
CITY OF MERCEDES, TEXAS
AUDITED ANNUAL FINANCIAL REPORT
FOR YEAR ENDED SEPTEMBER 30, 2025

CITY OF MERCEDES, TEXAS

Audited Annual Financial Report
For Year Ended September 30, 2025

TABLE OF CONTENTS

	<u>PAGE</u>
I. INTRODUCTORY SECTION	
City Officials	i
II. FINANCIAL SECTION	
Independent Auditor's Report	1
Management's Discussion and Analysis.....	4
III. BASIC FINANCIAL STATEMENTS	
<i>Government-wide Financial Statements</i>	
Statement of Net Position	9
Statement of Activities	10
<i>Governmental Fund Financial Statements</i>	
Balance Sheet	11
Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Position.....	12
Statement of Revenues, Expenditures and Changes in Fund Balances Governmental Funds.....	13
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of the Governmental Funds to the Statement of Activities.....	14
<i>Proprietary Fund Financial Statements</i>	
Statement of Net Position	15
Statement of Revenues, Expenditures and Changes in Net Position.....	16
Statement of Cash Flows.....	17
Notes to the Financial Statements	18
IV. REQUIRED SUPPLEMENTARY INFORMATION	
Schedule of Revenues, Expenditures and Changes in Fund Balance Budget to Actual.....	57
Schedule of Changes in Net Pension Liability and Related Ratios - Texas Municipal Retirement System.....	58
Schedule of Pension Contributions for Texas Municipal Retirement System.....	59
Notes to Schedule of Contributions.....	60
Schedule of Changes in Total OPEB Liability and Related Ratios - Texas Municipal Retirement System.....	61
Notes to Schedule of OPEB Contributions.....	62
Notes to Required Supplementary Information.....	63
V. OTHER SUPPLEMENTARY INFORMATION	
Nonmajor Governmental Funds	
Combining Balance Sheet.....	64
Combining Statement of Revenues, Expenditures and Changes in Fund Balances.....	67

CITY OF MERCEDES, TEXAS
Audited Annual Financial Report
For Year Ended September 30, 2025

Component Unit

Balance Sheet - Governmental Funds.....	68
Reconciliation of the Balance Sheet of the Component Units to the Component Unit Statement of Net Position.....	69
Statements of Revenues, Expenditures and Changes in Fund Balances.....	70
Reconciliation of the Statements of Revenues, Expenditures and Changes in Fund Balance of the Component Units to the Statement of Activities.....	71

VI. INTERNAL CONTROL/COMPLIANCE SECTION

Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	72
Schedule of Findings and Responses.....	74
Schedule of Status of Prior Year Audit Findings.....	78
Corrective Action Plan.....	79

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INTRODUCTORY SECTION

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CITY OF MERCEDES, TEXAS

For the Year Ended September 30, 2025

CITY OFFICIALS

Oscar D. Montoya Sr.

Mayor

Dr. Ruben J. Saldana

Mayor Pro-Tem

Dr. Jacob C. Howell

Commissioner

Armando Garcia

Commissioner

Joe Martinez

Commissioner

CITY MANAGER

Alberto Perez

FINANCE DIRECTOR

Meredith Hernandez

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FINANCIAL SECTION

ADRIAN WEBB, CPA

**Certified Public Accountant
Edinburg, Texas**

Independent Auditor's Report

To the Members of City Council
and City Manager
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, 2025, 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, 2025, 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.

Management's Responsibility for the Financial Statements

The City's 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 and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

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

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City of 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, budgetary comparison information, and TMRS pension and OPEB schedules, as listed in the table of contents, be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

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

Other Information

Management is responsible for the other information included in the annual report. The other information comprises the introductory section but does not include the financial statements and our auditor's report thereon. Our opinions on the financial statements do not cover the other information, and we do not express an opinion or any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and consider whether a material inconsistency exists between the other information and the financial statements, or the other information otherwise appears to be materially misstated. If, based on the work performed, we conclude that an uncorrected material misstatement of the other information exists, we are required to describe it in our report.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated February 26, 2026, 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, CPA
Edinburg, Texas
February 26, 2026

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MANAGEMENT'S DISCUSSION & ANALYSIS

**CITY OF MERCEDES
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR YEAR ENDED SEPTEMBER 30, 2025**

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, 2025. 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 \$6,495,197. Net position from governmental activities increased \$5,869,271, while net position from business-type activities increased \$625,926.
- Revenues for the City's business-type charges for services increased to \$7,507,493 from \$7,194,478 and expenses increased to \$6,881,567 from \$6,487,686.
- The General Fund ended the year with a fund balance of \$12,641,310, a \$1,287,666 increase from prior year's restated fund balance of \$11,353,645.
- In comparing the General Fund's final budget to actual, revenues were \$451,341 more than the final budget, and expenditures were \$803,294, less than the final budget. This resulted in a total positive budget to actual variance of \$1,254,636 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, 2025**

FUND FINANCIAL STATEMENTS

The fund financial statements 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 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 reported a combined fund balance of \$15,434,749 an increase of \$1,429,406 from the previous year's restated fund balance.

