OF REDEMPTION SO MAILED SHALL BE CONCLUSIVELY PRESUMED TO HAVE BEEN DULY GIVEN IRRESPECTIVE OF WHETHER ONE OR MORE CERTIFICATEHOLDERS FAILED TO RECEIVE SUCH NOTICE.

All notices of redemption shall (i) specify the date of redemption for the Certificates, (ii) identify the Certificates to be redeemed and, in the case of a portion of the principal amount to be redeemed, the principal amount thereof to be redeemed, (iii) state the redemption price, (iv) state the Certificates, or the portion of the principal amount thereof to be

redeemed, shall become due and payable on the redemption date specified, and the interest thereon, or on the portion of the principal amount thereof to be redeemed, shall cease to accrue from and after the redemption date, and (v) specify that payment of the redemption price for the Certificates, or the principal amount thereof to be redeemed, shall be made at the designated corporate trust office of the Paying Agent/Registrar only upon presentation and surrender thereof by the registered owner. If a Certificate is subject by its terms to redemption and has been called for redemption and notice of redemption thereof has been duly given or waived as provided in the Ordinance, such Certificate (or the principal amount thereof to be redeemed) so called for redemption shall become due and payable, and on the redemption date designated in such notice, interest on said Certificate (or the principal amount thereof to be redeemed) called for redemption shall cease to accrue and such Certificate shall not be deemed to be Outstanding.

The Paying Agent/Registrar and the City, so long as a Book-Entry-Only System is used for the Certificates, will mail any notice of redemption, notice of proposed amendment to the Ordinance or other notices with respect to the Certificates only to DTC. Any failure by DTC to advise any DTC participant, or of any DTC participant or indirect participant to notify the Beneficial Owner, shall not affect the validity of the redemption of the Certificates called for redemption or any other action premised on any such notice. Redemption of portions of the Certificates held by the City will reduce the outstanding principal amount of such Certificates held by DTC. In such event, DTC may implement, through its Book-Entry-Only System, a redemption of such Certificates held for the account of DTC participants in accordance with its rules or other agreements with DTC participants and then DTC participants and indirect participants may implement a redemption of such Certificates from the Beneficial Owners. Any such selection of Certificates to be redeemed will not be governed by the Ordinance and will not be conducted by the City or the Paying Agent/Registrar. Neither the City nor the Paying Agent/Registrar will have any responsibility to DTC participants, indirect participants or the persons for whom DTC participants act as nominees, with respect to the payments on the Certificates or the providing of notice to DTC participants, indirect participants, or Beneficial Owners of the selection of portions of the Certificates for redemption. See "BOOK-ENTRY-ONLY SYSTEM" herein.

### **Legality**

The Certificates are subject to the approval of legality by the Attorney General of the State of Texas and the approval of certain legal matters by Norton Rose Fulbright US LLP, Austin and San Antonio, Texas, Bond Counsel. The legal opinion of Bond Counsel will accompany the Certificates deposited with DTC or will be printed on the Certificates. A form of the legal opinion of Bond Counsel appears in APPENDIX D attached hereto.

### **Delivery**

When issued; anticipated on or about October 3, 2024 (the "Delivery Date").

### **Payment Record**

The City has never defaulted on general obligation bonds since refunding bonds were issued at par for original indebtedness under a forced refunding which involved a reduction in interest rate. However in 1941, all bonds were again refunded at par pursuant to a Federal Court decree entered in a proceeding filed under the Municipal Composition Act, such decree providing for the settlement of 3% interest coupons due May 1, 1941 on the basis of 1½ %. Since the 1941 refunding, the City retired \$582,000 in principal at varying discounts pursuant to bonds tendered in accordance with the plan of refunding. On April 24, 1961, the Federal Court decree covering this issue was dismissed and the balance of \$475,000 refunded by an issue dated May 1, 1961 is now retired.

### **Future Bond Issues**

The City has made application to the Texas Water Development Board (TWDB) and does anticipate an additional debt issuance supported by the Utility System in Fiscal Year 2025, however, the amount is still being determined.

### **Defeasance**

Any Certificate will be deemed paid and shall no longer be considered to be outstanding within the meaning of the Ordinance when payment of the principal of and interest on such Certificate to its stated maturity or redemption date will have been made or will have been provided by depositing with the Paying Agent/Registrar, or an authorized escrow agent, (1) cash in an amount sufficient to make such payment, (2) Government Obligations (defined below) of such maturities and interest payment dates and bear such interest as will, without further investment or reinvestment of either the principal amount thereof or the interest earnings therefrom, be sufficient to make such payment, or (3) a combination of money and Government Obligations. The foregoing deposits shall be certified as to sufficiency by an independent accounting firm, the City's financial advisor, the Paying Agent/Registrar, or such other qualified institution as specified in the Ordinance.

The Ordinance provides that "Government Obligations" means (a) direct, noncallable obligations of the United States of America, including obligations that are unconditionally guaranteed by the United States of America, (b) noncallable obligations of an agency or instrumentality of the United States of America, including obligations that are unconditionally guaranteed or insured by the agency or instrumentality and that, on the date the governing body of the City authorizes the defeasance, are rated as to investment quality by a nationally recognized investment rating firm not less than "AAA" or its equivalent, (c) noncallable obligations of a state or an agency or a county, municipality, or other political subdivision of a

state that on the date the governing body of the City adopts or approves the proceedings authorizing the financial arrangements have been refunded and are rated as to investment quality by a nationally recognized investment rating firm less than “AAA” or its equivalent, and (d) any additional securities and obligations hereafter authorized by State law as eligible for use to accomplish the discharge of obligations such as the Certificates. The City has additionally reserved the right in the Ordinance, subject to satisfying the requirements of (1) and (2) above, to substitute other Government Obligations originally deposited, to reinvest the uninvested money for such deposit for such defeasance, and to withdraw for the benefit of the City money in excess of the amount required for the defeasance. There is no assurance that the ratings for U.S. Treasury securities acquired to defease any Certificates, or those for any other Government Obligations, will be maintained at any particular rating category. Further, there is no assurance that current State law will not be amended in a manner that expands or contracts the list of permissible defeasance securities (such list consisting of those securities identified in clauses (a) through (c) above), or any rating requirement thereon, that may be purchased with defeasance proceeds relating to the Certificates (“Defeasance Proceeds”), though the City has reserved the right to utilize any additional securities for such purpose in the event the aforementioned list is expanded. Because the Ordinance does not contractually limit such permissible defeasance securities and expressly recognizes the ability of the City to use lawfully available Defeasance Proceeds to defease all or any portion of the Certificates, registered owners of Certificates are deemed to have consented to the use of Defeasance Proceeds to purchase such other defeasance securities, notwithstanding the fact that such defeasance securities may not be of the same investment quality as those currently identified under Texas law as permissible defeasance securities.

Upon such deposit as described above, such Certificates shall no longer be regarded to be outstanding or unpaid for purposes of applying any debt limitation on indebtedness or for purposes of taxation. After firm banking and financial arrangements for the discharge and final payment or redemption of the Certificates have been made as described above, all rights of the City to initiate proceedings to call the Certificates for redemption or take any other action amending the terms of the Certificates are extinguished; provided, however, that the right to call the Certificates for redemption is not extinguished if the City: (i) in the proceedings providing for the firm banking and financial arrangements, expressly reserves the right to call the Certificates for redemption; (ii) gives notice of the reservation of that right to the owners of the Certificates immediately following the making of the firm banking and financial arrangements; and (iii) directs that notice of the reservation be included in any redemption notices that it authorizes.

#### **Amendments**

The City may amend the Ordinance without the consent of or notice to any registered owners in any manner not detrimental to the interests of the registered owners, including the curing of any ambiguity, inconsistency, or formal defect or omission therein. In addition, the City may, with the written consent of the holders of a majority in aggregate principal amount of the Certificates then outstanding, amend, add to, or rescind any of the provisions of the Ordinance; except that, without the consent of all of the registered owners of the Certificates then outstanding, no such amendment, addition, or rescission may (1) change the date specified as the date on which the principal of, or any installment of interest on any Certificate is due and payable, reduce the principal amount thereof, or the rate of interest thereon, the redemption price therefor, or in any other way modify the terms of payment of the principal of, or interest on the Certificates, (2) give any preference to any Certificate over any other Certificate, or (3) reduce the percentage of the aggregate principal amount of Certificates required to be held for consent to any amendment, addition, or waiver.

#### **Defaults and Remedies**

If the City defaults in the payment of principal or interest, or redemption price, on the Certificates when due, or if it fails to make payments into any fund or funds created in the Ordinance, or defaults in the observation or performance of any other covenants, conditions, or obligations set forth in the Ordinance, the registered owners may seek a writ of mandamus to compel City officials to carry out their legally imposed duties with respect to the Certificates, if there is no other available remedy at law to compel performance of the Certificates or the Ordinance and the City’s obligations are not uncertain or disputed. The issuance of a writ of mandamus is controlled by equitable principles, so rests with the discretion of the court, but may not be arbitrarily refused. There is no acceleration of maturity of the Certificates in the event of default and, consequently, the remedy of mandamus may have to be relied upon from year to year. The Ordinance does not provide for the appointment of a trustee to represent the interest of the bondholders upon any failure of the City to perform in accordance with the terms of the Ordinance, or upon any other condition and accordingly all legal actions to enforce such remedies would have to be undertaken at the initiative of, and be financed by, the registered owners. Texas cities are generally immune from suits for money damages for breach of contracts under the doctrine of sovereign immunity. The Texas Supreme Court ruled in *Tooke v. City of Mexia*, 197 S.W.3d 325 (Tex. 2006) (“*Tooke*”) that a waiver of sovereign immunity in a contractual dispute must be provided for by statute in “clear and unambiguous” language.

Furthermore, *Tooke*, and subsequent jurisprudence, held that a municipality is not immune from suit for torts committed in the performance of its proprietary functions, as it is for torts committed in the performance of its governmental functions (the “Proprietary-Governmental Dichotomy”). Governmental functions are those that are enjoined on a municipality by law and are given by the State as a part of the State’s sovereignty, to be exercised by the municipality in the interest of the general public, while proprietary functions are those that a municipality may, in its discretion, perform in the interest of the inhabitants of municipality.

In *Wasson Interests, Ltd., v. City of Jacksonville*, 489 S.W.3d 427 (Tex. 2016) (“*Wasson*”) the Texas Supreme Court (the “Court”) addressed whether the distinction between governmental and proprietary acts (as found in tort-based causes of

action) applies to breach of contract claims against municipalities. The Court analyzed the rationale behind the Proprietary-Governmental Dichotomy to determine that “a city’s proprietary functions are not done pursuant to the ‘will of the people’” and protecting such municipalities “via the [S]tate’s immunity is not an efficient way to ensure efficient allocation of [S]tate resources.” While the Court recognized that the distinction between government and proprietary functions is not clear, the Wasson opinion held that Proprietary-Governmental Dichotomy applies in contract-claims context. The Court reviewed Wasson for a second time and issued an opinion on October 5, 2018, clarifying that to determine whether governmental immunity applies to a breach of contract claim, the proper inquiry is whether the municipality was engaged in a governmental or proprietary function when it entered into the contract, not at the time of the alleged breach. Therefore, in regard to municipal contract cases (as in tort claims), it is incumbent on the courts to determine whether a function is proprietary or governmental based upon the statutory guidance and definitions found in the Texas Civil Practice and Remedies Code.

Notwithstanding the foregoing new case law issued by the Court, such sovereign immunity issues have not been adjudicated in relation to bond matters (specifically, in regard to the issuance of municipal debt). Each situation will be prospectively evaluated based on the facts and circumstances surrounding the contract in question to determine if a suit, and subsequently, a judgment, is justiciable against a municipality.

If a judgment against the City could be obtained, it could not be enforced by direct levy and execution against the City’s property. Further, the registered owners cannot themselves foreclose on property within the City or sell property within the City to enforce the tax lien on taxable property to pay the principal of and interest on the Certificates. As noted above, the Ordinance provides that Certificate holders may exercise the remedy of mandamus to enforce the obligations of the City under the Ordinance. Neither the remedy of mandamus nor any other type of injunctive relief was at issue in *Tooke*, and it is unclear whether *Tooke* will be construed to have any effect with respect to the exercise of mandamus, as such remedy has been interpreted by Texas courts. In general, Texas courts have held that a writ of mandamus may be issued to require public officials to perform ministerial acts that clearly pertain to their duties. Texas courts have held that a ministerial act is defined as a legal duty that is prescribed and defined with a precision and certainty that leaves nothing to the exercise of discretion or judgment, though mandamus is not available to enforce purely contractual duties. However, mandamus may be used to require a public officer to perform legally imposed ministerial duties necessary for the performance of a valid contract to which the State or a political subdivision of the State is a party (including the payment of monies due under a contract). Furthermore, the City is eligible to seek relief from its creditors under Chapter 9 of the U.S. Bankruptcy Code (“Chapter 9”). Although Chapter 9 provides for the recognition of a security interest represented by a specifically pledged source of revenues, the pledge of ad valorem taxes in support of a general obligation of a bankrupt entity is not specifically recognized as a security interest under Chapter 9. Chapter 9 also includes an automatic stay provision that would prohibit, without Bankruptcy Court approval, the prosecution of any other legal action by creditors or bondholders of an entity which has sought protection under Chapter 9. Therefore, should the City avail itself of Chapter 9 protection from creditors, the ability to enforce would be subject to the approval of the Bankruptcy Court (which could require that the action be heard in Bankruptcy Court instead of other federal or state court); and the Bankruptcy Code provides for broad discretionary powers of a Bankruptcy Court in administering any proceeding brought before it. The opinion of Bond Counsel will note that all opinions relative to the enforceability of the Ordinance and the Certificates are qualified with respect to the customary rights of debtors relative to their creditors and by general principles of equity which permit the exercise of judicial discretion.

## **REGISTRATION, TRANSFER, AND EXCHANGE**

### **Paying Agent/Registrar**

The initial Paying Agent/Registrar is U.S. Bank Trust Company, National Association, Houston, Texas. The Certificates will be issued in fully registered form in multiples of \$5,000 for any one stated maturity, and principal and semiannual interest will be paid by the Paying Agent/Registrar. If the Certificates are not held in the Book-Entry-Only System, interest on the Certificates will be paid by check or draft mailed on each interest payment date by the Paying Agent/Registrar to the registered owner at the last known address as it appears on the Paying Agent/Registrar’s books on the Record Date (see “REGISTRATION, TRANSFER AND EXCHANGE - Record Date” herein) or by such other method, acceptable to the Paying Agent/Registrar, requested by and at the risk and expense of the registered owner, and principal of the Certificates will be paid to the registered owner at stated maturity or earlier redemption upon presentation to the Paying Agent/Registrar.

### **Successor Paying Agent/Registrar**

The City covenants that until the Certificates are paid it will at all times maintain and provide a Paying Agent/Registrar. In the Ordinance, the City retains the right to replace the Paying Agent/Registrar. If the Paying Agent/Registrar is replaced by the City, the new Paying Agent/Registrar shall accept the previous Paying Agent/Registrar’s records and act in the same capacity as the previous Paying Agent/Registrar. Any successor Paying Agent/Registrar selected by the City shall be a bank, trust company, financial institution, or other entity duly qualified and legally authorized to serve and perform the duties of Paying Agent/Registrar for the Certificates. Upon any change in the Paying Agent/Registrar for the Certificates, the City will promptly cause a notice thereof to be sent to each registered owner of the Certificates by United States mail, first class, postage prepaid, which notice shall give the address of the new Paying Agent/Registrar.

## **Record Date**

The record date ("Record Date") for determining the person entitled to the payment of interest on a Certificate is the last business day of the month next preceding each interest payment date.

If the date for the payment of the principal of or interest on the Certificates is a Saturday, a Sunday, a legal holiday or a day on which banking institutions in the city where the corporate trust office of the Paying Agent/Registrar is located are authorized by law or executive order to close, then the date for such payment is the next succeeding day which is not such a day and payment on such date will have the same force and effect as if made on the original date payment was due.

## **Special Record Date for Interest Payment**

In the event of a non-payment of interest on a scheduled payment date, and for 30 days thereafter, a new record date for such interest payment (a "Special Record Date") will be established by the Paying Agent/Registrar, if and when funds for the payment of such interest have been received. Notice of the Special Record Date and of the scheduled payment date of the past due interest (which shall be 15 days after the Special Record Date) shall be sent at least five (5) business days prior to the Special Record Date by United States mail, first class, postage prepaid, to the address of each registered owner of a Certificate appearing on the books of the Paying Agent/Registrar at the close of business on the last business day next preceding the date of mailing of such notice.

## **Registration, Transferability and Exchange**

In the event the Book-Entry-Only System shall be discontinued, printed certificates will be issued to the registered owners of the Certificates and thereafter the Certificates may be transferred, registered, and assigned on the registration books of the Paying Agent/Registrar only upon presentation and surrender thereof to the Paying Agent/Registrar, and such registration and transfer shall be without expense or service charge to the registered owner, except for any tax or other governmental charges required to be paid with respect to such registration and transfer. A Certificate may be assigned by the execution of an assignment form on the Certificate or by other instrument of transfer and assignment acceptable to the Paying Agent/Registrar. A new Certificate or Certificates will be delivered by the Paying Agent/Registrar in lieu of the Certificates being transferred or exchanged at the designated office of the Paying Agent/Registrar or sent by United States registered mail to the new registered owner at the registered owner's request, risk, and expense. New Certificates issued in an exchange or transfer of Certificates will be delivered to the registered owner or assignee of the registered owner in not more than three (3) business days after the receipt of the Certificates to be canceled in the exchange or transfer and the written instrument of transfer or request for exchange duly executed by the registered owner or his duly authorized agent, in form satisfactory to the Paying Agent/Registrar. New Certificates registered and delivered in an exchange or transfer shall be in denominations of \$5,000 for any one stated maturity or any integral multiple thereof and for a like aggregate principal amount and at the same maturity or maturities as the Certificate or Certificates surrendered for exchange or transfer. See "BOOK-ENTRY-ONLY SYSTEM" herein.

## **Limitation on Transferability of Certificates Called for Redemption**

Neither the City nor the Paying Agent/Registrar are required (1) to make any transfer or exchange during a period beginning at the opening of business 45 days before the day of the first mailing of a notice of redemption of Certificates and ending at the close of business on the day of such mailing, or (2) to transfer or exchange any Certificates so selected for redemption when such redemption is scheduled to occur within 45 calendar days; provided however, that such limitation of transfer is not applicable to an exchange by the registered owner of the uncalled balance of a Certificate.

## **Replacement Certificates**

If any Certificate is mutilated, destroyed, stolen or lost, a new Certificate of like kind and in the same amount as the Certificate so mutilated, destroyed, stolen or lost will be issued. In the case of a mutilated Certificate, such new Certificate will be delivered only upon surrender and cancellation of such mutilated Certificate. In the case of any Certificate issued in lieu of and in substitution for a Certificate which has been destroyed, stolen, or lost, such new Certificate will be delivered only (a) upon filing with the City and the Paying Agent/Registrar evidence satisfactory to establish to the City and the Paying Agent/Registrar that such Certificate has been destroyed, stolen or lost and proof of the ownership thereof, and (b) upon furnishing the City and the Paying Agent/Registrar with Certificate or indemnity satisfactory to them. The person requesting the authentication and delivery of a new Certificate must comply with such other reasonable regulations as the Paying Agent/Registrar may prescribe and pay such expenses as the Paying Agent/Registrar may incur in connection therewith.

## **BOND INSURANCE**

### **BOND INSURANCE POLICY**

Concurrently with the issuance of the Bonds, Build America Mutual Assurance Company ("BAM") will issue its Municipal Bond Insurance Policy for the Bonds (the "Policy"). The Policy guarantees the scheduled payment of principal of and interest on the Bonds when due as set forth in the form of the Policy included as an exhibit to this Official Statement.

The Policy is not covered by any insurance security or guaranty fund established under New York, California, Connecticut or Florida insurance law.