**CITY OF MERCEDES
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR YEAR ENDED SEPTEMBER 30, 2025**

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 to \$27,476,389 from \$21,607,118, as restated. 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 \$7,228,819 as of September 30, 2025.

In 2025, net position of business-type activities increased to \$29,908,340 from \$29,282,414, as restated. Table I below illustrates a comparative summary of the City's statement of net position as of September 30, 2025, and 2024.

Table I

	Governmental Activities		Business-Type Activities		Totals		Increase (Decrease)
	2025	2024	2025	2024	2025	2024	
Current & Other Assets	\$ 20,484,028	\$ 19,306,828	\$ 8,659,148	\$ 2,948,054	\$ 29,143,176	\$ 22,254,882	\$ 6,888,294
Capital Assets, Net	35,389,511	35,284,246	37,332,751	36,822,340	72,722,262	72,106,586	615,676
Total Assets	55,873,539	54,591,074	45,991,899	39,770,394	101,865,438	94,361,468	7,503,970
Deferred Outflows of Resources	882,772	778,968	134,147	132,034	1,016,919	911,002	105,917
Total assets and deferred outflows of resources	<u>56,756,311</u>	<u>55,370,042</u>	<u>46,126,046</u>	<u>39,902,428</u>	<u>102,882,357</u>	<u>95,272,470</u>	<u>7,609,887</u>
Current & Other Liabilities	5,747,317	4,275,889	4,813,808	5,055,986	10,561,125	9,331,875	1,229,250
Long-Term Liabilities	22,843,119	28,103,996	11,347,097	6,997,152	34,190,216	35,101,148	(910,932)
Total Liabilities	28,590,436	32,379,885	16,160,905	12,053,138	44,751,341	44,433,023	318,318
Deferred Inflows of Resources	689,485	1,383,039	56,801	114,292	746,286	1,497,331	(751,045)
Net Invested in Capital Assets	16,146,565	12,430,778	24,929,449	29,825,188	41,076,014	42,255,966	(1,179,952)
Restricted	4,101,005	2,888,163	-	-	4,101,005	2,888,163	1,212,842
Unrestricted	7,228,819	6,288,177	4,978,891	(2,090,190)	12,207,710	4,197,987	8,009,723
Total Net Position	<u>27,476,389</u>	<u>21,607,118</u>	<u>29,908,340</u>	<u>27,734,998</u>	<u>57,384,729</u>	<u>49,342,116</u>	<u>8,042,613</u>
Total Liabilities, deferred inflows of resources and net position	<u>\$ 56,756,311</u>	<u>\$ 55,370,042</u>	<u>\$ 46,126,046</u>	<u>\$ 39,902,428</u>	<u>\$ 102,882,357</u>	<u>\$ 95,272,470</u>	<u>\$ 7,609,887</u>

**CITY OF MERCEDES
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR YEAR ENDED SEPTEMBER 30, 2025**

Table II

	Governmental		Business-Type		Totals		Increase (Decrease)
	2025	2024	2025	2024	2025	2024	
Revenues							
Program Revenues							
Charges for Services	\$ 3,696,897	\$ 3,096,413	\$ 7,398,361	\$ 7,194,478	\$ 11,095,258	\$ 10,290,891	\$ 804,367
Operating/Capital Grants and Contributions	1,177,196	1,755,723	-	-	1,177,196	1,755,723	(578,527)
General Revenues							
Property Taxes	7,533,151	6,868,320	-	-	7,533,151	6,868,320	664,831
Sales Tax	6,593,187	7,558,769	-	-	6,593,187	7,558,769	(965,582)
Franchise Taxes	736,411	701,082	-	-	736,411	701,082	35,329
Other Taxes	136,224	1,232,648	-	-	136,224	1,232,648	(1,096,424)
Investment Earnings	550,812	571,519	109,132	131,594	659,944	703,113	(43,169)
Miscellaneous	1,637,029	561,845	-	-	1,637,029	561,845	1,075,184
Total Revenues	22,060,907	22,346,319	7,507,493	7,326,072	29,568,400	29,672,391	(103,991)
Expenses							
General Government	4,175,547	6,922,708	-	-	4,175,547	6,922,708	(2,747,161)
Public safety	6,901,590	7,185,838	-	-	6,901,590	7,185,838	(284,248)
Public works	392,892	686,887	-	-	392,892	686,887	(293,995)
Highway and Streets	616,202	765,780	-	-	616,202	765,780	(149,578)
Health and Welfare	1,927,150	2,768,986	-	-	1,927,150	2,768,986	(841,836)
Culture and Recreation	1,344,378	1,501,821	-	-	1,344,378	1,501,821	(157,443)
Conservation and Development	72,693	74,070	-	-	72,693	74,070	(1,377)
Interest on long-term debt	761,184	572,745	-	-	761,184	572,745	188,439
Utility Services	-	-	6,881,567	6,487,686	6,881,567	6,487,686	393,881
Total Expenses	16,191,636	20,478,837	6,881,567	6,487,686	23,073,203	26,966,523	(3,893,320)
Increase in net position before transfers	5,869,271	1,867,483	625,926	838,386	6,495,197	2,705,868	3,789,329
Transfers In (Out)	-	(29,266)	-	29,266	-	-	-
Change in Net Position	5,869,271	1,838,217	625,926	867,653	6,495,197	2,705,868	3,789,329
Net Position Beginning, Restated	21,607,118	19,768,901	29,282,414	28,414,761	50,889,532	48,183,662	2,705,870
Net Position Ending	\$ 27,476,389	\$ 21,607,118	\$ 29,908,340	\$ 29,282,414	\$ 57,384,729	\$ 50,889,532	\$ 6,495,197

The cost of all governmental activities in the current year was \$16,191,636. However, as shown in Table II, the amount financed by property and sales taxes were \$7,533,151 and \$6,593,187, 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 \$72,722,262 (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 \$615,676, from the previous fiscal year, as restated.

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**CITY OF MERCEDES
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR YEAR ENDED SEPTEMBER 30, 2025**

Long-Term Debt

By the end of the fiscal year, the City had long-term obligations totaling \$35,156,867 versus \$31,510,794 at the end of last year, as restated, which is an increase of \$3,646,073, primarily from the City's Series 2024 bond issuance. The following is a summary of long-term obligations:

	Governmental		Increase
	2025	2024	(Decrease)
General obligation debt	\$ 17,150,400	\$ 17,642,000	\$ (491,600)
Premium on bonds	619,162	572,021	47,141
Notes Payable	93,750	218,750	(125,000)
Leases Payable	1,537,071	867,352	669,719
Settlement Payable	3,470,697	4,420,697	(950,000)
Compensated absences	333,043	348,495	(15,452)
	<u>\$ 23,204,123</u>	<u>\$ 24,069,315</u>	<u>\$ (865,192)</u>
	Business-Type		Increase
	2025	2024	(Decrease)
General obligation debt	\$ 11,404,600	\$ 7,228,000	\$ 4,176,600
Premium on bonds	524,952	177,549	347,403
Compensated absences	23,192	35,930	(12,738)
	<u>\$ 11,952,744</u>	<u>\$ 7,441,479</u>	<u>\$ 4,511,265</u>
Total Long-Term Debt	<u>\$ 35,156,867</u>	<u>\$ 31,510,794</u>	<u>\$ 3,646,073</u>

The City also recognized net pension and OPEB liabilities of \$1,868,627 and \$313,121, 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 2025-2026, 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 2025-2026 are budgeted at \$18,802,343, which is an increase of \$ 2,418,059, over the fiscal year 2024-2025 budget. Expenditures and other financing uses are budgeted at \$18,802,343, which is an increase of \$2,418,059, over the fiscal year 2024-2025 budget. This is attributed to an increase in public works maintenance and non-departmental costs.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