## **BUILD AMERICA MUTUAL ASSURANCE COMPANY**

BAM is a New York domiciled mutual insurance corporation and is licensed to conduct financial guaranty insurance business in all fifty states of the United States and the District of Columbia. BAM provides credit enhancement products solely to issuers in the U.S. public finance markets. BAM will only insure municipal bonds, as defined in Section 6901 of the New York Insurance Law, which are most often issued by states, political subdivisions, integral parts of states or political subdivisions or entities otherwise eligible for the exclusion of income under section 115 of the U.S. Internal Revenue Code of 1986, as amended. No member of BAM is liable for the obligations of BAM.

The address of the principal executive offices of BAM is: 200 Liberty Street, 27th Floor, New York, New York 10281, its telephone number is: 212-235-2500, and its website is located at: [www.buildamerica.com](http://www.buildamerica.com).

BAM is licensed and subject to regulation as a financial guaranty insurance corporation under the laws of the State of New York and in particular Articles 41 and 69 of the New York Insurance Law.

BAM's financial strength is rated "AA/Stable" by S&P Global Ratings, a business unit of Standard & Poor's Financial Services LLC ("S&P"). An explanation of the significance of the rating and current reports may be obtained from S&P at [www.standardandpoors.com](http://www.standardandpoors.com). The rating of BAM should be evaluated independently. The rating reflects S&P's current assessment of the creditworthiness of BAM and its ability to pay claims on its policies of insurance. The above rating is not a recommendation to buy, sell or hold the Bonds, and such rating is subject to revision or withdrawal at any time by S&P, including withdrawal initiated at the request of BAM in its sole discretion. Any downward revision or withdrawal of the above rating may have an adverse effect on the market price of the Bonds. BAM only guarantees scheduled principal and scheduled interest payments payable by the issuer of the Bonds on the date(s) when such amounts were initially scheduled to become due and payable (subject to and in accordance with the terms of the Policy), and BAM does not guarantee the market price or liquidity of the Bonds, nor does it guarantee that the rating on the Bonds will not be revised or withdrawn.

### *Capitalization of BAM*

BAM's total admitted assets, total liabilities, and total capital and surplus, as of June 30, 2024 and as prepared in accordance with statutory accounting practices prescribed or permitted by the New York State Department of Financial Services were \$486.0 million, \$232.7 million and \$253.3 million, respectively.

BAM is party to a first loss reinsurance treaty that provides first loss protection up to a maximum of 15% of the par amount outstanding for each policy issued by BAM, subject to certain limitations and restrictions.

BAM's most recent Statutory Annual Statement, which has been filed with the New York State Insurance Department and posted on BAM's website at [www.buildamerica.com](http://www.buildamerica.com), is incorporated herein by reference and may be obtained, without charge, upon request to BAM at its address provided above (Attention: Finance Department). Future financial statements will similarly be made available when published.

BAM makes no representation regarding the Bonds or the advisability of investing in the Bonds. In addition, BAM has not independently verified, makes no representation regarding, and does not accept any responsibility for the accuracy or completeness of this Official Statement or any information or disclosure contained herein, or omitted herefrom, other than with respect to the accuracy of the information regarding BAM, supplied by BAM and presented under the heading "BOND INSURANCE".

### *Additional Information Available from BAM*

**Credit Insights Videos.** For certain BAM-insured issues, BAM produces and posts a brief Credit Insights video that provides a discussion of the obligor and some of the key factors BAM's analysts and credit committee considered when approving the credit for insurance. The Credit Insights videos are easily accessible on BAM's website at [www.buildamerica.com/videos](http://www.buildamerica.com/videos). (The preceding website address is provided for convenience of reference only. Information available at such address is not incorporated herein by reference.)

**Credit Profiles.** Prior to the pricing of bonds that BAM has been selected to insure, BAM may prepare a pre-sale Credit Profile for those bonds. These pre-sale Credit Profiles provide information about the sector designation (e.g. general obligation, sales tax); a preliminary summary of financial information and key ratios; and demographic and economic data relevant to the obligor, if available. Subsequent to closing, for any offering that includes bonds insured by BAM, any pre-sale Credit Profile will be updated and superseded by a final Credit Profile to include information about the gross par insured by CUSIP, maturity and coupon. BAM pre-sale and final Credit Profiles are easily accessible on BAM's website at [www.buildamerica.com/credit-profiles](http://www.buildamerica.com/credit-profiles). BAM will produce a Credit Profile for all bonds insured by BAM, whether or not a pre-sale Credit Profile has been prepared for such bonds. (The preceding website address is provided for convenience of reference only. Information available at such address is not incorporated herein by reference.)

**Disclaimers.** The Credit Profiles and the Credit Insights videos and the information contained therein are not recommendations to purchase, hold or sell securities or to make any investment decisions. Credit-related and other analyses

and statements in the Credit Profiles and the Credit Insights videos are statements of opinion as of the date expressed, and BAM assumes no responsibility to update the content of such material. The Credit Profiles and Credit Insight videos are prepared by BAM; they have not been reviewed or approved by the issuer or the underwriter for the Bonds, and the issuer and underwriter assume no responsibility for their content.

BAM receives compensation (an insurance premium) for the insurance that it is providing with respect to the Bonds. Neither BAM nor any affiliate of BAM has purchased, or committed to purchase, any of the Bonds, whether at the initial offering or otherwise.

### **BOND INSURANCE GENERAL RISKS**

In the event of default of the scheduled payment of principal or interest on the Certificates when all or a portion thereof becomes due, any owner of the Certificates shall have a claim under the Policy for such payments. The payment of principal and interest in connection with mandatory or optional prepayment of the Certificates by the City which is recovered by the City from the Beneficial Owners as a voidable preference under applicable bankruptcy law is covered by the Policy; however, such payments will be made by BAM at such time and in such amounts as would have been due absent such prepayment by the City (unless BAM chooses to pay such amounts at an earlier date).

Payment of principal or interest on the Certificates is not subject to acceleration, but other legal remedies upon the occurrence of non-payment do exist (see "THE CERTIFICATES – Default and Remedies" herein). BAM may direct the pursuit of available remedies, and generally must consent to any remedies available to and requested by the Beneficial Owners. In the event BAM is unable to make payment of principal and interest as such payments become due under the Policy, the Certificates are payable primarily from ad valorem taxes levied annually against all taxable property therein, within the limits prescribed by law, and are further secured by a lien on and pledge of the Pledged Revenues (being a limited amount of the Net Revenues derived from the operation of the System not to exceed \$1,000 during the entire period the Certificates or interest thereon remain outstanding (see "THE CERTIFICATES – Security for Payment"). In the event BAM becomes obligated to make payments with respect to the Certificates, no assurance is given that such event will not adversely affect the market price or the marketability (liquidity) of the Certificates.

If a Policy is acquired, the long-term rating on the Certificates will be dependent on the financial strength of BAM and its claims paying ability. BAM's financial strength and claims paying ability are predicated upon a number of factors which could change over time. No assurance can be given that the long-term ratings of BAM and of the rating on the Certificates, whether or not subject to the Policy, will not be subject to downgrade and such event could adversely affect the market price or the marketability (liquidity) for the Certificates. (See the disclosure described in "OTHER PERTINENT INFORMATION – Municipal Bond Rating" herein).

The obligations of BAM under the Policy are general obligations of BAM and in an event of default by BAM; the remedies available may be limited by applicable bankruptcy law. None of the City, the Underwriter, or the Financial Advisor has made an independent investigation into the claims paying ability of BAM and no assurance or representation regarding the financial strength or projected financial strength of BAM is given.

Thus, when making an investment decision, potential investors should carefully consider the ability of the City to pay principal or interest on the Certificates and the claims paying ability of BAM, particularly over the life of the investment. See "BOND INSURANCE" herein.

Moody's Investors Services, Inc., S&P Global Ratings ("S&P"), and Fitch Ratings, Inc. (collectively the "Rating Agencies") have, since 2008, downgraded, and/or placed on negative credit watch, the claims-paying ability and financial strength of all providers of municipal bond insurance. Additional downgrades or negative changes in the rating outlook for all bond insurers is possible. In addition, recent events in the credit markets have had substantial negative effects on the bond insurance business. These developments could be viewed as having a material adverse effect on the claims-paying ability of municipal bond insurers. Thus, when making an investment decision, potential investors should carefully consider the ability of any such municipal bond insurer to pay principal and interest on the Certificates and the claims-paying ability of any such municipal bond insurer, particularly over the life of the investment.

### **BOOK-ENTRY-ONLY SYSTEM**

The following describes how ownership of the Certificates is to be transferred and how the principal of, premium, if any, and interest on the Certificates are to be paid to and credited by The Depository Trust Company ("DTC"), New York, New York, while the Certificates are registered in its nominee name. The information in this section concerning DTC and the Book-Entry-Only System has been provided by DTC for use in disclosure documents such as this Official Statement. The City, the Underwriter, and the Financial Advisor believe the source of such information to be reliable, but take no responsibility for the accuracy or completeness thereof. The City and Underwriter cannot and do not give any assurance that (1) DTC will distribute payments of debt service on the Certificates, or the redemption price or redemption notices or other notices with respect to the Certificates, to DTC Participants, (2) DTC Participants or others will distribute debt service payments paid to DTC or its nominee (as the registered owner of the Certificates), or any redemption or other notice with respect to the Certificates, to the Beneficial Owners, or that they will do so on a timely basis, or (3) DTC will serve and act in the manner described in this Official Statement. The current rules applicable to DTC are on file with the United States Securities and Exchange Commission, and the current procedures of DTC to be followed in dealing with DTC Participants are on file with DTC.



DTC will act as securities depository for the Certificates. The Certificates will be issued as fully registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully registered security certificate will be issued for each maturity of the Certificates, each in the aggregate principal amount of such maturity, and will be deposited with DTC.

DTC, the world's largest depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments from over 100 countries that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC is the holding company for DTC, National Securities Clearing Corporation, and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has a S&P Global Ratings rating of "AA+". The DTC Rules applicable to its Participants are on file with the United States Securities and Exchange Commission (the "SEC"). More information about DTC can be found at [www.dtcc.com](http://www.dtcc.com).

Purchases of Certificates under the DTC system must be made by or through Direct Participants, which will receive a credit for the Certificates on DTC's records. The ownership interest of each actual purchaser of each Certificate ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Certificates are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in Certificates, except in the event that use of the Book-Entry-Only system for the Certificates is discontinued.

To facilitate subsequent transfers, all Certificates deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of Certificates with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Certificates; DTC's records reflect only the identity of the Direct Participants to whose accounts such Certificates are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of Certificates may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Certificates, such as redemptions, tenders, defaults, and proposed amendments to the Certificate documents. For example, Beneficial Owners of Certificates may wish to ascertain that the nominee holding the Certificates for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of notices be provided directly to them.

Redemption notices shall be sent to DTC. If less than all of the Certificates within an issue are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such issue to be redeemed.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to Certificates unless authorized by a Direct Participant in accordance with DTC's Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the City as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts Certificates are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Redemption proceeds and principal and interest payments on the Certificates will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the City or the Paying Agent/Registrar, on payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC [nor its nominee], the Paying Agent/Registrar, or the City, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption price and principal and interest payments to Cede & Co. (or

such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the City or the Paying Agent/Registrar, disbursement of such payments to Direct Participants will be the responsibility of DTC (or its nominee), and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

Information concerning DTC and the Book-Entry-Only System has been obtained from DTC and is not guaranteed as to accuracy or completeness by, and is not to be construed as a representation by the City or the Underwriter.

DTC may discontinue providing its services as depository with respect to the Certificates at any time by giving reasonable notice to the City or the Paying Agent/Registrar. Under such circumstances, in the event that a successor securities depository is not obtained, security certificates are required to be printed and delivered.

The City may decide to discontinue use of the system of book-entry transfers through DTC (or a successor securities depository). In that event, security certificates will be printed and delivered as provided in the Ordinance. (See "THE REGISTRATION, TRANSFER AND EXCHANGE" above.)

The information in this section concerning DTC and DTC's Book-Entry System has been obtained from sources that the City believes to be reliable, but none of the City, the Underwriter, or the Financial Advisor takes responsibility for the accuracy thereof.

**Use of Certain Terms in Other Sections of This Official Statement**

In reading this Official Statement it should be understood that while the Certificates are in the Book-Entry-Only System, references in other sections of this Official Statement to registered owners should be read to include the person for which the Participant acquires an interest in the Certificates, but (i) all rights of ownership must be exercised through DTC and the Book-Entry-Only System, and (ii) except as described above, notices that are to be given to registered owners under the Ordinance will be given only to DTC.

**Effect of Termination of Book-Entry-Only System**

In the event that the Book-Entry-Only System is discontinued by DTC or the use of the Book-Entry-Only System is discontinued by the City, printed certificates will be issued to the respective holders and the Certificates will be subject to transfer, exchange and registration provisions as set forth in the Ordinance and summarized under the caption "REGISTRATION, TRANSFER AND EXCHANGE" above.

**SOURCES AND USES OF FUNDS**

The proceeds from the sale of the Certificates will be applied approximately as follows:

<u>Sources</u>	
Par Amount of the Certificates	\$ 6,760,000.00
Net Reoffering Premium on the Certificates	494,380.85
Total Sources	<u>\$ 7,254,380.85</u>
 <u>Uses</u>	
Deposit to Construction Fund	\$ 7,000,000.00
Underwriter's Discount	52,112.45
Costs of Issuance (including bond insurance premium)	202,268.40
Total Uses	<u>\$ 7,254,380.85</u>

**FINANCIAL POLICIES**

**Basis of Accounting**

Governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. The City considers all revenues reported in the governmental funds to be available if the revenues are collected within sixty days after year-end. Property tax revenues and revenues received from the State are recognized under the susceptible-to-accrual concept. Those revenues considered susceptible-to-accrual are property taxes, hotel occupancy taxes, special assessments, interest income, and charges for services. Miscellaneous revenues are recorded as revenue when received in cash because they are generally not measurable until actually received. Investment earnings are recorded as earned, since they are both measurable and available. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, claims and judgments, and compensated absences, which are recognized as expenditures to the extent they have matured. General capital asset acquisitions are reported

as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

When the City incurs an expenditure or expense for which both restricted and unrestricted resources may be used, it is the City's policy to use restricted resources first, then unrestricted resources.

Internal service funds of a government (which traditionally provide services primarily to other funds of the government) are presented in the summary form as part of the proprietary fund financial statements. The City's internal service fund accounts for major medical activities. Since the principal users of the internal services are the City's governmental activities, financial statements of internal service funds are consolidated into the governmental column when presented at the government-wide level in the Statement of Net Position. The net activity of these services is offset against the appropriate functional activity in the Statement of Activities. This complies with the City's policy of eliminating internal activity from the government-wide statements. Interfund services provided and used are not eliminated in the process of consolidation.

The City's fiduciary funds are presented in the fund financial statements. Since, by definition, these assets are being held for the benefit of a third party (e.g., other governments or private parties) and cannot be used to finance activities or obligations of the government, these funds are not incorporated into the government-wide statements. The City's fiduciary funds are used to account for court cash bonds held for others, and for certain funds collected and passed through to other governments.

The City reports the following major governmental funds:

### **General Fund**

This fund is the general operating fund of the City. It is used to account for all financial resources of the general government except, for those required to be accounted for in another fund.

### **Debt Service Fund**

This fund is used to account for the accumulation of resources that are restricted, committed, or assigned for the payment of principal and interest on long-term obligations of governmental funds.

The City reports the following major enterprise funds:

### **Water and Sewer Fund**

This fund is used to account for the provision of water and sewer services to the residents in the City. Activities of the fund include administration, operation and maintenance of the water and sewer system and billing and collection activities. All costs are financed through charges to utility customers and rates reviewed regularly and adjusted if necessary to ensure integrity of the funds.

The City reports the following major enterprise funds:

### **Special Revenue Funds**

These funds are used to account for the proceeds of specific revenue sources that are restricted to expenditures for specified purposes other than capital projects.

### **Budgetary Procedures**

State laws and the City Charter require the preparation and filing of a balanced annual operating budget. Departments are required to submit requests to the Finance Department by the last week of May for the development of the annual operating budget. Under the direction of the City Manager, the Director of Finance uses these requests to develop a proposed balanced operating budget for presentation to the City Commission by the beginning of August. Following a month of budget discussions and deliberations with the City Commission, a public hearing is scheduled for the first week of September and adoption of the budget ordinance and supporting fee schedules occur no later than September 30th. The operating budget is prepared by fund, department, function, and organizational unit or project levels.

Budgetary management is delegated to department heads that may approve transfers of appropriations within their department. Budgetary control is performed by both department heads and the Finance Department. Transfer of appropriations between funds and departments requires City Commission approval.

During the months of August and September, a project team comprised of the Finance Department, Engineering Department and applicable department heads initiate a review of previously appropriated capital projects and construction in progress.

Budget-to-actual comparisons are provided in this report for each individual governmental fund for which an appropriated annual budget has been adopted. For governmental funds other than the general fund, with appropriated annual budgets, this comparison is presented in the governmental fund subsection of this report. Budget-to-actual reports are prepared on a monthly and unaudited basis by the Finance Department and provided to City Commission and management for review and use in monitoring revenues and expenditures.

## INVESTMENT POLICIES

The City invests its investable funds in investments authorized by State law and in accordance with investment policies approved and reviewed annually by the City Commission of the City. Both State law and the City's investment policies are subject to change.

### Legal Investments

Under State law and subject to certain limitations, the City is authorized to invest in (1) obligations of the United States or its agencies and instrumentalities; (2) direct obligations of the State of Texas or its agencies and instrumentalities; (3) collateralized mortgage obligations issued and secured by a federal agency or instrumentality of the United States; (4) other obligations unconditionally guaranteed or insured by the State of Texas or the United States or their respective agencies and instrumentalities; (5) "A" or better rated obligations of states, agencies, counties, cities, and other political subdivisions of any state; (6) bonds issued, assumed, or guaranteed by the State of Israel; (7) federally insured interest-bearing bank deposits, brokered pools of such deposits, and collateralized certificates of deposit and share certificates; (8) fully collateralized United States government securities repurchase agreements; (9) one-year or shorter securities lending agreements secured by obligations described in clauses (1) through (7) above or (11) through (14) below or an irrevocable letter of credit issued by an "A" or better rated state or national bank; (10) 270-day or shorter bankers' acceptances, if the short-term obligations of the accepting bank or its holding company are rated at least "A-1" or "P-1"; (11) commercial paper rated at least "A-1" or "P-1"; (12) SEC-registered no-load money market mutual funds that are subject to SEC Rule 2a-7; (13) SEC-registered no-load mutual funds that have an average weighted maturity of less than two years; (14) "AAA" or "AAAm"-rated investment pools that invest solely in investments described above; (15) aggregate repurchase agreement transactions entered into by an investing entity in conformity with the provisions of subsections (a-1), (f), and (g) of Section 2256.011 of the Public Funds Investment Act; and (16) in the case of bond proceeds, guaranteed investment contracts that are secured by obligations described in clauses (1) through (7) above and, except for debt service funds and reserves, have a term of 5 years or less.

The City may not, however, invest in (1) interest only obligations, or non-interest bearing principal obligations, stripped from mortgage-backed securities; (2) collateralized mortgage obligations that have a remaining term that exceeds 10 years; and (3) collateralized mortgage obligations that bear interest at an index rate that adjusts opposite to the changes in a market index. In addition, the City may not invest more than 15% of its monthly average fund balance (excluding bond proceeds and debt service funds and reserves) in mutual funds described in clause (13) above or make an investment in any mutual fund that exceeds 10% of the fund's total assets.

Except as stated above or inconsistent with its investment policy, the City may invest in obligations of any duration without regard to their credit rating, if any. If an obligation ceases to qualify as an eligible investment after it has been purchased, the City is not required to liquidate the investment unless it no longer carries a required rating, in which case the City is required to take prudent measures to liquidate the investment that are consistent with its investment policy.

### Investment Policies

Under State law, the City is required to adopt and annually review written investment policies and must invest its funds in accordance with its policies. The policies must identify eligible investments and address investment diversification, yield, maturity, and the quality and capability of investment management. For investments whose eligibility is rating dependent, the policies must adopt procedures to monitor ratings and liquidate investments if and when required. The policies must require that all investment transactions settle on a delivery versus payment basis. The City is required to adopt a written investment strategy for each fund group to achieve investment objectives in the following order of priority: (1) suitability, (2) preservation and safety of principal, (3) liquidity, (4) marketability, (5) diversification, and (6) yield.

State law requires the City's investments be made "with judgment and care, under prevailing circumstances, that a person of prudence, discretion, and intelligence would exercise in the management of the person's own affairs, not for speculation, but for investment considering the probable safety of capital and the probable income to be derived." The City is required to perform an annual audit of the management controls on investments and compliance with its investment policies and provide regular training for its investment officers.

## AD VALOREM PROPERTY TAXATION

*The following is a summary of certain provisions of State law as it relates to ad valorem taxation and is not intended to be complete. Prospective investors are encouraged to review Title I of the Texas Tax Code, as amended (the "Property Tax Code"), for identification of property subject to ad valorem taxation, property exempt or which may be exempted from ad valorem taxation if claimed, the appraisal of property for ad valorem tax purposes, and the procedures and limitations applicable to the levy and collection of ad valorem taxes.*

### Valuation of Taxable Property

The Property Tax Code provides for countywide appraisal and equalization of taxable property values and establishes in each county of the State an appraisal district and an appraisal review board (the "Appraisal Review Board") responsible for appraising property for all taxing units within the county. The appraisal of property within the City is the responsibility of the Hidalgo Appraisal District (the "Appraisal District"). Except as generally described below, the Appraisal District is required to appraise all property within the Appraisal District on the basis of 100% of its market value and is prohibited from applying any assessment ratios. In determining market value of property, the Appraisal District is required to consider the cost method of appraisal, the income

method of appraisal and the market data comparison method of appraisal, and use the method the chief appraiser of the Appraisal District considers most appropriate. The Property Tax Code requires appraisal districts to reappraise all property in its jurisdiction at least once every three (3) years. A taxing unit may require annual review at its own expense, and is entitled to challenge the determination of appraised value of property within the taxing unit by petition filed with the Appraisal Review Board.

State law requires the appraised value of an owner's principal residence ("homestead" or "homesteads") to be based solely on the property's value as a homestead, regardless of whether residential use is considered to be the highest and best use of the property. State law further limits the appraised value of a homestead to the lesser of (1) the market value of the property or (2) 110% of the appraised value of the property for the preceding tax year plus the market value of all new improvements to the property. Effective January 1, 2024, an appraisal district is prohibited from increasing the appraised value of real property during the 2024 tax year on certain non-homestead properties (the "Subjected Property") whose appraised values are not more than \$5 million dollars (the "maximum property value") to an amount not to exceed the lesser of: (1) the market value of the Subjected Property for the most recent tax year that the market value was determined by the appraisal office or (2) the sum of: (a) 20 percent of the appraised value of the Subjected Property for the preceding tax year; (b) the appraised value of the Subjected Property for the preceding tax year; and (c) the market value of all new improvements to the Subjected Property (collectively, the "Appraisal Cap"). After the 2024 tax year, through December 31, 2026 unless extended by the Legislature, the maximum property value may be increased or decreased by the product of the preceding state fiscal year's increase or decrease in the consumer price index, as applicable, to the maximum property value.

State law provides that eligible owners of both agricultural land and open-space land, including open-space land devoted to farm or ranch purposes or open-space land devoted to timber production, may elect to have such property appraised for ad valorem property taxation on the basis of its productive capacity. The same land may not be qualified as both agricultural and open-space land.

The appraisal values set by the Appraisal District are subject to review and change by the Appraisal Review Board. The appraisal rolls, as approved by the Appraisal Review Board, are used by taxing units, such as the City, in establishing their tax rolls and tax rates (see "AD VALOREM PROPERTY TAXATION – City and Taxpayer Remedies" herein.)

### **State Mandated Homestead Exemptions**

State law grants, with respect to each taxing unit in the State, various exemptions for disabled veterans and their families, surviving spouses of members of the armed services killed in action and surviving spouses of first responders killed or fatally wounded in the line of duty.

### **Local Option Homestead Exemptions**

The governing body of a taxing unit, including a city, county, school district, or special district, at its option may grant: (1) an exemption of up to 20% of the appraised value of all homesteads (but not less than \$5,000) and (2) an additional exemption of at least \$3,000 of the appraised value of the homesteads of persons sixty-five (65) years of age or older and the disabled. Each taxing unit decides if it will offer the local option homestead exemptions and at what percentage or dollar amount, as applicable. The exemption described in (2), above, may also be created, increased, decreased or repealed at an election called by the governing body of a taxing unit upon presentment of a petition for such creation, increase, decrease, or repeal of at least 20% of the number of qualified voters who voted in the preceding election of the taxing unit. Cities, counties, and school districts are prohibited from repealing or reducing an optional homestead exemption that was granted in tax year 2022 through December 31, 2027.

### **Local Option Freeze for the Elderly and Disabled**

The governing body of a county, municipality or junior college district may, at its option, provide for a freeze on the total amount of ad valorem taxes levied on the homesteads of persons 65 years of age or older or of disabled persons above the amount of tax imposed in the year such residence qualified for such exemption. Also, upon voter initiative, an election may be held to determine by majority vote whether to establish such a freeze on ad valorem taxes. Once the freeze is established, the total amount of taxes imposed on such homesteads cannot be increased except for certain improvements, and such freeze cannot be repealed or rescinded.

### **Personal Property**

Tangible personal property (furniture, machinery, supplies, inventories, etc.) used in the "production of income" is taxed based on the property's market value. Taxable personal property includes income-producing equipment and inventory. Intangibles such as goodwill, accounts receivable, and proprietary processes are not taxable. Tangible personal property not held or used for production of income, such as household goods, automobiles or light trucks, and boats, is exempt from ad valorem taxation unless the governing body of a taxing unit elects to tax such property.

### **Freeport and Goods-In-Transit Exemptions**

Certain goods that are acquired in or imported into the State to be forwarded outside the State, and are detained in the State for 175 days or less for the purpose of assembly, storage, manufacturing, processing or fabrication ("Freeport Property") are exempt from ad valorem taxation unless a taxing unit took official action to tax Freeport Property before April 1, 1990 and has

not subsequently taken official action to exempt Freeport Property. Decisions to continue taxing Freeport Property may be reversed in the future; decisions to exempt Freeport Property are not subject to reversal.

Certain goods, that are acquired in or imported into the State to be forwarded to another location within or without the State, stored in a location that is not owned by the owner of the goods and are transported to another location within or without the State within 175 days ("Goods-in-Transit"), are generally exempt from ad valorem taxation; however, the Property Tax Code permits a taxing unit, on a local option basis, to tax Goods-in-Transit if the taxing unit takes official action, after conducting a public hearing, before January 1 of the first tax year in which the taxing unit proposes to tax Goods-in-Transit. Goods-in-Transit and Freeport Property do not include oil, natural gas or petroleum products, and Goods-in-Transit does not include aircraft or special inventories such as manufactured housing inventory, or a dealer's motor vehicle, boat, or heavy equipment inventory.

A taxpayer may receive only one of the Goods-in-Transit or Freeport Property exemptions for items of personal property.

### **Other Exempt Property**

Other major categories of exempt property include property owned by the State or its political subdivisions if used for public purposes, property exempt by federal law, property used for pollution control, farm products owned by producers, property of nonprofit corporations used for scientific research or educational activities benefitting a college or university, designated historic sites, solar and wind-powered energy devices, and certain classes of intangible personal property.

### **Temporary Exemption for Qualified Property Damaged by a Disaster**

The Property Tax Code entitles the owner of certain qualified (i) tangible personal property used for the production of income, (ii) improvements to real property, and (iii) manufactured homes, located in an area declared by the Governor (hereinafter defined) to be a disaster area following a disaster and is at least 15 percent damaged by the disaster, as determined by the chief appraiser, to an exemption from taxation of a portion of the appraised value of the property. The amount of the exemption ranges from 15 percent to 100 percent based upon the damage assessment rating assigned by the chief appraiser. The governing body of the taxing unit is not required to take any action in order for the taxpayer to be eligible for the exemption. If a taxpayer qualifies for the exemption after the beginning of the tax year, the amount of the exemption is prorated based on the number of days left in the tax year following the day on which the Governor declares the area to be a disaster area. The Texas Legislature amended Section 11.35, Tax Code to clarify that "damage" for purposes of such statute is limited to "physical damage." For more information on the exemption, reference is made to Section 11.35 of the Property Tax Code, as amended.

### **Tax Increment Reinvestment Zones**

A city or county, by petition of the landowners or by action of its governing body, may create one or more tax increment reinvestment zones ("TIRZ") within its boundaries. At the time of the creation of the TIRZ, a "base value" for the real property in the TIRZ is established and the difference between any increase in the assessed valuation of taxable real property in the TIRZ in excess of the base value is known as the "tax increment." During the existence of the TIRZ, all or a portion of the taxes levied against the tax increment by a city or county, and all other overlapping taxing units that elected to participate, are restricted to paying only planned project and financing costs within the TIRZ and are not available for the payment of other obligations of such taxing units.

### **Tax Abatement Agreements**

Taxing units may also enter into tax abatement agreements to encourage economic development. Under the agreements, a property owner agrees to construct certain improvements on its property. The taxing unit, in turn, agrees not to levy a tax on all or part of the increased value attributable to the improvements until the expiration of the agreement. The abatement agreement could last for a period of up to 10 years.

### **City and Taxpayer Remedies**

Under certain circumstances, taxpayers and taxing units, including the City, may appeal the determinations of the Appraisal District by timely initiating a protest with the Appraisal Review Board. Additionally, taxing units such as the City may bring suit against the Appraisal District to compel compliance with the Property Tax Code.

Owners of certain property with a taxable value in excess of the current year "minimum eligibility amount", as determined by the State Comptroller, and situated in a county with a population of one million or more, may protest the determinations of an appraisal district directly to a three-member special panel of the appraisal review board, appointed by the chairman of the appraisal review board, consisting of highly qualified professionals in the field of property tax appraisal. The minimum eligibility amount was set at \$59,562,331 for the 2024 tax year, and is adjusted annually by the State Comptroller to reflect the inflation rate.

The Property Tax Code sets forth notice and hearing procedures for certain tax rate increases by the District and provides for taxpayer referenda that could result in the repeal of certain tax increases (see "AD VALOREM PROPERTY TAXATION - Public Hearing and Maintenance and Operations Tax Rate Limitations"). The Property Tax Code also establishes a procedure for providing notice to property owners of reappraisals reflecting increased property value, appraisals which are higher than renditions, and appraisals of property not previously on an appraisal roll.

## **Levy and Collection of Taxes**

The City is responsible for the collection of its taxes, unless it elects to transfer such functions to another governmental entity. Taxes are due October 1, or when billed, whichever comes later, and become delinquent after January 31 of the following

year. A delinquent tax incurs a penalty of six percent (6%) of the amount of the tax for the first calendar month it is delinquent, plus one percent (1%) for each additional month or portion of a month the tax remains unpaid prior to July 1 of the year in which it becomes delinquent. If the tax is not paid by July 1 of the year in which it becomes delinquent, the tax incurs a total penalty of twelve percent (12%) regardless of the number of months the tax has been delinquent and incurs an additional penalty of up to twenty percent (20%) if imposed by the City. The delinquent tax also accrues interest at a rate of one percent (1%) for each month or portion of a month it remains unpaid. The Property Tax Code also makes provision for the split payment of taxes, discounts for early payment and the postponement of the delinquency date of taxes for certain taxpayers. Furthermore, the City may provide, on a local option basis, for the split payment, partial payment, and discounts for early payment of taxes under certain circumstances. The City does not allow split payments or discounts.

## **City's Rights in the Event of Tax Delinquencies**

Taxes levied by the City are a personal obligation of the owner of the property. On January 1 of each year, a tax lien attaches to property to secure the payment of all state and local taxes, penalties, and interest ultimately imposed for the year on the property. The lien exists in favor of each taxing unit, including the City, having power to tax the property. The City's tax lien is on a parity with tax liens of such other taxing units. A tax lien on real property takes priority over the claim of most creditors and other holders of liens on the property encumbered by the tax lien, whether or not the debt or lien existed before the attachment of the tax lien; however, whether a lien of the United States is on a parity with or takes priority over a tax lien of the City is determined by applicable federal law. Personal property, under certain circumstances, is subject to seizure and sale for the payment of delinquent taxes, penalty, and interest.

At any time after taxes on property become delinquent, the City may file suit to foreclose the lien securing payment of the tax, to enforce personal liability for the tax, or both. In filing a suit to foreclose a tax lien on real property, the City must join other taxing units that have claims for delinquent taxes against all or part of the same property. Collection of delinquent taxes may be adversely affected by the amount of taxes owed to other taxing units, adverse market conditions, taxpayer redemption rights, or bankruptcy proceedings which restrain the collection of a taxpayer's debt.

Federal bankruptcy law provides that an automatic stay of actions by creditors and other entities, including governmental units, goes into effect with the filing of any petition in bankruptcy. The automatic stay prevents governmental units from foreclosing on property and prevents liens for post-petition taxes from attaching to property and obtaining secured creditor status unless, in either case, an order lifting the stay is obtained from the bankruptcy court. In many cases, post-petition taxes are paid as an administrative expense of the estate in bankruptcy or by order of the bankruptcy court.

## **Public Hearing and Maintenance and Operations Tax Rate Limitations**

The following terms as used in this section have the meanings provided below:

"adjusted" means lost values are not included in the calculation of the prior year's taxes and new values are not included in the current year's taxable values.

"de minimis rate" means the maintenance and operations tax rate that will produce the prior year's total maintenance and operations tax levy (adjusted) from the current year's values (adjusted), plus the rate that produces an additional \$500,000 in tax revenue when applied to the current year's taxable value, plus the debt service tax rate.

"foregone revenue amount" means the greater of zero or the amount expressed in dollars calculated according to the following formula: the voter-approval tax rate less the actual tax rate, then multiplied by the taxing unit's current total value in the applicable preceding tax year.

"no-new-revenue tax rate" means the combined maintenance and operations tax rate and debt service tax rate that will produce the prior year's total tax levy (adjusted) from the current year's total taxable values (adjusted).

"preceding total value" means a taxing unit's current total value in the applicable preceding tax year.

"special taxing unit" means a city for which the maintenance and operations tax rate proposed for the current tax year is 2.5 cents or less per \$100 of taxable value.

"unused increment rate" means the greater of (i) zero; or (ii) the sum of the 2020 foregone revenue amount, 2021 foregone revenue amount, and 2022 foregone revenue amount divided by the current total value.

"voter-approval tax rate" means the maintenance and operations tax rate that will produce the prior year's total maintenance and operations tax levy (adjusted) from the current year's values (adjusted) multiplied by 1.035, plus the debt service tax rate, plus the "unused increment rate."

The City's tax rate consists of two components: (1) a rate for funding of maintenance and operations expenditures in the current year (the "maintenance and operations tax rate"), and (2) a rate for funding debt service in the current year (the "debt service tax rate"). Under State law, the assessor for the City must submit an appraisal roll showing the total appraised, assessed, and taxable values of all property in the City to the City Commission by August 1 or as soon as practicable thereafter. A city must annually calculate its voter-approval tax rate and no-new-revenue tax rate in accordance with forms prescribed by the State Comptroller and provide notice of such rates to each owner of taxable property within the city and the county tax assessor-collector for each county in which all or part of the city is located. A city must adopt a tax rate before the later of September 30 or the 60th day after receipt of the certified appraisal roll, except that a tax rate that exceeds the voter-approval tax rate must be adopted not later than the 71st day before the next occurring November uniform election date. If a city fails to timely adopt a tax rate, the tax rate is statutorily set as the lower of the no-new-revenue tax rate for the current tax year or the tax rate adopted by the city for the preceding tax year.

As described below, the Property Tax Code provides that if a city adopts a tax rate that exceeds its voter-approval tax rate or, in certain cases, its de minimis rate, an election must be held to determine whether or not to reduce the adopted tax rate to the voter-approval tax rate.

A city may not adopt a tax rate that exceeds the lower of the voter-approval tax rate or the no-new-revenue tax rate until each appraisal district in which such city participates has delivered notice to each taxpayer of the estimated total amount of property taxes owed and the city has held a public hearing on the proposed tax increase.

For cities with a population of 30,000 or more as of the most recent federal decennial census, if the adopted tax rate for any tax year exceeds the voter-approval tax rate, that city must conduct an election on the next occurring November uniform election date to determine whether or not to reduce the adopted tax rate to the voter-approval tax rate.

For cities with a population less than 30,000 as of the most recent federal decennial census, if the adopted tax rate for any tax year exceeds the greater of (i) the voter-approval tax rate or (ii) the de minimis rate, the city must conduct an election on the next occurring November uniform election date to determine whether or not to reduce the adopted tax rate to the voter-approval tax rate. However, for any tax year during which a city has a population of less than 30,000 as of the most recent federal decennial census and does not qualify as a special taxing unit, if a city's adopted tax rate is equal to or less than the de minimis rate but greater than both (a) the no-new-revenue tax rate, multiplied by 1.08, plus the debt service tax rate or (b) the city's voter-approval tax rate, then a valid petition signed by at least three percent of the registered voters in the city would require that an election be held to determine whether or not to reduce the adopted tax rate to the voter-approval tax rate.

Any city located at least partly within an area declared a disaster area by the Governor of the State or the President of the United States during the current year may calculate its voter-approval tax rate using a 1.08 multiplier, instead of 1.035, until the earlier of (i) the second tax year in which such city's total taxable appraised value exceeds the taxable appraised value on January 1 of the year the disaster occurred, or (ii) the third tax year after the tax year in which the disaster occurred.

State law provides cities and counties in the State the option of assessing a maximum one-half percent (1/2%) sales and use tax on retail sales of taxable items for the purpose of reducing its ad valorem taxes, if approved by a majority of the voters in a local option election. If the additional sales and use tax for ad valorem tax reduction is approved and levied, the no-new-revenue tax rate and voter-approval tax rate must be reduced by the amount of the estimated sales tax revenues to be generated in the current tax year. The City has approved a one-fourth percent (1/4%) sales and use tax for property tax reduction. See "APPENDIX A – MUNICIPAL SALES TAX HISTORY."

**The calculations of the no-new-revenue tax rate and voter-approval tax rate do not limit or impact the City's ability to set a debt service tax rate in each year sufficient to pay debt service on all of the City's tax-supported debt obligations, including the Certificates.**

Reference is made to the Property Tax Code for definitive requirements for the levy and collection of ad valorem taxes and the calculation of the various defined tax rates.

### **City Application of Property Tax Code**

The City has implemented a "tax freeze" for persons 65 years of age or older and the disabled.

The City grants an exemption to the market value of the residence homestead of persons 65 years of age or older of \$4,500.

The City has not granted an additional exemption of 20% of the market value of residence homesteads.

See Table 1 in Appendix A for a listing of the amounts of the exemptions described above.

Ad valorem taxes are not levied by the City against the exempt value of residence homesteads for the payment of debt.

The City does not tax nonbusiness personal property.

The City does not permit split payments, and discounts are not allowed.

The City does not tax freeport property.



On December 6, 2011, the City Commission adopted a resolution authorizing the continued taxation of goods-in-transit for the 2012 tax year and beyond.

The City does not collect the additional one-half cent sales tax for reduction of ad valorem taxes.