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

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BASIC FINANCIAL STATEMENTS

CITY OF MERCEDES
Statement of Net Position
September 30, 2025

	Governmental Activities	Business-Type Activities	Total	Development Corporation of Mercedes
ASSETS:				
Current Assets:				
1010 Cash and Cash Equivalents	\$ 15,359,360	\$ 2,162,131	\$ 17,521,491	\$ 618,582
1011 Restricted Cash and Cash Equivalents	495,171	312,829	808,001	834,656
1150 Accounts Receivable, Net	3,198,806	766,056	3,964,862	353,933
1160 Notes Receivable, Net	1,162,954	-	1,162,954	1,788,462
1260 Due from Primary Government	-	-	-	256,269
1410 Inventories	68,059	-	68,059	-
1430 Prepaid Expenses	55,065	-	55,065	-
Total Current Assets	20,339,416	8,659,148	23,580,432	3,851,901
Noncurrent Assets:				
1791 Capital Assets Not Being Depreciated/Amortized	1,785,340	1,767,711	3,553,051	-
1792 Capital Assets Being Depreciated/Amortized, Net	33,604,171	35,565,040	69,169,211	3,396
Total Noncurrent Assets	35,389,511	37,332,751	72,722,262	3,396
Other Assets				
1990 Land Held For Development	144,612	-	144,612	3,703,917
Total Other Assets	144,612	-	144,612	3,703,917
TOTAL ASSETS	55,873,539	45,991,899	96,447,306	7,559,215
DEFERRED OUTFLOWS OF RESOURCES:				
1991 Deferred Charge for Refunding	157,437	74,392	231,829	-
1994 Deferred Resource Outflow - Pension	717,493	59,109	776,602	35,271
1999 Deferred Resource Outflow - OPEB	7,842	646	8,488	386
TOTAL DEFERRED OUTFLOWS OF RESOURCES	882,772	134,147	1,016,919	35,657
TOTAL ASSETS AND DEFERRED OUTFLOWS	56,756,311	46,126,046	102,882,357	7,594,872
LIABILITIES:				
Current Liabilities:				
2010 Accounts Payable	113,821	263,082	376,903	2,863
2015 Customer Deposits	-	659,073	659,073	-
2020 Wages and Salaries Payable	223,869	13,881	237,750	12,861
2081 Internal Balances	2,345,371	(2,345,371)	-	-
2090 Due to Others	29,367	-	29,367	-
2100 Due to Component Unit	610,201	-	610,201	-
2140 Accrued Interest Payable	47,994	33,309	81,303	2,353
2200 Current Portion of Long-Term Debt	2,376,694	771,702	3,148,396	487,318
Total Current Liabilities	5,747,317	4,813,808	5,142,992	505,395
Noncurrent Liabilities:				
Due in More Than One Year:				
2504 Long-Term Debt	20,827,428	11,181,040	32,008,469	691,450
2580 Net Pension Liability	1,726,402	142,225	1,868,627	84,868
2585 Net OPEB Liability	289,289	23,832	313,121	14,221
Total Noncurrent Liabilities	22,843,119	11,347,097	34,190,217	790,540
TOTAL LIABILITIES	28,590,436	16,160,905	39,333,209	1,295,935
DEFERRED INFLOWS OF RESOURCES:				
2602 Deferred Resource Inflow - Pension	620,387	51,109	671,496	30,498
2603 Deferred Resource Inflow - OPEB	69,098	5,692	74,790	3,397
TOTAL DEFERRED INFLOWS OF RESOURCES	689,485	56,801	746,286	33,895
NET POSITION				
4001 Net Investment in Capital Assets	16,146,565	24,929,449	41,076,014	-
Restricted for:				
3002 Land Available for Sale	144,612	-	144,612	-
3005 General Government	4,201	-	4,201	-
3006 Debt Service	1,206,981	-	1,206,981	-
3008 Municipal Court	140,583	-	140,583	-
3009 Tourism	728,324	-	728,324	-
3010 Public Safety	44,909	-	44,909	-
3410 Parkland	345,780	-	345,780	-
3415 Community Development	1,176,206	-	1,176,206	2,623,118
3510 Construction	309,410	-	309,410	-
3890 Unrestricted	7,228,819	4,978,891	12,207,710	3,641,923
TOTAL NET POSITION	27,476,389	29,908,340	57,384,729	6,265,042
TOTAL LIABILITIES, DEFERRED INFLOWS, & NET POSITION	\$ 56,756,311	\$ 46,126,046	\$ 102,882,357	\$ 7,594,872