On December 30, 2008, the City created the "Reinvestment Zone Number One, City of Mercedes, Texas" (the "TIRZ") in support of a City redevelopment project over 1,053 acres of predominately undeveloped land in the City. The TIRZ's base value was approximately \$74 million, anticipated to capture approximately \$94 million in value, and terminates on December 31, 2032. Hidalgo County, Texas (the "County") participates in the TIRZ pursuant to an interlocal agreement between the City, the TIRZ and the County. The total City tax increment contribution to the TIRZ shall not exceed \$16,732,463.

### **Debt Tax Rate Limitations**

All taxable property within the City is subject to the assessment, levy, and collection by the City of a continuing, direct annual ad valorem tax sufficient to provide for the payment of principal of and interest on all ad valorem tax-supported debt within the limits prescribed by law. Article XI, Section 5, of the Texas Constitution is applicable to the City (a home rule municipality with a population greater than 5,000) and limits its maximum ad valorem tax rate to \$2.50 per \$100 of taxable assessed valuation. The City operates under a Home Rule Charter which does not further limit the constitutional provisions. Administratively, the Attorney General of the State of Texas will permit allocation of \$1.50 of the \$2.50 maximum tax rate for all debt service on ad valorem tax-supported debt, as calculated at the time of issuance based upon 90% tax collections. The issuance of the Certificates does not violate this constitutional provision or the Texas Attorney General's administrative policy.

## **TAX MATTERS**

### **Tax Exemption**

The delivery of the Certificates is subject to the opinion of Norton Rose Fulbright US LLP, Austin and San Antonio, Texas, Bond Counsel, to the effect that interest on the Certificates for federal income tax purposes (1) is excludable from the gross income, as defined in section 61 of the Internal Revenue Code of 1986, as amended to the date hereof (the "Code"), of the owners thereof pursuant to section 103 of the Code and existing regulations, published rulings, and court decisions, and (2) will not be included in computing the alternative minimum taxable income of the owners thereof who are individuals. The statute, regulations, rulings, and court decisions on which such opinion is based are subject to change. A form of Bond Counsel's opinion appears as APPENDIX D hereto.

In rendering the foregoing opinions, Bond Counsel will rely upon representations and certifications of the City made in certificates pertaining to the use, expenditure, and investment of the proceeds of the Certificates and will assume continuing compliance by the City with the provisions of the Ordinance subsequent to the issuance of the Certificates. The Ordinance contains covenants by the City with respect to, among other matters, the use of the proceeds of the Certificates and the facilities financed therewith by persons other than state or local governmental units, the manner in which the proceeds of the Certificates are to be invested, the periodic calculation and payment to the United States Treasury of arbitrage "profits" from the investment of the proceeds, and the reporting of certain information to the United States Treasury. Failure to comply with any of these covenants may cause interest on the Certificates to be includable in the gross income of the owners thereof from the date of the issuance of the Certificates.

Except as described above, Bond Counsel will express no other opinion with respect to any other federal, state, or local tax consequences under present law, or proposed legislation, resulting from the receipt or accrual of interest on, or the acquisition or disposition of, the Certificates. Bond Counsel's opinion is not a guarantee of a result, but represents its legal judgment based upon its review of existing statutes, regulations, published rulings and court decisions and the representations and covenants of the City described above. No ruling has been sought from the Internal Revenue Service (the "IRS") with respect to the matters addressed in the opinion of Bond Counsel, and Bond Counsel's opinion is not binding on the IRS. The IRS has an ongoing program of auditing the tax-exempt status of the interest on municipal obligations. If an audit of the Certificates is commenced, under current procedures the IRS is likely to treat the City as the "taxpayer," and the owners of the Certificates would have no right to participate in the audit process. In responding to or defending an audit of the tax-exempt status of the interest on the Certificates, the City may have different or conflicting interests from the owners of the Certificates. Public awareness of any future audit of the Certificates could adversely affect the value and liquidity of the Certificates during the pendency of the audit, regardless of its ultimate outcome.

### **Tax Changes**

Existing law may change to reduce or eliminate the benefit to Registered Owners of the exclusion of interest on the Certificates from gross income for federal income tax purposes. Any proposed legislation or administrative action, whether or not taken, could also affect the value and marketability of the Certificates. Prospective purchasers of the Certificates should consult with their own tax advisors with respect to any proposed or future changes in tax law.

## **Ancillary Tax Consequences**

Prospective purchasers of the Certificates should be aware that the ownership of tax-exempt obligations such as the Certificates may result in collateral federal tax consequences to, among others, financial institutions (see “TAX MATTERS – Qualified Tax-Exempt Obligations” herein), property and casualty insurance companies, life insurance companies, corporations subject to the alternative minimum tax on adjusted financial statement income, certain foreign corporations doing business in the United States, S corporations with subchapter C earnings and profits, owners of an interest in a financial asset securitization investment trust (“FASIT”), individual recipients of Social Security or Railroad Retirement benefits, individuals otherwise qualifying for the earned income tax credit and taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry, or who have paid or incurred certain expenses allocable to, tax-exempt obligations. Prospective purchasers should consult their own tax advisors as to the applicability of these consequences to their particular circumstances.

For taxable years beginning after 2022, the Code imposes a minimum tax of 15 percent of the adjusted financial statement income of certain large corporations, generally consisting of corporations (other than S corporations, regulated investment companies and real estate investment trusts) with more than \$1 billion in average annual adjusted financial statement income, determined over a three-year period. For this purpose, adjusted financial statement income generally consists of the net income or loss of the taxpayer set forth on the taxpayer's applicable financial statement for the taxable year, subject to various adjustments, but is not reduced for interest earned on tax-exempt obligations, such as the Certificates. Prospective purchasers that could be subject to this minimum tax should consult with their own tax advisors regarding the potential impact of owning the Certificates.

## **Tax Accounting Treatment of Discount Certificates**

The initial public offering price to be paid for certain Certificates may be less than the amount payable on such Certificates at maturity (the “Discount Certificates”). An amount equal to the difference between the initial public offering price of a Discount Certificate (assuming that a substantial amount of the Discount Certificates of that maturity are sold to the public at such price) and the amount payable at maturity constitutes original issue discount to the initial purchaser of such Discount Certificates. A portion of such original issue discount, allocable to the holding period of a Discount Certificate by the initial purchaser, will be treated as interest for federal income tax purposes, excludable from gross income on the same terms and conditions as those for other interest on the Certificates. Such interest is considered to be accrued actuarially in accordance with the constant interest method over the life of a Discount Certificate, taking into account the semiannual compounding of accrued interest, at the yield to maturity on such Discount Certificate and generally will be allocated to an initial purchaser in a different amount from the amount of the payment denominated as interest actually received by the initial purchaser during his taxable year.

However, such accrued interest may be required to be taken into account in determining the amount of the branch profits tax applicable to certain foreign corporations doing business in the United States, even though there will not be a corresponding cash payment. In addition, the accrual of such interest may result in certain other collateral federal income tax consequences to, among others, financial institutions (see “TAX MATTERS – Qualified Tax-Exempt Obligations” herein), property and casualty insurance companies, life insurance companies, S corporations with subchapter C earnings and profits, owners of an interest in a FASIT, individual recipients of Social Security or Railroad Retirement benefits, individuals otherwise qualifying for the earned income tax credit, and taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry, or who have paid or incurred certain expenses allocable to, tax-exempt obligations.

In the event of the sale or other taxable disposition of a Discount Certificate prior to maturity, the amount realized by such owner in excess of the basis of such Discount Certificate in the hands of such owner (adjusted upward by the portion of the original issue discount allocable to the period for which such Discount Certificate was held) is includable in gross income.

Owners of Discount Certificates should consult with their own tax advisors with respect to the determination for federal income tax purposes of accrued interest upon disposition of Discount Certificates and with respect to the state and local tax consequences of owning Discount Certificates. It is possible that, under applicable provisions governing determination of state and local income taxes, accrued interest on the Discount Certificates may be deemed to be received in the year of accrual even though there will not be a corresponding cash payment.

## **Tax Accounting Treatment of Premium Certificates**

The initial public offering price to be paid for certain Certificates may be greater than the stated redemption price on such Certificates at maturity (the “Premium Certificates”). An amount equal to the difference between the initial public offering price of a Premium Certificate (assuming that a substantial amount of the Premium Certificates of that maturity are sold to the public at such price) and its stated redemption price at maturity constitutes premium to the initial purchaser of such Premium Certificates. The basis for federal income tax purposes of a Premium Certificate in the hands of such initial purchaser must be reduced each year by the amortizable bond premium, although no federal income tax deduction is allowed as a result of such reduction in basis for amortizable bond premium with respect to the Premium Certificates. Such reduction in basis will increase the amount of any gain (or decrease the amount of any loss) to be recognized for federal income tax purposes upon a sale or other taxable disposition of a Premium Certificate. The amount of premium which is amortizable each year by an initial purchaser is determined by using such purchaser's yield to maturity.

Purchasers of the Premium Certificates should consult with their own tax advisors with respect to the determination of amortizable bond premium on Premium Certificates for federal income tax purposes and with respect to the state and local tax consequences of owning and disposing of Premium Certificates.

## **Qualified Tax-Exempt Obligations**

Section 265 of the Code provides, in general, that interest expense to acquire or carry tax-exempt obligations is not deductible from the gross income of the owner of such obligations. In addition, section 265 of the Code generally disallows 100% of any deduction for interest expense which is incurred by "financial institutions" described in such section and is allocable, as computed in such section, to tax-exempt interest on obligations acquired after August 7, 1986. Section 265(b) of the Code provides an exception to this interest disallowance rule for financial institutions, stating that such disallowance does not apply to interest expense allocable to tax-exempt obligations (other than private activity bonds that are not qualified 501(c)(3) bonds) which are properly designated by an issuer as "qualified tax-exempt obligations." An issuer may designate obligations as "qualified tax-exempt obligations" only if the amount of the issue of which they are a part, when added to the amount of all other tax-exempt obligations (other than private activity bonds that are not qualified 501(c)(3) obligations and other than certain current refunding bonds) issued or reasonably anticipated to be issued by the issuer during the same calendar year, does not exceed \$10,000,000.

The City has designated the Certificates as "qualified tax-exempt obligations" and will certify its expectation that the above-described \$10,000,000 ceiling will not be exceeded. Accordingly, it is anticipated that financial institutions which purchase the Certificates will not be subject to the 100% disallowance of interest expense allocable to interest on the Certificates under section 265(b) of the Code. However, the deduction for interest expense incurred by a financial institution which is allocable to the interest on the Certificates will be reduced by 20% pursuant to section 291 of the Code.

## **CONTINUING DISCLOSURE OF INFORMATION**

In the Ordinance, the City has made the following agreements for the benefit of the holders and Beneficial Owners of the Certificates. The City is required to observe the agreement for so long as it remains obligated to advance funds to pay the Certificates. Under the agreement, the City will be obligated to provide certain updated financial information and operating data annually and timely notice of specified events to the MSRB. The information provided to the MSRB through EMMA is available free of charge at [www.emma.msrb.org](http://www.emma.msrb.org).

### **Annual Reports**

Under Texas law, including, but not limited to, Chapter 103, as amended, Texas Local Government Code, the City must keep its fiscal records in accordance with generally accepted accounting principles, must have its financial accounts and records audited by a certified public accountant and must file in its public records each audit report within six months after the close of the City's fiscal year. The City's fiscal records and audit reports are available for public inspection during the regular business hours, and the City is required to provide a copy of the City's audit reports to any bondholder or other member of the public within a reasonable time on request upon payment of charges prescribed by the Texas General Services Commission.

The City will provide certain updated financial information and operating data to the MSRB annually. The information to be updated with respect to the City includes all quantitative financial information and operating data of the general type included in this Official Statement. The information is of the type included in APPENDIX A, exclusive of the tables reflecting "Estimated Overlapping Tax Debt," "Water and Sewer Fund History," and in APPENDIX C.

The City may provide updated information in full text or may incorporate by reference certain other publicly available documents, as permitted by Rule 15c2-12. The updated information will include audited financial statements, if it commissions an audit and the audit is completed by the required time. If audited financial statements are not provided with annual information, the City will provide unaudited financial statements at such time and later provide audited financial statements when and if the audited financial statements become available. Any such financial statements will be prepared in accordance with the accounting principles described in APPENDIX C or such other accounting principles as the City may be required to employ from time to time pursuant to state law or regulation.

The City's current fiscal year end is September 30. Accordingly, it must provide updated information by the last day of March in each year, unless it changes its fiscal year. If the City changes its fiscal year, it will notify the MSRB.

### **Notice of Certain Events**

The City will file with the MSRB notice of any of the following events with respect to the Certificates in a timely manner (and not more than 10 business days after occurrence of the event): (1) principal and interest payment delinquencies; (2) non-payment related defaults, if material; (3) unscheduled draws on debt service reserves reflecting financial difficulties; (4) unscheduled draws on credit enhancements reflecting financial difficulties; (5) substitution of credit or liquidity providers, or their failure to perform; (6) adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB), or other material notices or determinations with respect to the tax status of the Certificates, or other material events affecting the tax status of the Certificates; (7) modifications to rights of holders of the Certificates, if material; (8) Certificate calls, if material, and tender offers; (9) defeasances; (10) release, substitution, or sale of property securing repayment of the Certificates, if material; (11) rating changes; (12) bankruptcy, insolvency, receivership, or similar event of the City, which shall occur as described below; (13) the consummation of a merger, consolidation, or acquisition involving the City or the sale of all or substantially all of its assets, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material; (14) appointment of a successor or additional Paying

Agent/Registrar or the change of name of a Paying Agent/Registrar, if material; (15) incurrence of a Financial Obligation of the City (as defined by the Rule, which includes certain debt, debt-like, and debt-related obligations), if material, or agreement to covenants, events of default, remedies, priority rights, or other similar terms of any such Financial Obligation of the City, any of which affect security holders, if material; and (16) default, event of acceleration, termination event, modification of terms, or other similar events under the terms of any such financial obligation of the City, any of which reflect financial difficulties. Neither the Certificates nor the Ordinance make any provision for debt service reserves, credit enhancement (though the City has applied for a municipal bond insurance policy), or liquidity enhancement. In the Ordinance, the City has adopted policies and procedures to ensure timely compliance of its continuing disclosure undertakings. In addition, the City will provide timely notice of any failure by the City to provide information, data, or financial statements in accordance with its agreement described above under "Annual Reports." The City will provide each notice described in this paragraph to the MSRB.

For these purposes, (a) any event described in clause (12) in the immediately preceding paragraph is considered to occur when any of the following occur; the appointment of a receiver, fiscal agent, or similar officer for the City in a proceeding under the United States Bankruptcy Code or in any other proceeding under state or federal law in which a court or governmental authority has assumed jurisdiction over substantially all of the assets or business of the City, or if such jurisdiction has been assumed by leaving the existing governing body and officials or officers in possession but subject to the supervision and orders of a court or governmental authority, or the entry of an order confirming a plan of reorganization, arrangement, or liquidation by a court or governmental authority having supervision or jurisdiction over substantially all of the assets or business of the City, and (b) the City intends the words used in the immediately preceding clauses (15) and (16) and in the definition of Financial Obligation above to have the meanings ascribed to them in SEC Release No. 34- 83885 dated August 20, 2018.

### **Availability of Information from MSRB**

All information and documentation filing required to be made by the City in accordance with its undertaking made for the Certificates will be made with the MSRB in electronic format in accordance with MSRB guidelines. Access to such filings will be provided, without charge to the general public, by the MSRB.

### **Limitations and Amendments**

The City has agreed to update information and to provide notices of material events only as described above. The City has not agreed to provide other information that may be relevant or material to a complete presentation of its financial results of operations, condition, or prospects or agreed to update any information that is provided, except as described above. The City makes no representation or warranty concerning such information or concerning its usefulness to a decision to invest in or sell Certificates at any future date. The City disclaims any contractual or tort liability for damages resulting in whole or in part from any breach of its continuing disclosure agreement or from any statement made pursuant to its agreement, although holders or Beneficial Owners of Certificates may seek a writ of mandamus to compel the City to comply with its agreement.

The City may amend its continuing disclosure agreement to adapt to changed circumstances that arise from a change in legal requirements, a change in law, or a change in the identity, nature, status, or type of operations of the City, if (1) the agreement, as amended, would have permitted an underwriter to purchase or sell Certificates in the offering described herein in compliance with the Rule, taking into account any amendments or interpretations of the Rule to the date of such amendment, as well as such changed circumstances, and (2) either (a) the holders of a majority in aggregate principal amount of the outstanding Certificates consent or (b) any person unaffiliated with the City (such as nationally recognized bond counsel) determines that the amendment will not materially impair the interests of the Beneficial Owners of the Certificates. The City may also repeal or amend these provisions if the SEC amends or repeals the applicable provisions of the Rule or any court of final jurisdiction enters judgment that such provisions of the Rule are invalid, but in either case only if and to the extent that the provisions of this sentence would not prevent an underwriter from lawfully purchasing or selling Certificates in the primary offering of the Certificates giving effect to (a) such provisions as so amended and (b) any amendments or interpretations of the Rule. If the City amends its agreement, it must include with the next financial information and operating data provided in accordance with its agreement described above under "Annual Reports" an explanation, in narrative form, of the reasons for the amendment and of the impact of any change in the type of information and data provided.

### **Compliance with Prior Undertakings**

Except as otherwise described below, the City has complied in all material respects with its continuing disclosure agreements in the past five years in accordance with the Rule.

The City timely filed its annual financial and operating data for the fiscal year ended September 30, 2019 on March 31, 2020. However, due to an administrative oversight, the filing inadvertently did not include the unaudited general fund revenue and expenditures for the fiscal year ended September 30, 2019. This information was included in an amended filing by the City on August 12, 2020. The City has implemented procedures to ensure timely filing of future financial information.

## **LEGAL MATTERS**

The City will furnish the Underwriter with a complete transcript of proceedings incident to the authorization and issuance of the Certificates, including the unqualified approving legal opinion of the Attorney General of the State of Texas to the effect that the Certificates are valid and legally binding obligations of the City payable from the proceeds of an annual ad valorem tax levied, within the limits prescribed by law, upon all taxable property in the City, and based upon examination of such transcript

of proceedings, the approval of certain legal matters by Norton Rose Fulbright US LLP, Austin and San Antonio, Texas ("Bond Counsel"), to the effect that the Certificates are valid and legally binding obligations of the City and, subject to the qualifications set forth herein under "TAX MATTERS," the interest on the Certificates is excludable from the gross income of the owners thereof for federal income tax purposes under existing statutes, published rulings, regulations, and court decisions. Though it represents the Financial Advisor and Underwriter from time to time in matters unrelated to the issuance of the Certificates, Bond Counsel has been engaged by and only represents the City in connection with the issuance of the Certificates. A form of Bond Counsel's opinion appears in APPENDIX D attached hereto. Bond Counsel was not requested to participate, and did not take part, in the preparation of this Official Statement except as hereinafter noted and such firm has not assumed any responsibility with respect thereto or undertaken independently to verify any of the information contained herein, except that, in their capacity as Bond Counsel, such firm has reviewed the information under the captions "THE CERTIFICATES (except under the subcaptions "Use of Proceeds," "Delivery," "Payment Record," "Future Bond Issues," and "Defaults and Remedies" as to which no opinion is expressed), "REGISTRATION, TRANSFER AND EXCHANGE," "TAX MATTERS," "CONTINUING DISCLOSURE OF INFORMATION" (except matters discussed under the subcaption "Compliance with Prior Undertakings" as to which no opinion is expressed)," "LEGAL MATTERS," "LEGAL INVESTMENTS AND ELIGIBILITY TO SECURE PUBLIC FUNDS IN TEXAS," and "OTHER PERTINENT INFORMATION - Registration and Qualification of Certificates for Sale," in the Official Statement and such firm is of the opinion that the information relating to the Certificates and the legal issues contained under such captions and subcaptions is an accurate and fair description of the laws and the legal issues addressed therein and, with respect to the Certificates, such information conforms to the Ordinance. The legal fees to be paid to Bond Counsel for services rendered in connection with the issuance of the Certificates are contingent on the sale and delivery of the Certificates. Certain matters will be passed on for the Underwriter by its counsel, Orrick, Herrington & Sutcliffe LLP, Austin, Texas. The legal opinion of Bond Counsel will accompany the Certificates deposited with DTC or will be printed on definitive bonds in the event of discontinuance of the Book-Entry-Only System.

The various legal opinions to be delivered concurrently with the delivery of the Certificates express the professional judgment of the attorneys rendering the opinions as to the legal issues explicitly addressed therein. In rendering a legal opinion, the attorney does not become an insurer or guarantor of the expression of professional judgment, of the transaction opined upon, or of the future performance of the parties to the transaction. Nor does the rendering of an opinion guarantee the outcome of any legal dispute that may arise out of the transaction.

#### **LITIGATION**

In the opinion of certain officials of the City, the City is not a party to any litigation or other proceedings pending or, to its knowledge, threatened, in any court, agency or other administrative body (either state or federal) which, if decided adversely to the City, would have a material adverse effect on the financial statements of the City.

At the time of initial delivery of the Certificates, the City will provide the Underwriter with a certificate to the effect that no litigation of any nature has been filed or is then pending challenging the issuance of the Certificates or that affects the payment and security of the Certificates or in any other manner questioning the issuance, sale, or delivery of the Certificates.

#### **LEGAL INVESTMENTS AND ELIGIBILITY TO SECURE PUBLIC FUNDS IN TEXAS**

Section 1201.041 of the Public Securities Procedures Act (Chapter 1201, Texas Government Code) and Section 271.051, as amended, Texas Local Government Code, provides that the Certificates are negotiable instruments governed by Chapter 8, Texas Business and Commerce Code, and are legal and authorized investments for insurance companies, fiduciaries, and trustees, and for the sinking funds of municipalities or other political subdivisions or public agencies of the State of Texas. With respect to investment in the Certificates by municipalities or other political subdivisions or public agencies of the State of Texas, the Public Funds Investment Act, Chapter 2256, Texas Government Code, requires that the Certificates be assigned a rating of at least "A" or its equivalent as to investment quality by a national rating agency. See "OTHER PERTINENT INFORMATION - Municipal Bond Rating" herein. In addition, various provisions of the Texas Finance Code provide that, subject to a prudent investor standard, the Certificates are legal investments for state banks, savings banks, trust companies with at least \$1 million of capital, and savings and loan associations. The Certificates are eligible to secure deposits of any public funds of the State, its agencies, and its political subdivisions, and are legal security for those deposits to the extent of their market value.

The City has made no investigation of other laws, rules, regulations or investment criteria which might apply to such institutions or entities or which might limit the suitability of the Certificates for any of the foregoing purposes or limit the authority of such institutions or entities to purchase or invest in the Certificates for such purposes. The City has made no review of laws in other states to determine whether the Certificates are legal investments for various institutions in those states.

#### **OTHER PERTINENT INFORMATION**

##### **Authenticity of Financial Data and Other Information**

The financial data and other information contained herein have been obtained from the City's records, audited financial statements and other sources that are believed to be reliable. There is no guarantee that any of the assumptions or estimates contained herein will be realized. All of the summaries of the statutes, documents and resolutions contained in this Official Statement are made subject to all of the provisions of such statutes, documents, and resolutions. These summaries do not purport to be complete statements of such provisions and reference is made to such documents for further information. Reference is made to original documents in all respects.

## **Registration and Qualification of Certificates for Sale**

The sale of the Certificates has not been registered under the federal Securities Act of 1933, as amended, in reliance upon the exemption provided thereunder by Section 3(a)(2); and the Certificates have not been qualified under the Securities Act of Texas in reliance upon various exemptions contained therein; nor have the Certificates been qualified under the securities act of any other jurisdiction. The City assumes no responsibility for qualification of the Certificates under the securities laws of any jurisdiction in which the Certificates may be sold, assigned, pledged, hypothecated or otherwise transferred. This disclaimer of responsibility for qualification for sale or other disposition of the Certificates shall not be construed as an interpretation of any kind with regard to the availability of any exemption from securities registration provisions.

It is the obligation of the Underwriter to register or qualify the sale of the Certificates under the securities laws of any jurisdiction which so requires. The City agrees to cooperate, at the Underwriter's written request and sole expense, in registering or qualifying the Certificates or in obtaining an exemption from registration or qualification in any state where such action is necessary; provided, however, that the City shall not be required to qualify as a foreign corporation or to execute a general or special consent to service of process in any jurisdiction.

## **Municipal Bond Rating**

S&P Global Ratings, a business unit of Standard & Poor's Financial Services LLC ("S&P") has assigned a rating of "AA" (stable outlook) to the Certificates based on the financial guaranty insurance policy of BAM to be issued simultaneously with the delivery of the Certificates. The Certificates and presently outstanding ad valorem tax debt of the City have an unenhanced rating of "A+" (Stable Outlook) by S&P.

An explanation of the significance of such rating may be obtained from S&P. The rating of the Certificates by S&P reflects only the view of such company at the time the rating is given, and the City makes no representation as to the appropriateness of such rating. There is no assurance that the rating will continue for any given period of time, or that the rating will not be revised downward or withdrawn entirely by S&P if, in the judgment of S&P, circumstances so warrant. Any such downward revision or withdrawal of the rating may have an adverse effect on the market price of the Certificates.

## **Financial Advisor**

TRB Capital Markets, LLC (d/b/a Estrada Hinojosa) "Estrada Hinojosa" (the "Financial Advisor") is employed as the Financial Advisor to the City in connection with the issuance of the Certificates. The Financial Advisor's fee for services rendered with respect to the sale of the Certificates is contingent upon the issuance and delivery of the Certificates. In the normal course of business, the Financial Advisor may also from time to time sell investment securities to the City for the investment of bond proceeds or other funds of the City upon the request of the City. Estrada Hinojosa, in its capacity as Financial Advisor, has relied on the opinion of Bond Counsel and has not verified and does not assume any responsibility for the information, covenants, and representations contained in any of the bond documentation with respect to the federal income tax status of the Certificates.

## **Underwriting**

The Underwriter has agreed, subject to certain conditions, to purchase the Certificates from the City at the price equal to the initial offering prices to the public, as shown on the inside cover hereof, less an underwriter's discount of \$52,112.45 and no accrued interest. The Underwriter's obligation is subject to certain conditions precedent. The Underwriter will be obligated to purchase all of the Certificates, if the Certificates are purchased. The Certificates may be offered and sold to certain dealers and others at prices lower than such public offering prices, and such public prices may be changed, from time to time, by the Underwriter.

The Underwriter has provided the following sentence for inclusion in this Official Statement. The Underwriter has reviewed the information in this Official Statement pursuant to its responsibilities to investors under the federal securities laws, but the Underwriter does not guarantee the accuracy or completeness of such information.

## **Forward-Looking Statements**

The statements contained in this Official Statement, and in any other information provided by the City, that are not purely historical, are forward-looking statements, including statements regarding the City's expectations, hopes, intentions, or strategies regarding the future. Readers should not place undue reliance on forward-looking statements. All forward-looking statements included in this Official Statement are based on information available to the City on the date hereof, and the City assumes no obligation to update any such forward-looking statements.

It is important to note that the City's actual results could differ materially from those discussed in such forward-looking statements.

The forward-looking statements included herein are necessarily based on various assumptions and estimates and are inherently subject to various risks and uncertainties, including risks and uncertainties relating to the possible invalidity of the underlying assumptions and estimates and possible changes or developments in social, economic, business, industry, market, legal and regulatory circumstances and conditions and actions taken or omitted to be taken by third parties, including customers, suppliers, business partners and competitors, and legislative, judicial and other governmental authorities and officials. Assumptions related to the foregoing involve judgments with respect to, among other things, future economic,

competitive, and market conditions and future business decisions, all of which are difficult or impossible to predict accurately and many of which are beyond the control of the City. Any of such assumptions could be inaccurate and, therefore, there can be no assurance that the forward-looking statements included in this Official Statement would prove to be accurate.

**Information from External Sources**

References to web site addresses presented herein are for informational purposes only and may be in the form of a hyperlink solely for the reader's convenience. Unless specified otherwise, such web sites and the information or links contained therein are not incorporated into, and are not part of, this Official Statement for purposes of, and as that term is defined in, SEC Rule 15c2-12.

**Authorization of the Official Statement**

No person has been authorized to give any information or to make any representations other than those contained in this Official Statement, and if given or made, such other information or representations must not be relied upon as having been authorized by the City.

This Official Statement was approved by the City Commission of the City for distribution in accordance with provisions of the United States Securities and Exchange Commission's rule codified at 17 C.F.R. Section 240.15c-12, as amended.

The Ordinance approved the form and content of this Official Statement and any addenda, supplement, or amendment thereto and authorized its further use in the reoffering of the Certificates by the Underwriter.

CITY OF MERCEDES, TEXAS

/s/ Oscar D. Montoya Sr.  
Mayor

ATTEST:

/s/ Joselynn Castillo  
City Secretary

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**APPENDIX A**

**SELECTED FINANCIAL INFORMATION  
OF THE CITY OF MERCEDES, TEXAS**

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**TABLE 1 – VALUATION, EXEMPTIONS AND AD VALOREM TAX DEBT**

2024/25 Market Valuation Established by Hidalgo County Appraisal District		\$ 1,269,067,219
Less: Exemptions/Reductions at 100% Market Value Veterans Exemption	\$ 180,565,251	
10% Lost to Cap Adjustment	21,294,839	
Over 65/Disabled	5,602,500	
Productivity Loss/Other	<u>123,213,546</u>	
		<u>\$ 330,676,136</u>
2024/25 Net Taxable Assessed Valuation		<u><u>\$ 938,391,083</u></u>
City Funded Debt Payable from Ad Valorem Taxes as of October 3, 2024 <sup>(1)</sup>		
Combination Tax & Subordinate Lien Revenue Certificates of Obligation, Series 2006	\$ 110,000	
Public Property Finance Contractual Obligations, Series 2013	695,000	
Combination Tax & Limited Pledge Revenue Certificates of Obligation, Series 2015	1,300,000	
General Obligation Refunding Bonds, Series 2015	475,000	
Limited Tax Refunding Bonds, Series 2016	5,000,000	
Combination Tax & Limited Pledge Revenue Certificates of Obligation, Series 2018	7,810,000	
Combination Tax & Limited Pledge Revenue Certificates of Obligation, Series 2021	7,840,000	
The Certificates	<u>6,760,000</u>	
Total General Obligation Debt Payable From Ad Valorem Taxes		\$ 29,990,000
Less: Self Supporting General Obligation Debt		
Combination Tax & Subordinate Lien Revenue Certificates of Obligation, Series 2006	\$ 110,000	
Limited Tax Refunding Bonds, Series 2016	1,950,000	
Combination Tax & Limited Pledge Revenue Certificates of Obligation, Series 2021	3,528,000	
The Certificates (approximately 86%, percentage may vary from year to year)	<u>5,813,600</u>	
Total Self-supporting General Obligation Debt		\$ 11,401,600
Net General Obligation Debt		<u><u>\$ 18,588,400</u></u>
Interest and Sinking Fund Balance as of September 30, 2023		\$ 896,035
2025 Estimated Population	16,732	
Ratio Total General Obligation Debt to 2024/25 Taxable Assessed Valuation	3.20%	
Per Capita Net General Obligation Funded Debt	\$ 1,111	
Per Capita Net Taxable Assessed Valuation	\$ 56,084	

Source: The Texas Comptroller of Public Accounts, Property Tax Division, Hidalgo County Appraisal District, and the City of Mercedes, Texas. Values are subject to change throughout the year as contested values are resolves of and the Appraisal District updates records.

<sup>(1)</sup> Includes the Certificates.

**TABLE 2 – TAXABLE ASSESSED VALUATIONS BY CATEGORY**

Category	Taxable Appraised Value For Fiscal Year Ended September 30,					
	2025		2024		2023	
	Amount	% of Total	Amount	% of Total	Amount	% of Total
Real, Residential, Single Family	\$ 511,453,486	40.30%	\$ 475,006,286	44.69%	\$ 386,825,175	42.94%
Real Residential, Multi-Family	40,149,292	3.16%	40,542,430	3.97%	34,340,370	3.49%
Real, Vacant Lots/Tracts	41,439,294	3.27%	31,332,212	3.10%	26,823,022	3.26%
Real, Acreage (Land Only)	70,490,831	5.55%	69,708,059	6.65%	57,587,946	7.44%
Real, Farm and Ranch Improvements	9,666,160	0.76%	8,832,156	0.93%	8,065,279	0.97%
Real, Commercial and Industrial	258,014,853	20.33%	255,510,142	27.22%	235,673,599	27.34%
Real, Tangible Personal, Utilities	20,624,418	1.63%	17,894,238	1.77%	15,308,041	2.12%
Tangible Personal, Commercial and Industrial	108,765,662	8.57%	103,008,453	9.66%	83,581,635	10.75%
Mobile Homes	11,707,030	0.92%	11,755,531	1.17%	10,139,458	1.28%
Tangible Personal Other	193,985,078	15.29%	189,406,543	0.49%	4,210,674	0.26%
Real Inventory	-	0.00%	-	0.00%	13,283	0.00%
Special Inventory	2,771,115	0.22%	3,437,356	0.36%	3,083,957	0.17%
<b>Total Appraised Value Before Exemptions</b>	<b>\$ 1,269,067,219</b>	<b>100.00%</b>	<b>\$ 1,206,433,406</b>	<b>100.00%</b>	<b>\$ 865,652,439</b>	<b>100.00%</b>
Less: Total Exemptions / Reductions	(330,676,136)		(335,185,135)		(90,414,338)	
<b>Taxable Assessed Value</b>	<b>938,391,083</b>		<b>871,248,271</b>		<b>775,238,101</b>	

Category	Taxable Appraised Value For Fiscal Year Ended September 30,			
	2022		2021	
	Amount	% of Total	Amount	% of Total
Real, Residential, Single Family	\$ 331,835,186	37.64%	\$ 288,534,529	35.37%
Real Residential, Multi-Family	26,941,761	3.36%	25,731,493	2.87%
Real, Vacant Lots/Tracts	25,202,215	3.41%	26,167,705	3.95%
Real, Acreage (Land Only)	57,473,346	7.92%	60,721,902	8.79%
Real, Farm and Ranch Improvements	7,499,493	1.07%	8,213,354	0.93%
Real, Commercial and Industrial	211,322,122	31.81%	243,849,580	33.10%
Real, Tangible Personal, Utilities	16,348,859	1.92%	14,723,363	2.07%
Tangible Personal, Commercial and Industrial	83,058,785	10.83%	83,048,952	10.95%
Mobile Homes	9,858,019	1.12%	8,612,415	1.15%
Tangible Personal Other	1,980,775	0.66%	5,092,748	0.61%
Real Inventory	-	0.00%	-	0.00%
Special Inventory	1,341,400	0.24%	1,835,324	0.22%
<b>Total Appraised Value Before Exemptions</b>	<b>\$ 772,861,961</b>	<b>100.00%</b>	<b>\$ 766,531,365</b>	<b>100.00%</b>
Less: Total Exemptions/ Reductions	(90,414,338)		(80,925,219)	
<b>Taxable Assessed Value</b>	<b>682,447,623</b>		<b>685,606,146</b>	

Source: The Texas Comptroller of Public Accounts, Property Tax Division, Hidalgo County Appraisal District, and the City of Mercedes, Texas. Values are subject to change throughout the year as contested values are resolved and the Appraisal District updates records.

**TABLE 3 – VALUATION AND AD VALOREM TAX DEBT HISTORY**

Fiscal Year Ended 9/30	Population <sup>(1)</sup>	Taxable Assessed Valuation	Taxable Assessed Valuation Per Capita	Tax Debt Outstanding at Year End	Ratio Funded	
					Taxable Assessed Valuation	Debt to Taxable Assessed Valuation
2016	16,608	522,712,943	31,474	22,920,000	4.38%	1,380
2017	16,625	545,316,010	32,801	20,475,000	3.75%	1,232
2018	16,729	577,976,681	34,549	18,120,000	3.14%	1,083
2019	16,624	597,739,261	35,956	25,575,000	4.28%	1,538
2020	16,761	640,394,089	38,207	23,470,000	3.66%	1,400
2021	16,969	685,606,146	40,403	21,305,000	3.11%	1,256
2022	16,969	682,447,623	40,217	27,595,000	4.04%	1,626
2023	16,396	775,238,101	47,282	25,445,000	3.28%	1,552
2024	16,717	871,248,271	52,118	23,230,000	2.67%	1,390
2025	16,732	938,391,083	56,084	29,990,000 <sup>(2)</sup>	3.20%	1,792

<sup>(1)</sup> Source: The Municipal Advisory Council of Texas and estimates from the City of Mercedes.

<sup>(2)</sup> Includes the Certificates.

**TABLE 4 – TAX RATE, LEVY AND COLLECTION HISTORY**

Fiscal Year Ended 9/30	Tax Rate	General Fund	Interest and Sinking Fund	Tax Levy	% Current Collections	% Total Collections
2016	0.74500	0.44090	0.30410	3,975,665	95.00%	98.00%
2017	0.74500	0.44090	0.30410	4,066,335	94.00%	98.00%
2018	0.74500	0.50910	0.23590	4,315,025	96.00%	100.00%
2019	0.74500	0.50910	0.23590	4,443,868	95.00%	97.00%
2020	0.74500	0.45280	0.29220	4,706,991	96.00%	99.00%
2021	0.74500	0.46600	0.27900	5,063,682	95.00%	95.00%
2022	0.77500	0.46780	0.30720	5,288,969	95.00%	95.00%
2023	0.77500	0.46180	0.31320	5,958,972	96.45%	101.57%
2024	0.77500	0.49740	0.27760	6,913,426	94.01%	97.17% <sup>(2)</sup>
2025	0.78500	0.49080	0.29420	7,219,043 <sup>(1)</sup>	N/A	N/A

Source: The City of Mercedes, Texas.

<sup>(1)</sup> Levy is calculated using the Taxable Assessed Value in Table 1 at 98% collections rate.

<sup>(2)</sup> As of July 2024.

**TABLE 5 – TEN LARGEST TAXPAYERS <sup>(1)</sup>**

Taxpayer	Nature of Business	2025 Taxable Assessed Valuation	% of Taxable Assessed Valuation
CPG Mercedes LP	Retail	\$ 112,000,000	11.94%
Master Brand Home Products LLC	Retail	13,977,848	1.49%
Llano Grande Holdings	Multi-Family Housing	11,790,259	1.26%
AEP Texas	Electric/Utility	10,932,040	1.16%
Woodcrafters Home Products LLC	Retail	8,584,237	0.91%
Setzer Properties HRL LLC	Retail	8,581,134	0.91%
Casa Korima Housing Development	Multi-Family Housing	7,153,532	0.76%
FEDEX Freight	Freight	5,665,570	0.60%
Builders First Source	Retail	5,584,767	0.60%
Rios of Mercedes	Retail	5,378,090	0.57%
		<u>\$ 189,647,477</u>	<u>20.21%</u>

Source: The Municipal Advisory Council of Texas and the 2024 Hidalgo County Appraisal District.

<sup>(1)</sup> As shown in the table above, the top ten taxpayers in the City account for in excess of 20% of the City’s tax base. Adverse developments in economic conditions in any particular industry in which any one of these large taxpayers participates, or any could adversely impact these businesses and, consequently, the tax values in the City, resulting in less local tax revenue. If any major taxpayer, or a combination of top taxpayers, were to default in the payment of taxes, the ability of the City to make timely payment of debt service on the Certificates may be dependent on its ability to enforce and liquidate its tax lien, which is a time consuming process that may only occur annually. See “DEFAULT AND REMEDIES” and “AD VALOREM TAX PROCEDURES – City’s Rights in the Event of Tax Delinquencies” in this Official Statement.