CITY OF MERCEDES
Statement of Activities
For the Year Ended September 30, 2025

	Program Revenues				Net (Expense) Revenue and Changes in Net Position			Development Corporation of Mercedes
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government		Total	
					Governmental Activities	Business-Type Activities		
Primary Government:								
GOVERNMENTAL ACTIVITIES:								
General Government	\$ 4,175,547	\$ 1,961,916	\$ 645,639	\$ -	\$ (1,567,992)	\$ -	\$ (1,567,992)	\$ -
Public Safety	6,901,590	832,966	345,345	-	(5,723,280)	-	(5,723,280)	-
Public Works	392,892	335,159	-	-	(57,733)	-	(57,733)	-
Highways and Streets	616,202	-	-	186,212	(429,990)	-	(429,990)	-
Health and Welfare	1,927,150	566,856	-	-	(1,360,295)	-	(1,360,295)	-
Culture and Recreation	1,344,378	-	-	-	(1,344,378)	-	(1,344,378)	-
Conservation and Development	72,693	-	-	-	(72,693)	-	(72,693)	-
Interest on Debt	761,184	-	-	-	(761,184)	-	(761,184)	-
Total Governmental Activities	<u>16,191,636</u>	<u>3,696,897</u>	<u>990,984</u>	<u>186,212</u>	<u>(11,317,544)</u>		<u>(11,317,544)</u>	
BUSINESS-TYPE ACTIVITIES:								
Water and Sewer	6,881,567	7,398,361	-	-	-	516,794	516,794	-
Total Business-Type Activities	<u>6,881,567</u>	<u>7,398,361</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>516,794</u>	<u>516,794</u>	<u>-</u>
TOTAL PRIMARY GOVERNMENT	<u>23,073,203</u>	<u>11,095,257</u>	<u>990,984</u>	<u>186,212</u>	<u>(11,317,544)</u>	<u>516,794</u>	<u>(10,800,750)</u>	<u>-</u>
COMPONENT UNIT:								
General Government								602,994
Economic Development and Assistance								311,047
Interest on Debt								32,478
Total Component Unit Activities								<u>946,519</u>
General Revenues:								
Property Taxes, Levied for General Purposes					4,709,899	-	4,709,899	-
Property Taxes, Levied for Debt Service					2,823,252	-	2,823,252	-
General Sales and Use Taxes					6,593,187	-	6,593,187	2,314,497
Franchise Tax					736,411	-	736,411	-
Other Taxes					136,224	-	136,224	-
Penalty and Interest on Taxes					198,765	-	198,765	-
Licenses and Permits					591,590	-	591,590	-
Fines					117,191	-	117,191	-
Investment Earnings					550,812	109,132	659,944	55,979
Other Revenue					729,483	-	729,483	26,562
Total General Revenues					<u>17,186,814</u>	<u>109,132</u>	<u>17,295,947</u>	<u>2,397,038</u>
Change in Net Position					5,869,271	625,926	6,495,197	1,450,520
Net Position - Beginning, As Restated					\$ 21,607,118	\$ 29,282,414	\$ 50,889,532	\$ 4,814,522
Net Position - Ending					<u>\$ 27,476,389</u>	<u>\$ 29,908,340</u>	<u>\$ 57,384,729</u>	<u>\$ 6,265,042</u>

CITY OF MERCEDES
Balance Sheet - Governmental Funds
September 30, 2025

	Major Governmental Funds				
	General Fund	Interest and Sinking	Series 2024	Non-Major Governmental Funds	Total Governmental Funds
ASSETS:					
1010 Cash and Cash Equivalents	\$ 7,474,169	\$ 690,906	\$ 5,677,983	\$ 1,516,302	\$ 15,359,360
1011 Restricted Cash and Cash Equivalents	-	495,171	-	-	495,171
1150 Accounts Receivable, Net	2,892,922	305,884	-	-	3,198,806
1160 Notes Receivable, Net	1,000,000	-	-	-	1,000,000
1300 Due from Other Funds	3,329,218	-	-	-	3,329,218
1410 Inventories	68,059	-	-	-	68,059
1430 Prepaid Expenses	55,065	-	-	-	55,065
1990 Land Held For Development	144,612	-	-	-	144,612
TOTAL ASSETS	\$ 14,964,045	\$ 1,491,961	\$ 5,677,983	\$ 1,516,302	\$ 23,650,291
LIABILITIES:					
2010 Accounts Payable	46,225	-	47,750	19,846	113,821
2020 Wages and Salaries Payable	220,685	-	-	3,185	223,869
2080 Due to Other Funds	137,542	-	5,418,132	118,915	5,674,589
2090 Due to Others	29,367	-	-	-	29,367
2100 Due to Component Unit	610,201	-	-	-	610,201
TOTAL LIABILITIES	1,044,019	-	5,465,882	141,945	6,651,846
DEFERRED INFLOWS OF RESOURCES:					
2601 Deferred Resource Inflow - Property Taxes	476,527	284,980	-	-	761,507
2604 Deferred Resource Inflow - EMS	802,188	-	-	-	802,188
TOTAL DEFERRED INFLOWS OF RESOURCES	1,278,715	284,980	-	-	1,563,696
FUND BALANCES:					
Non-spendable for:					
3000 Inventory	68,059	-	-	-	68,059
3001 Prepaid Items	55,065	-	-	-	55,065
3002 Land Available for Sale	144,612	-	-	-	144,612
Restricted for:					
3005 General Government	-	-	-	4,201	4,201
3006 Debt Service	-	1,206,981	-	-	1,206,981
3008 Municipal Court	-	-	-	140,583	140,583
3009 Tourism	-	-	-	728,324	728,324
3010 Public Safety	-	-	-	44,909	44,909
3410 Parkland	-	-	-	345,780	345,780
3415 Community Development	1,000,000	-	-	13,251	1,013,251
Committed for:					
3510 Construction	-	-	212,101	97,309	309,410
Assigned for:					
3600 Unassigned	11,373,574	-	-	-	11,373,574
TOTAL FUND BALANCES	12,641,310	1,206,981	212,101	1,374,357	15,434,749
TOTAL LIABILITIES, DEFERRED INFLOWS & FUND BALANCES	\$ 14,964,045	\$ 1,491,961	5,677,983	\$ 1,516,302	\$ 23,650,291