**TABLE 6 – ESTIMATED OVERLAPPING TAX DEBT**

Expenditures of the various taxing entities within the territory of the City are paid out of ad valorem taxes levied by such entities on properties within the City. Such entities are independent of the City and may incur borrowings to finance their expenditures. This statement of direct and estimated overlapping Tax Debt was developed from information contained in “Texas Municipal Reports” published by the Municipal Advisory Council of Texas, and other sources. Except for the amounts relating to the City, the City has not independently verified the accuracy or completeness of such information, and no person should rely upon such information as being accurate or complete. Furthermore, certain of the entities listed may have issued additional Tax Debt since the date of the report, and such entities may have programs requiring the issuance of substantial amounts of additional Tax Debt, the amount of which cannot be determined. The following table reflects the estimated overlapping Tax Debt.

Taxing Jurisdiction	Tax Year 2024 Taxable Assessed Valuation	Tax Year 2024 Tax Rate	Tax Debt as of 06/30/2024	Estimated %	City's Overlapping Funded Debt	Authorized but Unissued Tax Debt as of 06/30/2024
City of Mercedes	\$ 938,391,083	\$ 0.7850	\$ 29,990,000 <sup>(1)</sup>	100.00%	\$ 29,990,000	\$ -
Hidalgo County	58,270,571,690	0.5750	395,825,000 <sup>(2)</sup>	1.60%	6,333,200	-
Hidalgo County Drainage District #1	57,068,323,719	0.1139	276,378,000 <sup>(2)</sup>	1.66%	4,587,875	-
Mercedes ISD	774,481,438	1.0960	39,431,120 <sup>(2)</sup>	76.95%	30,342,247	-
South Texas College	59,215,880,540	0.1562	94,589,693 <sup>(2)</sup>	1.52%	1,437,763	-
Weslaco ISD	3,482,894,239	0.9464	205,653,315 <sup>(2)</sup>	3.74%	7,691,434	-
Total Direct and Overlapping Tax Debt					\$ 80,382,519	
Ratio of Direct Overlapping Tax Debt to Taxable Assessed Valuation					8.57%	
Per Capita Overlapping Debt					\$ 4,804	

Source: The Municipal Advisory Council of Texas.

<sup>(1)</sup> Includes the Certificates and Self-Supporting Debt as of October 3, 2024.

<sup>(2)</sup> Gross Debt as of 06/30/24 per the Municipal Advisory Council of Texas.

**TABLE 7 – AD VALOREM TAX DEBT SERVICE REQUIREMENT**

FYE 9/30	Outstanding Tax Debt Service			The Certificates			Total Tax Debt Service	Less: Self-Supporting Debt Service <sup>(1)</sup>	Net Tax-Supported Debt Service Requirements	% of Principal Retired
	Principal	Interest	Total	Principal	Interest	Total				
2024	\$ 2,215,000	\$ 806,830	\$ 3,021,830	\$ -	\$ -	\$ -	\$ 3,021,830	\$ 746,129	\$ 2,275,701	6.88%
2025	2,225,000	733,136	2,958,136	680,000	265,317	945,317	3,903,452	1,549,243	2,354,209	
2026	2,275,000	657,330	2,932,330	50,000	290,500	340,500	3,272,830	923,601	2,349,228	
2027	2,145,000	580,654	2,725,654	100,000	286,750	386,750	3,112,404	960,295	2,152,109	
2028	2,245,000	502,769	2,747,769	150,000	280,500	430,500	3,178,269	1,013,770	2,164,500	
2029	2,145,000	428,093	2,573,093	160,000	272,750	432,750	3,005,843	1,059,927	1,945,916	44.68%
2030	2,065,000	363,021	2,428,021	170,000	264,500	434,500	2,862,521	1,028,235	1,834,286	
2031	2,105,000	302,321	2,407,321	175,000	255,875	430,875	2,838,196	1,121,408	1,716,788	
2032	2,205,000	239,874	2,444,874	185,000	246,875	431,875	2,876,749	1,139,926	1,736,823	
2033	2,300,000	174,644	2,474,644	195,000	237,375	432,375	2,907,019	1,152,973	1,754,045	
2034	680,000	127,663	807,663	205,000	227,375	432,375	1,240,038	402,209	837,829	76.62%
2035	710,000	99,681	809,681	215,000	216,875	431,875	1,241,556	402,527	839,029	
2036	735,000	70,594	805,594	225,000	205,875	430,875	1,236,469	400,424	836,045	
2037	685,000	42,100	727,100	240,000	194,250	434,250	1,161,350	373,455	787,895	
2038	710,000	14,200	724,200	250,000	182,000	432,000	1,156,200	371,520	784,680	
2039	-	-	-	265,000	169,125	434,125	434,125	373,348	60,778	89.15%
2040	-	-	-	280,000	155,500	435,500	435,500	374,530	60,970	
2041	-	-	-	290,000	141,250	431,250	431,250	370,875	60,375	
2042	-	-	-	305,000	126,375	431,375	431,375	370,983	60,393	
2043	-	-	-	325,000	110,625	435,625	435,625	374,638	60,988	
2044	-	-	-	340,000	94,000	434,000	434,000	373,240	60,760	93.93%
2045	-	-	-	355,000	76,625	431,625	431,625	371,198	60,428	
2046	-	-	-	375,000	58,375	433,375	433,375	372,703	60,673	
2047	-	-	-	390,000	41,200	431,200	431,200	370,832	60,368	
2048	-	-	-	410,000	25,200	435,200	435,200	374,272	60,928	
2049	-	-	-	425,000	8,500	433,500	433,500	372,810	60,690	100.00%
	<u>\$ 25,445,000</u>	<u>\$ 5,142,908</u>	<u>\$ 30,587,908</u>	<u>\$ 6,760,000</u>	<u>\$ 4,433,592</u>	<u>\$ 11,193,592</u>	<u>\$ 41,781,500</u>	<u>\$ 16,745,068</u>	<u>\$ 25,036,432</u>	

<sup>(1)</sup> Self-Supporting debt service is subject to change annually.

**TABLE 8 – TAX ADEQUACY FOR GENERAL OBLIGATION DEBT**

Estimated Debt Service Requirements, Fiscal Year Ended 9/30/2024		\$ 3,021,830
Interest and Sinking Fund Balance at 9/30/2023	\$ 896,035	
Interest and Sinking Fund Tax Levy Estimated Collections @ 95%	2,622,709	
Self-Supporting Debt	746,129	
Estimated Interest Earnings	-	
Budgeted Delinquent Collections	-	
		<u>4,264,873</u>
Estimated Interest & Sinking Fund Balance, 9/30/2024		<u>\$ 1,243,044</u>

Source: The City of Mercedes, Texas Audited Financial Statements.

**TABLE 9 – GENERAL FUND REVENUES AND EXPENDITURE**

	Fiscal Years Ended September 30				
	2023	2022	2021	2020	2019
<b>Revenues:</b>					
Property Taxes	\$ 3,505,718	\$ 3,359,780	\$ 3,297,583	\$ 2,915,606	\$ 2,992,418
Non Property Taxes	7,126,270	6,653,654	5,471,942	4,663,410	5,424,690
Licenses and Permits	536,205	484,829	248,192	132,250	241,823
Fines and Services	157,788	81,632	78,295	2,638,937	1,976,375
Intergovernmental	1,036,350	29,922	17,470	313,384	23,980
Charges for Services	3,365,247	2,680,858	2,665,892	-	-
Miscellaneous	528,002	203,090	234,811	460,226	443,795
Interest Income	263,709	41,186	11,229	-	-
Rents and Royalties	17,045	13,185	2,245	-	-
<b>Total Revenues</b>	<b>\$ 16,536,334</b>	<b>\$ 13,548,136</b>	<b>\$ 12,027,659</b>	<b>\$ 11,123,813</b>	<b>\$ 11,103,081</b>
<b>Expenditures:</b>					
Current:					
General Government	\$ 3,358,282	\$ 2,877,041	\$ 2,857,686	\$ 2,982,486	\$ 2,481,963
Public Safety	5,187,312	5,025,386	4,249,231	3,104,580	3,803,007
Public Works	476,951	448,348	390,010	369,377	368,179
Highway and Streets	527,717	482,254	392,609	428,616	348,880
Health and Welfare	1,972,565	1,549,404	1,836,206	1,966,261	1,347,680
Culture and Recreation	1,289,641	1,077,953	1,122,198	1,259,194	1,238,052
Non-Departmental	-	-	-	-	-
Capital Outlay	133,241	68,292	573,528	260,702	146,872
Debt Service	625,000	625,000	386,960	407,136	303,229
<b>Total Expenditures</b>	<b>\$ 13,570,709</b>	<b>\$ 12,153,678</b>	<b>\$ 11,808,428</b>	<b>\$ 10,778,352</b>	<b>\$ 10,037,862</b>
Excess/(Deficiency) of Revenues Over Expenditures	\$ 2,965,625	\$ 1,394,458	\$ 219,231	\$ 345,461	\$ 1,065,219
<b>Other Financing Sources/Uses:</b>					
Sale of Assets	50,355	31,220	10,675	-	-
Capital Leases	-	-	307,230	-	-
Insurance Proceeds	-	-	41,133	-	-
Operating Transfers In	-	191,475	363	9,228	-
Operating Transfers Out	(632,397)	(64,357)	(179,604)	(299,450)	(59,476)
Proceeds from debt issuance	-	-	-	-	-
Capital and Bond Outlays	-	-	-	-	-
Miscellaneous	-	-	-	36,861	55,227
<b>Total Other Financing Sources/Uses</b>	<b>\$ (582,042)</b>	<b>\$ 158,338</b>	<b>\$ 179,797</b>	<b>\$ (253,361)</b>	<b>\$ (4,249)</b>
Beginning Fund Balance	7,540,756	5,943,814	5,679,876	5,587,776	3,612,855
Prior Period Adjustment	-	44,146	(135,090)	-	913,951
<b>Ending Fund Balance - Sept. 30</b>	<b>\$ 9,924,339</b>	<b>\$ 7,540,756</b>	<b>\$ 5,943,814</b>	<b>\$ 5,679,876</b>	<b>\$ 5,587,776</b>

Source: The City of Mercedes, Texas Audited Financial Statements. The anticipated 2024 FYE General Fund ending fund balance is approximately \$10.9 million.

**TABLE 10 – CURRENT INVESTMENTS**

**Current Investments**

As of June 30, 2024, the City's investable funds were invested as follows:

Description	Primary Government			Component Units
	Governmental Activities	Business-Type Activities	Total	
Cash	\$ 10,137,397	\$ 1,425,459	\$ 11,562,856	\$ 1,110,763
Restricted Cash	4,550,278	245,871	4,796,149	856,515
Money Market	245,871	-	245,871	-
<b>Total</b>	<b>\$ 14,933,546</b>	<b>\$ 1,671,330</b>	<b>\$ 16,604,876</b>	<b>\$ 1,967,278</b>

Source: The City of Mercedes, Texas.



**TABLE 11 – WATER AND SEWER FUND**

	Fiscal Years Ended September 30,				
	2023	2022	2021	2020	2019
<b>Operating Revenues:</b>					
Water services/revenues	\$ 3,800,318	\$ -	\$ 2,840,198	\$ 2,591,787	\$ 2,606,354
Sewer services/revenues	2,913,961	-	2,195,608	2,072,417	1,725,416
Charges for Services	-	6,093,605	-	-	-
<b>Total operating revenues</b>	<b>\$ 6,714,279</b>	<b>\$ 6,093,605</b>	<b>\$ 5,035,806</b>	<b>\$ 4,664,204</b>	<b>\$ 4,331,770</b>
<b>Operating Expenses:</b>					
Water and Sewer services/expenses	\$ 4,820,162	\$ -	\$ 5,224,412	\$ 5,511,095	\$ 4,961,055
Other Operating Costs	-	3,803,520	-	-	-
Depreciation	1,468,205	1,523,185	-	-	-
Debt Service	-	162,962	-	-	-
<b>Total operating expenses</b>	<b>\$ 6,288,367</b>	<b>\$ 5,489,667</b>	<b>\$ 5,224,412</b>	<b>\$ 5,511,095</b>	<b>\$ 4,961,055</b>
<b>Operating Income (Loss)</b>	<b>\$ 425,912</b>	<b>\$ 603,938</b>	<b>\$ (188,606)</b>	<b>\$ (846,891)</b>	<b>\$ (629,285)</b>
<b>Non-operating revenues (expenses)</b>					
Miscellaneous	\$ -	\$ -	\$ 802	\$ 1,050	\$ 1,945
Interest expense	(224,089)	-	(171,721)	(196,832)	(220,017)
Interest income	-	-	255	3,194	6,425
Investment Earnings	20,312	2,184	-	-	-
<b>Total non-operating revenues (expenses)</b>	<b>\$ (203,777)</b>	<b>\$ 2,184</b>	<b>\$ (170,664)</b>	<b>\$ (192,588)</b>	<b>\$ (211,647)</b>
Net income (loss) before transfers	222,135	606,122	(359,270)	(1,039,479)	(840,932)
<b>Transfers</b>					
Transfers in(out)	\$ 478,761	\$ -	\$ 535,754	\$ -	\$ -
Nonoperating Transfers in	-	362,580	-	-	-
Total transfers	478,761	362,580	535,754	-	-
<b>NET INCOME (LOSS)</b>	<b>\$ 700,896</b>	<b>\$ 968,702</b>	<b>\$ 176,484</b>	<b>\$ (1,039,479)</b>	<b>\$ (840,932)</b>
<b>Net position - beginning</b>	<b>\$ 26,940,158</b>	<b>\$ 25,971,456</b>	<b>\$ 27,785,765</b>	<b>\$ 28,825,244</b>	<b>\$ 29,585,071</b>
<b>Prior period adjustment</b>	<b>-</b>	<b>-</b>	<b>(1,990,793)</b>	<b>-</b>	<b>81,105</b>
<b>Net Position - ending</b>	<b>\$ 27,641,054</b>	<b>\$ 26,940,158</b>	<b>\$ 25,971,456</b>	<b>\$ 27,785,765</b>	<b>\$ 28,825,244</b>

Source: The City of Mercedes, Texas Audited Financial Statements.

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**APPENDIX B**

**GENERAL INFORMATION REGARDING THE  
CITY OF MERCEDES AND ITS ECONOMY**

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*This Appendix contains a brief discussion of certain economic and demographic characteristics of City. Information in this Appendix has been obtained from the sources noted. They are believed to be reliable, although no investigation has been made to verify the accuracy of such information. Much of this information was obtained from the City, Texas Workforce Commission, Hidalgo County, Texas, and the City's Municipal Advisory Council of Texas Report.*

## **General Information**

The City of Mercedes, Texas (the "City" or "Mercedes") located in Hidalgo County in South Central Texas is a commercial center located approximately 20 miles east of McAllen, 250 miles south of San Antonio, Texas and 5 miles north of Mexico on US. Highway 83. The City is located approximately 17 miles from Valley International Airport in Harlingen and approximately 21 miles from McAllen International Airport in McAllen.

## **History**

The site of Mercedes was first settled by Spanish Colonial ranchers in the late 1770s and was part of the Llano Grande Spanish land grant issued May 29, 1790 to Juan Jose Hinojosa. During the 1850s it was the location of the Anacuitas Ranch, owned by Ramon and Manuel Cavazos descendants of Juan Jose Hinojosa.

Lon C. Hill, Jr. a local land developer owned acreage extending sixteen miles from the Rio Grande River, which including the future site of Mercedes. In 1904 he formed the Capisallo Town and Improvement Company to establish a town one mile east of Mercedes, to be named Lonsboro, which did not develop.

Railroad builder B.F. Yoakum saw the agricultural potential along the Rio Grande, and in 1905 he found investors for an irrigation project. This became the American Rio Grande Land and Irrigation Company, developers of the largest privately-owned surface irrigation system in the world at the time. They purchased 250,000 acres from Lon C. Hill and began to build a large canal system and their own townsite.

Early on, a boxcar served as a station and home to the family of Judge S.P. Silver, who was active in the development of early Mercedes. The railroad depot was built in 1906. The City of Mercedes was founded September 15, 1907. It was the first town built along the Hidalgo Branch of the St. Louis, Brownsville & Mexico Railroad. After considering several names (including Diaz, with the hope the Mexican President would help protect the town from border raids), the developers decided to call the new town Mercedes.

By 1908 Mercedes had a hotel, a school, a lumberyard, a feed store and a local newspaper, still in existence today, the Enterprise. Mercedes incorporated in 1909, that same year it was devastated by floodwaters.

After the irrigation system was built, there was large scale production of citrus fruits and vegetable crops. The livestock industry is important in Mercedes. The Rio Grande Valley Livestock Show, held in March of each year, began as a hometown event that grew to one of area-wide importance. The first annual Livestock Show was held in 1940.

The once famous Confederate Air Force was started in Mercedes by a group of World War II pilots from the area. In 1965 they established the museum of World War II airplanes at Rebel Field in Mercedes. The museum was later relocated and became the Commemorative Air Force.

Other major industries include meat packing, custom boot-making, and the manufacture of produce boxes and farm chemicals.

## **Climate**

The climate is temperate, with 300 days of sunshine annually. Average temperatures range from 50 in winter and 97 degrees in the summer. Average rainfall is 18-20 inches. Snowfall is rare.

## **The County**

Hidalgo County was created in 1852 from Cameron County. It was organized in the same year and at the time had an area of 2,356 square miles. When first organized, the County extended almost as far north as Nueces County; however, later reductions to form counties to its north and east have reduced Hidalgo County to its present area of 1,583 square miles.

Hidalgo County is bordered on the east by Kennedy, Willacy, and Cameron Counties, Brooks County is to its north, Starr County lies on its western boundary. On its southern boundary, the Rio Grande River separates Hidalgo County from the Republic of Mexico.

The area economy is diversified by the tourist industry, agribusiness and international trade with Mexico. The Texas Almanac designates cotton, grain, vegetable, citrus, and sugar cane as principal sources of agricultural income. The County is a leading producer of cotton and sorghum.

The County is a popular tourist center located in the lush Lower Rio Grande Valley with access to Old Mexico and facilities catering to thousands of summer and winter visitors.

**Hidalgo County Labor Force Statistics**

	Hidalgo County				
	June 2024	June 2023	June 2022	June 2021	June 2020
Civilian Labor Force	361,840	355,213	345,236	331,623	309,290
Total Employment	389,006	380,586	371,510	369,648	361,185
Total Unemployment	27,166	25,373	26,274	38,025	51,895
Percentage Unemployment	7.0%	6.7%	7.1%	10.3%	14.4%

Source: Texas Workforce Commission – Local Area Unemployment Statistics (LAUS) Report.

**Comparative Unemployment Rates**

	June 2024	June 2023	June 2022	June 2021	June 2020
Hidalgo County	7.0%	6.7%	7.1%	10.3%	14.4%
State of Texas	4.5%	4.2%	4.2%	6.4%	10.4%
United States of America	4.3%	3.8%	3.8%	6.1%	11.2%

Source: Texas Workforce Commission – Local Area Unemployment Statistics (LAUS) Report.

**APPENDIX C**

**EXCERPTS FROM THE CITY OF MERCEDES  
AUDITED FINANCIAL STATEMENT  
FOR THE YEAR ENDED  
SEPTEMBER 30, 2023**

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**CITY OF MERCEDES, TEXAS**

**AUDITED ANNUAL FINANCIAL REPORT**

**FOR YEAR ENDED SEPTEMBER 30, 2023**

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**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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Audited Annual Financial Report  
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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

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**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
	2023	2022	2023	2022	2023	2022	(Decrease)
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	<u>21,671,206</u>	<u>17,230,629</u>	<u>6,734,591</u>	<u>6,095,789</u>	<u>28,405,797</u>	<u>23,326,418</u>	<u>5,079,379</u>
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	<u>15,737,804</u>	<u>14,279,775</u>	<u>6,512,456</u>	<u>5,489,667</u>	<u>22,250,260</u>	<u>17,894,399</u>	<u>4,355,861</u>
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	<u>\$ 22,506,428</u>	<u>\$ 17,173,073</u>	<u>\$ 27,641,054</u>	<u>\$ 26,940,158</u>	<u>\$ 50,147,482</u>	<u>\$ 44,113,231</u>	<u>\$ 6,034,251</u>

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:

	<b>Governmental</b>		<b>Increase</b>
	<b>2023</b>	<b>2022</b>	<b>(Decrease)</b>
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)
	<b>\$ 25,493,905</b>	<b>\$ 27,762,935</b>	<b>\$ (2,269,030)</b>

  

	<b>Business-Type</b>		<b>Increase</b>
	<b>2023</b>	<b>2022</b>	<b>(Decrease)</b>
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)
	<b>\$ 8,195,462</b>	<b>\$ 8,950,654</b>	<b>\$ (755,192)</b>

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 MERCEDES  
STATEMENT OF NET POSITION  
As of September 30, 2023

Exhibit A - 1

	Governmental Activities	Business - Type Activities	Total	Development Corporation of Mercedes
<b>ASSETS:</b>				
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
<b>Capital Assets</b>				
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)	-
<b>Capital Assets, Net</b>	<b>34,480,492</b>	<b>34,744,779</b>	<b>69,225,271</b>	<b>33,042</b>
1990 Land Held For Development	226,688	-	226,688	3,313,791
<b>TOTAL ASSETS</b>	<b>53,160,761</b>	<b>37,460,194</b>	<b>90,620,954</b>	<b>6,457,616</b>
<b>DEFERRED OUTFLOWS OF RESOURCES:</b>				
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
<b>TOTAL DEFERRED OUTFLOWS OF RESOURCES</b>	<b>3,181,713</b>	<b>389,465</b>	<b>3,571,178</b>	<b>107,019</b>
<b>TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES</b>	<b>\$ 56,342,474</b>	<b>\$ 37,849,658</b>	<b>\$ 94,192,132</b>	<b>\$ 6,564,635</b>
<b>LIABILITIES:</b>				
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
<b>Noncurrent Liabilities:</b>				
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
<b>TOTAL LIABILITIES</b>	<b>33,484,429</b>	<b>10,059,876</b>	<b>43,544,305</b>	<b>2,964,004</b>
<b>DEFERRED INFLOWS OF RESOURCES:</b>				
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
<b>TOTAL DEFERRED INFLOWS OF RESOURCES</b>	<b>351,616</b>	<b>148,729</b>	<b>500,345</b>	<b>65,566</b>
<b>NET POSITION:</b>				
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
<b>TOTAL NET POSITION</b>	<b>22,506,428</b>	<b>27,641,054</b>	<b>50,147,482</b>	<b>3,535,065</b>
<b>TOTAL LIABILITIES, DEFERRED LIABILITIES &amp; NET POSITION</b>	<b>\$ 56,342,474</b>	<b>\$ 37,849,658</b>	<b>\$ 94,192,132</b>	<b>\$ 6,564,635</b>

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

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
<b>PRIMARY GOVERNMENT</b>							
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	-
<b>TOTAL PRIMARY GOVERNMENT</b>	<b>22,250,261</b>	<b>10,079,526</b>	<b>2,498,663</b>	<b>(9,873,894)</b>	<b>201,823</b>	<b>(9,672,071)</b>	<b>-</b>
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>

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

CITY OF MERCEDES  
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
<b>ASSETS:</b>						
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
<b>TOTAL ASSETS</b>	<b>12,936,737</b>	<b>1,831,130</b>	<b>1,145,241</b>	<b>4,071,738</b>	<b>1,693,748</b>	<b>21,678,594</b>
<b>LIABILITIES:</b>						
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
<b>TOTAL LIABILITIES</b>	<b>1,499,513</b>	<b>1,831,130</b>	<b>-</b>	<b>3,413,656</b>	<b>157,525</b>	<b>6,901,823</b>
<b>DEFERRED INFLOWS OF RESOURCES:</b>						
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
<b>TOTAL DEFERRED INFLOWS OF RESOURCES</b>	<b>1,512,885</b>	<b>-</b>	<b>249,206</b>	<b>-</b>	<b>267,341</b>	<b>2,029,433</b>
<b>FUND BALANCES:</b>						
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
<b>TOTAL FUND BALANCES</b>	<b>9,924,339</b>	<b>-</b>	<b>896,035</b>	<b>658,082</b>	<b>1,268,881</b>	<b>12,747,338</b>
<b>TOTAL LIABILITIES, DEFERRED INFLOWS &amp; FUND BALANCES</b>	<b>\$ 12,936,737</b>	<b>\$ 1,831,130</b>	<b>\$ 1,145,241</b>	<b>\$ 4,071,738</b>	<b>\$ 1,693,748</b>	<b>\$ 21,678,594</b>



CITY OF MERCEDES

Exhibit C - 2

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	<u>220,447</u>
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	<u>34,480,492</u>
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	<u>(25,314,384)</u>
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	<u>2,029,433</u>
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	<u>(100,427)</u>
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
	<u>(1,223,465)</u>
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
	<u>(333,005)</u>
Net position of governmental activities	<u><u>\$ 22,506,428</u></u>

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

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

Exhibit C - 3

	General Fund	ARPA	Interest and Sinking	Series 2021	Nonmajor Governmental Funds	Total Governmental Funds
<b>REVENUES:</b>						
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
<b>TOTAL REVENUES</b>	<b>16,536,333</b>	<b>1,058,659</b>	<b>2,460,541</b>	<b>585,834</b>	<b>945,964</b>	<b>21,587,332</b>
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
<b>TOTAL EXPENDITURES</b>	<b>\$ 13,570,708</b>	<b>\$ 47,312</b>	<b>\$ 2,281,285</b>	<b>\$ 2,671,350</b>	<b>\$ 1,380,402</b>	<b>18,570,655</b>
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)
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<b>(582,043)</b>	<b>(1,011,348)</b>	<b>-</b>	<b>532,587</b>	<b>632,397</b>	<b>(428,406)</b>
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)	<b>\$ 9,924,339</b>	<b>\$ -</b>	<b>\$ 896,035</b>	<b>\$ 658,082</b>	<b>\$ 1,268,881</b>	<b>\$ 12,747,338</b>

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

CITY OF MERCEDDES

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

<hr/>		\$ 1,207,869
Net Change in fund balance - governmental funds		
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>\$ 5,454,641</u>

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

Exhibit D - 1

	Water and Sewer Fund
<b>ASSETS:</b>	
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
<b>LIABILITIES:</b>	
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
<b>DEFERRED INFLOWS OF RESOURCES:</b>	
2602 Deferred Inflow Related to Pension Plan	125,718
2603 Deferred Inflow Related to OPEB	23,011
TOTAL DEFERRED INFLOWS OF RESOURCES	148,729
<b>FUND BALANCES:</b>	
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

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

CITY OF MERCEDDES  
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 the City Commission accepted the funds by resolution, but no budgetary action was taken to the timing of the receipt of the funds.

Unused appropriations of the above annual budgets lapse at the end of each year. The budget amounts shown in the financial statements are the final authorized amounts as revised during the year. Budgetary data for Capital Project Funds is budgeted over the life of the respective project and not on an annual basis. Therefore, this data is not presented in the accompanying combined financial statements. Revisions that alter total expenditures within a department must be approved by the City Commission. Therefore, 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 150: *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	<u>-</u>	<u>(28,327)</u>
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:

<b>Governmental Activities</b>	<b>Original</b>		<b>Restated</b>				<b>Ending Balance September 30, 2023</b>
	<b>Beginning Balance October 1, 2022</b>	<b>Prior Period Adjustment</b>	<b>Beginning Balance October 1, 2022</b>	<b>Additions</b>	<b>Retirements</b>	<b>Transfers</b>	
<b>Capital Assets not Being Depreciated</b>							
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
<b>Total Capital Assets not Being Depreciated</b>	<b>2,508,956</b>	<b>-</b>	<b>2,508,956</b>	<b>2,231,141</b>	<b>-</b>	<b>(897,309)</b>	<b>3,842,788</b>
<b>Capital Assets Being Depreciated</b>							
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
<b>Total Capital Assets Being Depreciated</b>	<b>53,237,304</b>	<b>(14,178)</b>	<b>53,223,126</b>	<b>504,725</b>	<b>(386,054)</b>	<b>897,309</b>	<b>54,239,105</b>
<b>Less Accumulated Depreciation For</b>							
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)
<b>Total Accumulated Depreciation</b>	<b>(21,898,011)</b>	<b>(107,108)</b>	<b>(22,005,119)</b>	<b>(1,982,337)</b>	<b>386,054</b>	<b>-</b>	<b>(23,601,402)</b>
<b>Net Capital Assets Being Depreciated</b>	<b>31,339,293</b>	<b>(121,286)</b>	<b>31,218,006</b>	<b>(1,477,612)</b>	<b>-</b>	<b>897,309</b>	<b>30,637,704</b>
<b>Governmental Activities - Total Capital Assets, Net</b>	<b>\$ 33,848,249</b>	<b>\$ (121,286)</b>	<b>\$ 33,726,962</b>	<b>\$ 753,529</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 34,480,492</b>
<b>Business-Type Activities</b>							
<b>Capital Assets not Being Depreciated</b>							
Land	\$ 199,100	\$ -	\$ 199,100	\$ -	\$ -	\$ -	\$ 199,100
Construction in progress	157,993	-	157,993	312,838	-	(11,487)	459,344
<b>Total Capital Assets not Being Depreciated</b>	<b>357,093</b>	<b>-</b>	<b>357,093</b>	<b>312,838</b>	<b>-</b>	<b>(11,487)</b>	<b>658,444</b>
<b>Capital Assets Being Depreciated</b>							
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
<b>Total Capital Assets Being Depreciated</b>	<b>64,076,870</b>	<b>-</b>	<b>64,076,870</b>	<b>608,371</b>	<b>-</b>	<b>-</b>	<b>64,685,241</b>
<b>Less Accumulated Depreciation For</b>							
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)
<b>Total Accumulated Depreciation</b>	<b>(29,624,527)</b>	<b>-</b>	<b>(29,624,527)</b>	<b>(1,468,205)</b>	<b>493,826</b>	<b>-</b>	<b>(30,598,906)</b>
<b>Net Capital Assets Being Depreciated</b>	<b>34,452,343</b>	<b>-</b>	<b>34,452,343</b>	<b>(859,834)</b>	<b>493,826</b>	<b>-</b>	<b>34,086,335</b>
<b>Business-Type Activities - Total Capital Assets, Net</b>	<b>\$ 34,809,436</b>	<b>\$ -</b>	<b>\$ 34,809,436</b>	<b>\$ (546,996)</b>	<b>\$ 493,826</b>	<b>\$ (11,487)</b>	<b>\$ 34,744,779</b>
<b>Total Capital Assets, Net</b>	<b>\$ 68,657,685</b>	<b>\$ (121,286)</b>	<b>\$ 68,536,398</b>	<b>\$ 206,533</b>	<b>\$ 493,826</b>	<b>\$ (11,487)</b>	<b>\$ 69,225,271</b>

**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:

Governmental Activities:

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

Business-Type Activities:

Water	\$	788,325
Sewer		679,880
Total Depreciation - business-type activities	\$	1,468,205

**E. Capital Assets**

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

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Retirements</u>	<u>Ending Balance</u>
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	<u>\$ -</u>	<u>\$ 33,042</u>	<u>\$ -</u>	<u>\$ 33,042</u>

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>
<b>General Fund:</b>		
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>
<b>TIRZ Fund:</b>		
General Fund	-	42,559
Total TIRZ Fund	<u>-</u>	<u>42,559</u>
<b>Special Revenue Fund:</b>		
General Fund	97,482	-
Total Special Revenue Fund	<u>97,482</u>	<u>-</u>
<b>Debt Service Fund:</b>		
Enterprise Fund	-	3,065,294
General Fund	210	-
Total Debt Service Fund	<u>210</u>	<u>3,065,294</u>
<b>Capital Projects Fund:</b>		
Utility Fund	-	12,469
Total Capital Projects Fund	<u>-</u>	<u>12,469</u>
<b>Total Governmental Activities</b>	<u><u>\$ 3,591,817</u></u>	<u><u>\$ 3,948,622</u></u>
<b>Enterprise Fund:</b>		
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>
<b>Component Unit:</b>		
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
<b>Governmental Activities</b>								
<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	-
<b>Total Governmental Activities</b>				<b>\$27,762,935</b>	<b>\$ -</b>	<b>\$(2,269,030)</b>	<b>\$25,493,905</b>	<b>\$1,766,800</b>

**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>-</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
<i>Other Debt Obligations</i>								
Amortization of Bond Premiums				242,113	-	(32,282)	209,831	-
Compensated Absences				<u>22,141</u>	<u>-</u>	<u>(1,810)</u>	<u>20,331</u>	<u>-</u>
<i>Total Other Debt Obligations</i>				<u>264,254</u>	<u>-</u>	<u>(34,092)</u>	<u>230,162</u>	<u>-</u>
Total Business-Type Activities				<u>\$ 8,950,654</u>	<u>\$ -</u>	<u>\$ (755,192)</u>	<u>\$ 8,195,462</u>	<u>\$ 737,300</u>

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>\$ -</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
<i>Notes Payable</i>								
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>-</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
<i>Other Debt Obligations</i>								
Settlement Payable	Varies	2,195,882	11/20/2028	1,529,856	-	(522,805)	1,007,051	522,805
Leases Payable	3.00%	<u>43,499</u>	10/25/2027	<u>-</u>	<u>43,499</u>	<u>(10,248)</u>	<u>33,251</u>	<u>19,239</u>
<i>Total Other Debt Obligations</i>		<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>
Total Component Unit Activities		9,520,882		4,521,138	43,499	(1,150,153)	3,414,484	1,180,297
<b>Total Debt Obligations</b>				<u>\$ 41,234,727</u>	<u>\$ 43,499</u>	<u>\$ (4,174,375)</u>	<u>\$ 37,103,851</u>	<u>\$ 3,560,297</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**

**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
\$	343,750

**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.

	687,500
\$	1,374,182

**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 September 30,	Total Bonds Payable		Total Notes Payable		Total Requirements	
	Principal	Interest	Principal	Interest	Principal	Interest
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 September 30,	Total Bonds Payable	
	Principal	Interest
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
<b>Governmental Activities</b>					
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>
<b>Business-type Activities</b>					
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>
<b>Component Unit</b>					
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](http://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%) than the current rate.

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

**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	-
<b>Total</b>	<b>\$ 3,328,109</b>	<b>\$ 285,725</b>

\$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	-
<b>Total</b>	<b>\$ 1,355,763</b>

**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>
	<u>(a)</u>
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 3.05%	Current Discount Rate 4.05%	1% Increase 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:

<b>Governmental Activities:</b>	<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>
<b>Business-type Activities:</b>		
Utility Fund	478,761	-
Total business-type transfers	<u>478,761</u>	<u>-</u>
<b>Total Interfund Transfers</b>	<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>	<b>Commitment</b>	<b>Paid in Previous Years</b>	<b>Paid in Current Year</b>	<b>Balance Due</b>
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:

	General Fund	Bond Series 2021	Debt Service Fund	Other Governmental Funds	Total Governmental Funds
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**

Description	Amount
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			
<b>REVENUES:</b>					
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
<b>EXPENDITURES:</b>					
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
<b>OTHER FINANCING SOURCES (USES):</b>					
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
<b>Total Pension Liability</b>							
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)
<b>Net Change in Total Pension Liability</b>	907,968	1,632,150	987,452	253,873	977,843	596,952	1,180,819
<b>Total Pension Liability - Beginning</b>	25,332,305	23,700,155	22,712,703	22,458,830	21,480,987	20,884,035	19,703,216
<b>Total Pension Liability - Ending (a)</b>	<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>
<b>Plan Fiduciary Net Position</b>							
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)
<b>Net Change in Plan Fiduciary Net Position</b>	(1,831,858)	2,674,998	1,541,308	2,153,105	(276,917)	2,158,519	1,361,503
<b>Plan Fiduciary Net Position - Beginning</b>	23,660,184	20,985,186	19,443,877	17,290,773	17,567,690	15,409,172	14,047,669
<b>Plan Fiduciary Net Position - Ending (b)</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>
<b>Net Pension Liability - Ending (a) - (b)</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>
<b>Plan Fiduciary Net Position as a Percentage of Total Pension Liability</b>	83.19%	93.40%	88.54%	85.61%	76.99%	81.78%	73.78%
<b>Covered Payroll</b>	\$ 5,402,265	\$ 5,259,629	\$ 5,305,900	\$ 4,568,193	\$ 4,122,806	\$ 4,099,672	\$ 4,134,721
<b>Net Pension Liability as a Percentage of Covered Payroll</b>	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	<u>(841,132)</u>	<u>(876,640)</u>	<u>(959,839)</u>	<u>(933,895)</u>	<u>(809,721)</u>	<u>(783,036)</u>	<u>(795,685)</u>	<u>(810,771)</u>
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

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**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
<b>Total OPEB Liability</b>					
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)
<b>Net Change in Total OPEB Liability</b>	<u>(144,136)</u>	<u>31,655</u>	<u>96,308</u>	<u>(61,458)</u>	<u>123,244</u>
<b>Total OPEB Liability - Beginning</b>	441,613	409,958	313,644	375,102	251,858
<b>Total OPEB Liability - Ending</b>	<u>\$ 297,477</u>	<u>\$ 441,613</u>	<u>\$ 409,952</u>	<u>\$ 313,644</u>	<u>\$ 375,102</u>
 <b>Covered Payroll</b>	 \$ 5,402,265	 \$ 5,259,629	 \$ 5,305,900	 \$ 4,568,193	 \$ 4,122,806
 <b>Total OPEB Liability as a Percentage of Covered Payroll</b>	 5.51%	 8.40%	 7.73%	 6.87%	 9.10%

Notes to Schedule of Contributions

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**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
<b>ASSETS:</b>										
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
<b>TOTAL ASSETS</b>	<b>156,364</b>	<b>2,722</b>	<b>106,160</b>	<b>38,487</b>	<b>1,678</b>	<b>681,828</b>	<b>445,684</b>	<b>3,182</b>	<b>171,582</b>	<b>1,607,688</b>
<b>TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES</b>										
	<b>\$ 156,364</b>	<b>\$ 2,722</b>	<b>\$ 106,160</b>	<b>\$ 38,487</b>	<b>\$ 1,678</b>	<b>\$ 681,828</b>	<b>\$ 445,684</b>	<b>\$ 3,182</b>	<b>\$ 171,582</b>	<b>\$ 1,607,688</b>
<b>LIABILITIES:</b>										
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
<b>TOTAL LIABILITIES</b>	<b>235</b>	<b>-</b>	<b>96,295</b>	<b>3,780</b>	<b>-</b>	<b>2,186</b>	<b>42,559</b>	<b>-</b>	<b>-</b>	<b>145,056</b>
<b>DEFERRED INFLOWS OF RESOURCES:</b>										
2605 Deferred Resource Inflow - TIRZ	-	-	-	-	-	-	267,341	-	-	267,341
<b>TOTAL DEFERRED INFLOWS OF RESOURCES</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>267,341</b>	<b>-</b>	<b>-</b>	<b>267,341</b>
<b>FUND BALANCES:</b>										
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
<b>TOTAL FUND BALANCES</b>	<b>156,129</b>	<b>2,722</b>	<b>9,865</b>	<b>34,707</b>	<b>1,678</b>	<b>679,642</b>	<b>135,783</b>	<b>3,182</b>	<b>171,582</b>	<b>1,195,290</b>
<b>TOTAL LIABILITIES, DEFERRED LIABILITIES &amp; FUND BALANCES</b>										
	<b>\$ 156,364</b>	<b>\$ 2,722</b>	<b>\$ 106,160</b>	<b>\$ 38,487</b>	<b>\$ 1,678</b>	<b>\$ 681,828</b>	<b>\$ 445,684</b>	<b>\$ 3,182</b>	<b>\$ 171,582</b>	<b>\$ 1,607,688</b>

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
<b>ASSETS:</b>					
1010 Cash and Cash Equivalents	\$ 3,673	\$ 2,439	\$ 77,393	\$ 2,555	\$ 86,060
<b>TOTAL ASSETS</b>	<b>3,673</b>	<b>2,439</b>	<b>77,393</b>	<b>2,555</b>	<b>86,060</b>
<b>DEFERRED OUTFLOWS OF RESOURCES:</b>					
<b>TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES</b>	<b>\$ 3,673</b>	<b>\$ 2,439</b>	<b>\$ 77,393</b>	<b>\$ 2,555</b>	<b>86,060</b>
<b>LIABILITIES:</b>					
2080 Due to Other Funds	-	-	12,469	-	12,469
<b>TOTAL LIABILITIES</b>	<b>-</b>	<b>-</b>	<b>12,469</b>	<b>-</b>	<b>12,469</b>
<b>FUND BALANCES:</b>					
3550 Committed for Construction	3,673	2,439	64,924	2,555	73,591
<b>TOTAL FUND BALANCES</b>	<b>3,673</b>	<b>2,439</b>	<b>64,924</b>	<b>2,555</b>	<b>73,591</b>
<b>TOTAL LIABILITIES, DEFERRED LIABILITIES &amp; FUND BALANCES</b>	<b>\$ 3,673</b>	<b>\$ 2,439</b>	<b>\$ 77,393</b>	<b>\$ 2,555</b>	<b>\$ 86,060</b>

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
<b>REVENUES:</b>											
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
<b>TOTAL REVENUES</b>	<b>17,511</b>	<b>226,774</b>	<b>4,314</b>	<b>296,495</b>	<b>11,147</b>	<b>500</b>	<b>208,257</b>	<b>168,362</b>	<b>-</b>	<b>8,139</b>	<b>941,499</b>
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
<b>TOTAL EXPENDITURES</b>	<b>2,886</b>	<b>226,774</b>	<b>5,509</b>	<b>289,429</b>	<b>16,101</b>	<b>5,055</b>	<b>132,592</b>	<b>700,000</b>	<b>-</b>	<b>2,057</b>	<b>1,380,402</b>
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
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>2,398</b>	<b>5,445</b>	<b>4,555</b>	<b>-</b>	<b>620,000</b>	<b>-</b>	<b>-</b>	<b>632,397</b>
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	Series		Street	Total Nonmajor
		2013	2015	Series 2018	Maintenance	Capital Project
						Funds
<b>REVENUES:</b>						
5610	Investment Earnings	\$ 172	\$ -	\$ 3,289	\$ -	\$ 3,461
5700	Other Revenue	-	-	-	1,005	1,005
	<b>TOTAL REVENUES</b>	<b>172</b>	<b>-</b>	<b>3,289</b>	<b>1,005</b>	<b>4,466</b>
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)	\$ 3,673	\$ 2,439	\$ 64,924	\$ 2,555	\$ 73,591

MERCEDESECONOMICDEVELOPMENTCORPORATION  
BALANCESHEET  
GOVERNMENTALFUNDS  
SEPTEMBER30,2023

EXHIBITC-1

Data Control Codes	General Fund	RBEG Grant Fund	IRP Loan Fund	Total Governmental Funds
<b>ASSETS</b>				
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>
<b>LIABILITIES</b>				
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>
<b>FUND BALANCES</b>				
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

EXHIBIT C-3

Data Control Codes	General Fund	RBEG Grant Fund	IRP Loan Fund	Total Governmental Funds
<b>REVENUES:</b>				
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>
<b>EXPENDITURES:</b>				
Current:				
0100 General Government Conservation and Development:	483,794	1,850	569	486,213
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>
<b>OTHER FINANCING SOURCES (USES):</b>				
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

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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

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**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
<b>Federal Awards</b>			
<b>U.S. Department of Housing and Urban Development</b>			
Passed through Urban County Community Development Block Grant 34th Year Entitlement Grant	14.218	B-21-UC-48-0501	\$ 144,758
<b>U.S. Department of Housing and Urban Development</b>			
Passed through Hidalgo County Urban County Community Development Block Grant 35th Year Entitlement Grant	14.218	B-22-UC-48-0501	\$ 82,016
<b>U.S. Department of Treasury</b>			
Direct Program Covid-19 Coronavirus State and Local Fiscal Recovery Funds (ARPA)	21.027		\$ 2,088,659
<b>Department of Homeland Security</b>			
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
<b>Total Expenditures of Federal Awards</b>			<u>\$ 2,411,166</u>

**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



**APPENDIX D**  
**FORM OF OPINION OF BOND COUNSEL**

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October 3, 2024

Norton Rose Fulbright US LLP  
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Austin, Texas 78701-4255  
United States  
  
Tel +1 512 474 5201  
Fax +1 512 536 4598  
nortonrosefulbright.com

**FINAL**

IN REGARD to the authorization and issuance of the “City of Mercedes, Texas Combination Tax and Limited Pledge Revenue Certificates of Obligation, Series 2024” (the *Certificates*), dated September 1, 2024 in the aggregate principal amount of \$6,760,000 we have reviewed the legality and validity of the issuance thereof by the City Commission of the City of Mercedes, Texas (the *Issuer*). The Certificates are issuable in fully registered form only in denominations of \$5,000 or any integral multiple thereof (within a Stated Maturity). The Certificates have Stated Maturities of February 15 in each of the years 2025 through 2042, February 15, 2044, February 15, 2046, and February 15, 2049, unless optionally or mandatorily redeemed prior to Stated Maturity in accordance with the terms stated on the face of the Certificates. Interest on the Certificates accrues from the dates, at the rates, in the manner, and is payable on the dates as provided in the ordinance (the *Ordinance*) authorizing the issuance of the Certificates. Capitalized terms used herein without definition shall have the meanings ascribed thereto in the Ordinance.

WE HAVE SERVED AS BOND COUNSEL for the Issuer solely to pass upon the legality and validity of the issuance of the Certificates under the laws of the State of Texas and with respect to the exclusion of the interest on the Certificates from the gross income of the owners thereof for federal income tax purposes and for no other purpose. We have not been requested to investigate or verify, and have not independently investigated or verified, any records, data, or other material relating to the financial condition or capabilities of the Issuer or the Issuer’s combined waterworks and sewer system and have not assumed any responsibility with respect to the financial condition or capabilities of the Issuer or the disclosure thereof in connection with the sale of the Certificates. We express no opinion and make no comment with respect to the sufficiency of the security for or the marketability of the Certificates. Our role in connection with the Issuer’s Official Statement prepared for use in connection with the sale of the Certificates has been limited as described therein.

WE HAVE EXAMINED, the applicable and pertinent laws of the State of Texas and the United States of America. In rendering the opinions herein we rely upon (1) original or certified copies of the proceedings of the City Commission of the Issuer in connection with the issuance of the Certificates, including the Ordinance; (2) customary certifications and opinions of officials of the Issuer; (3) certificates executed by officers of the Issuer relating to the expected use and investment of proceeds of the Certificates and certain other funds of the Issuer and to certain other facts solely within the knowledge and control of the Issuer; and (4) such other documentation, including an examination of the Certificate executed and delivered initially by the Issuer and such matters of law as we deem relevant to the matters discussed below. In such examination, we have assumed the authenticity of all documents submitted to us as originals, the conformity to original copies of all documents submitted to us as certified copies, and the accuracy of the statements and information contained in such certificates. We express no opinion concerning any effect on the following opinions which may result from changes in law effected after the date hereof.

Norton Rose Fulbright US LLP is a limited liability partnership registered under the laws of Texas.

Norton Rose Fulbright US LLP, Norton Rose Fulbright LLP, Norton Rose Fulbright Australia, Norton Rose Fulbright Canada LLP and Norton Rose Fulbright South Africa Inc are separate legal entities and all of them are members of Norton Rose Fulbright Verein, a Swiss verein. Norton Rose Fulbright Verein helps coordinate the activities of the members but does not itself provide legal services to clients. Details of each entity, with certain regulatory information, are available at [nortonrosefulbright.com](http://nortonrosefulbright.com).

**Legal Opinion of Norton Rose Fulbright US LLP, Austin and San Antonio, Texas, in connection with the authorization and issuance of “CITY OF MERCEDES, TEXAS COMBINATION TAX AND LIMITED PLEDGE REVENUE CERTIFICATES OF OBLIGATION, SERIES 2024”**

BASED ON OUR EXAMINATION, IT IS OUR OPINION that the Certificates have been duly authorized and issued in conformity with the laws of the State of Texas now in force and that the Certificates are valid and legally binding obligations of the Issuer enforceable in accordance with the terms and conditions described therein, except to the extent that the enforceability thereof may be affected by bankruptcy, insolvency, reorganization, moratorium, or other similar laws affecting creditors’ rights or the exercise of judicial discretion in accordance with general principles of equity. The Certificates are payable from the proceeds of an ad valorem tax levied, within the limitations prescribed by law, upon all taxable property within the Issuer and are further payable from and secured by a lien on and pledge of the Pledged Revenues, being a limited amount of the Net Revenues derived from the operation of the Issuer’s combined utility system (the *System*), such lien on and pledge of the limited amount of Net Revenues being subordinate and inferior to the lien on and pledge thereof providing for the payment and security of the currently outstanding Prior Lien Obligations and Subordinate Lien Obligations and any Additional Prior Lien Obligations, Junior Lien Obligations, or Additional Subordinate Lien Obligations hereafter issued by the Issuer. The Issuer has previously authorized the issuance of the Limited Pledge Obligations that are payable in part from and secured by a lien on and pledge of a limited amount of the Net Revenues of the System in accordance with the ordinance authorizing the issuance of the currently outstanding Limited Pledge Obligations. In the Ordinance, the Issuer reserves and retains the right to issue Additional Prior Lien Obligations, Junior Lien Obligations, Additional Subordinate Lien Obligations, and Additional Limited Pledge Obligations, without limitation as to principal amount but subject to any terms, conditions, or restrictions as may be applicable thereto under law or otherwise.

BASED ON OUR EXAMINATION, IT IS FURTHER OUR OPINION that, assuming continuing compliance after the date hereof by the Issuer with the provisions of the Ordinance and in reliance upon the representations and certifications of the Issuer made in a certificate of even date herewith pertaining to the use, expenditure, and investment of the proceeds of the Certificates, under existing statutes, regulations, published rulings, and court decisions (1) interest on the Certificates will be excludable from the gross income, as defined in section 61 of the Internal Revenue Code of 1986, as amended to the date hereof (the *Code*), of the owners thereof for federal income tax purposes, pursuant to section 103 of the Code, and (2) interest on the Certificates will not be included in computing the alternative minimum taxable income of the owners thereof who are individuals.

WE EXPRESS NO OTHER OPINION with respect to any other federal, state, or local tax consequences under present law or any proposed legislation resulting from the receipt or accrual of interest on, or the acquisition or disposition of, the Certificates. Ownership of tax-exempt obligations such as the Certificates may result in collateral federal tax consequences to, among others, financial institutions, life insurance companies, property and casualty insurance companies, certain foreign corporations doing business in the United States, S corporations with subchapter C earnings and profits, corporations subject to the alternative minimum tax on adjusted financial statement income, owners of an interest in a financial asset securitization investment trust, individual recipients of Social Security or Railroad Retirement Benefits, individuals otherwise qualifying for the earned income credit, and taxpayers who may be deemed

**Legal Opinion of Norton Rose Fulbright US LLP, Austin and San Antonio, Texas, in connection with the authorization and issuance of “CITY OF MERCEDES, TEXAS COMBINATION TAX AND LIMITED PLEDGE REVENUE CERTIFICATES OF OBLIGATION, SERIES 2024”**

to have incurred or continued indebtedness to purchase or carry, or who have paid or incurred certain expenses allocable to, tax-exempt obligations.

OUR OPINIONS ARE BASED on existing law, which is subject to change. Such opinions are further based on our knowledge of facts as of the date hereof. We assume no duty to update or supplement our opinions to reflect any facts or circumstances that may thereafter come to our attention or to reflect any changes in any law that may thereafter occur or become effective. Moreover, our opinions are not a guarantee of result and are not binding on the Internal Revenue Service; rather, such opinions represent our legal judgment based upon our review of existing law that we deem relevant to such opinions and in reliance upon the representations and covenants referenced above.

Norton Rose Fulbright US LLP

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**APPENDIX E**

**SPECIMEN MUNICIPAL BOND INSURANCE POLICY**

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## MUNICIPAL BOND INSURANCE POLICY

ISSUER: [NAME OF ISSUER]

Policy No: \_\_\_\_\_

MEMBER: [NAME OF MEMBER]

BONDS: \$ \_\_\_\_\_ in aggregate principal  
amount of [NAME OF TRANSACTION]  
[and maturing on]

Effective Date: \_\_\_\_\_

Risk Premium: \$ \_\_\_\_\_

Member Surplus Contribution: \$ \_\_\_\_\_

Total Insurance Payment: \$ \_\_\_\_\_

BUILD AMERICA MUTUAL ASSURANCE COMPANY ("BAM"), for consideration received, hereby UNCONDITIONALLY AND IRREVOCABLY agrees to pay to the trustee (the "Trustee") or paying agent (the "Paying Agent") for the Bonds named above (as set forth in the documentation providing for the issuance and securing of the Bonds), for the benefit of the Owners or, at the election of BAM, directly to each Owner, subject only to the terms of this Policy (which includes each endorsement hereto), that portion of the principal of and interest on the Bonds that shall become Due for Payment but shall be unpaid by reason of Nonpayment by the Issuer.

On the later of the day on which such principal and interest becomes Due for Payment or the first Business Day following the Business Day on which BAM shall have received Notice of Nonpayment, BAM will disburse (but without duplication in the case of duplicate claims for the same Nonpayment) to or for the benefit of each Owner of the Bonds, the face amount of principal of and interest on the Bonds that is then Due for Payment but is then unpaid by reason of Nonpayment by the Issuer, but only upon receipt by BAM, in a form reasonably satisfactory to it, of (a) evidence of the Owner's right to receive payment of such principal or interest then Due for Payment and (b) evidence, including any appropriate instruments of assignment, that all of the Owner's rights with respect to payment of such principal or interest that is Due for Payment shall thereupon vest in BAM. A Notice of Nonpayment will be deemed received on a given Business Day if it is received prior to 1:00 p.m. (New York time) on such Business Day; otherwise, it will be deemed received on the next Business Day. If any Notice of Nonpayment received by BAM is incomplete, it shall be deemed not to have been received by BAM for purposes of the preceding sentence, and BAM shall promptly so advise the Trustee, Paying Agent or Owner, as appropriate, any of whom may submit an amended Notice of Nonpayment. Upon disbursement under this Policy in respect of a Bond and to the extent of such payment, BAM shall become the owner of such Bond, any appurtenant coupon to such Bond and right to receipt of payment of principal of or interest on such Bond and shall be fully subrogated to the rights of the Owner, including the Owner's right to receive payments under such Bond. Payment by BAM either to the Trustee or Paying Agent for the benefit of the Owners, or directly to the Owners, on account of any Nonpayment shall discharge the obligation of BAM under this Policy with respect to said Nonpayment.

Except to the extent expressly modified by an endorsement hereto, the following terms shall have the meanings specified for all purposes of this Policy. "Business Day" means any day other than (a) a Saturday or Sunday or (b) a day on which banking institutions in the State of New York or the Insurer's Fiscal Agent (as defined herein) are authorized or required by law or executive order to remain closed. "Due for Payment" means (a) when referring to the principal of a Bond, payable on the stated maturity date thereof or the date on which the same shall have been duly called for mandatory sinking fund redemption and does not refer to any earlier date on which payment is due by reason of call for redemption (other than by mandatory sinking fund redemption), acceleration or other advancement of maturity (unless BAM shall elect, in its sole discretion, to pay such principal due upon such acceleration together with any accrued interest to the date of acceleration) and (b) when referring to interest on a Bond, payable on the stated date for payment of interest. "Nonpayment" means, in respect of a Bond, the failure of the Issuer to have provided sufficient funds to the Trustee or, if there is no Trustee, to the Paying Agent for payment in full of all principal and interest that is Due for Payment on such Bond. "Nonpayment" shall also include, in respect of a Bond, any payment made to an Owner by or on behalf of the Issuer of principal or interest that is Due for Payment, which payment has been recovered from such Owner pursuant to the United States Bankruptcy Code in accordance with a final, nonappealable order of a court having competent jurisdiction. "Notice" means delivery to BAM of a notice of claim and certificate, by certified mail, email or teletype as set forth on the attached Schedule or other acceptable electronic delivery, in a form satisfactory to BAM, from and signed by an Owner, the Trustee or the Paying Agent, which notice shall specify (a) the person or entity making the claim, (b) the Policy Number, (c) the claimed amount, (d) payment instructions and (e) the date such claimed amount becomes or became Due for Payment. "Owner" means, in respect of a Bond, the person or entity who, at the time of Nonpayment, is entitled under the terms of such Bond to payment thereof, except that "Owner" shall not include the Issuer, the Member or any other person or entity whose direct or indirect obligation constitutes the underlying security for the Bonds.

BAM may appoint a fiscal agent (the "Insurer's Fiscal Agent") for purposes of this Policy by giving written notice to the Trustee, the Paying Agent, the Member and the Issuer specifying the name and notice address of the Insurer's Fiscal Agent. From and after the date of receipt of such notice by the Trustee, the Paying Agent, the Member or the Issuer (a) copies of all notices required to be delivered to BAM pursuant to this Policy shall be simultaneously delivered to the Insurer's Fiscal Agent and to BAM and shall not be deemed received until received by both and (b) all payments required to be made by BAM under this Policy may be made directly by BAM or by the Insurer's Fiscal Agent on behalf of BAM. The Insurer's Fiscal Agent is the agent of BAM only, and the Insurer's Fiscal Agent shall in no event be liable to the Trustee, Paying Agent or any Owner for any act of the Insurer's Fiscal Agent or any failure of BAM to deposit or cause to be deposited sufficient funds to make payments due under this Policy.

To the fullest extent permitted by applicable law, BAM agrees not to assert, and hereby waives, only for the benefit of each Owner, all rights (whether by counterclaim, setoff or otherwise) and defenses (including, without limitation, the defense of fraud), whether acquired by subrogation, assignment or otherwise, to the extent that such rights and defenses may be available to BAM to avoid payment of its obligations under this Policy in accordance with the express provisions of this Policy. This Policy may not be canceled or revoked.

This Policy sets forth in full the undertaking of BAM and shall not be modified, altered or affected by any other agreement or instrument, including any modification or amendment thereto. Except to the extent expressly modified by an endorsement hereto, any premium paid in respect of this Policy is nonrefundable for any reason whatsoever, including payment, or provision being made for payment, of the Bonds prior to maturity. THIS POLICY IS NOT COVERED BY THE PROPERTY/CASUALTY INSURANCE SECURITY FUND SPECIFIED IN ARTICLE 76 OF THE NEW YORK INSURANCE LAW. THIS POLICY IS ISSUED WITHOUT CONTINGENT MUTUAL LIABILITY FOR ASSESSMENT.

In witness whereof, BUILD AMERICA MUTUAL ASSURANCE COMPANY has caused this Policy to be executed on its behalf by its Authorized Officer.

BUILD AMERICA MUTUAL ASSURANCE COMPANY

By: \_\_\_\_\_  
Authorized Officer

SPECIMEN

**Notices (Unless Otherwise Specified by BAM)**

Email:

[claims@buildamerica.com](mailto:claims@buildamerica.com)

Address:

200 Liberty Street, 27th floor  
New York, New York 10281

Telecopy:

212-962-1524 (attention: Claims)

SPECIMEN

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**Financial Advisory Services  
Provided By**

**ESTRADA  HINOJOSA**  
INVESTMENT BANKERS



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