CITY OF MERCEDES

Reconciliation of the Balance Sheet - Governmental to the Governmental Activities - Statement of Net Position

September 30, 2025

Total Fund Balances - Governmental Funds	\$	<u>15,434,749</u>
<p>Amounts Reported for governmental activities in the statement of net position are different because:</p>		
<p>Long-term note receivables used in governmental activities are not available in the current period and therefore not reported in the funds.</p>		
Notes Receivable, Net		162,954
		<u>162,954</u>
<p>Capital assets used in governmental activities are not financial resources, and therefore are not reported in governmental funds:</p>		
Capital Assets Not Being Depreciated		1,785,340
Capital Assets Being Depreciated		62,261,155
Accumulated Depreciation		<u>(28,656,984)</u>
Total Capital Assets, Net		35,389,511
<p>Long-term liabilities, including bonds payable, are not due and payable in the current period, and therefore are not reported as liabilities at the fund level.</p>		
Unamortized Premiums (Discounts) on Bonds		(619,162)
Compensated Absences Payable		(333,043)
Debt Service - Due Within One Year		(2,376,694)
Debt Service - Due in More Than One Year		<u>(19,875,223)</u>
Total Long-Term Liabilities		(23,204,122)
<p>Some receivables are reported as deferred inflows/outflows of resources at the governmental level, and therefore are not reported in governmental funds.</p>		
Property Taxes		761,507
EMS		802,188
Deferred Charge for Refunding		<u>157,437</u>
Total Deferred Inflows/Outflows of Resources		1,721,133
<p>Interest on long-term debt is not accrued in the governmental funds, but is recognized as an expenditure in the funds.</p>		
Accrued Interest Payable		<u>(47,994)</u>
Total Accrued Interest Payable		(47,994)
<p>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 resource inflow. This resulted in a decrease in net position.</p>		
Net Pension Liability		(1,726,402)
Deferred Outflow related to Pension Plan		717,493
Deferred Inflow related to Pension Plan		<u>(620,387)</u>
		(1,629,296)
<p>Included in the noncurrent liabilities is the recognition of the City's net OPEB liability required by GASB Statement No. 75, a deferred resource outflow and a deferred resource inflow. This resulted in a decrease in net position.</p>		
Net OPEB Liability		(289,289)
Deferred Outflow related to OPEB		7,842
Deferred Inflow related to OPEB		<u>(69,098)</u>
		<u>(350,545)</u>
Net position of governmental activities		<u><u>27,476,389</u></u>

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

		Major Governmental Funds				
		General Fund	Interest and Sinking	Series 2024	Non-Major Governmental Funds	Total Governmental Funds
REVENUES:						
Taxes:						
5110	Property Taxes	\$ 4,575,186	\$ 2,740,636	\$ -	\$ -	\$ 7,315,822
5120	General Sales and Use Taxes	6,593,187	-	-	-	6,593,187
5170	Franchise Tax	736,411	-	-	-	736,411
5180	Other Taxes	-	-	-	136,224	136,224
5190	Penalty and Interest on Taxes	127,329	71,437	-	-	198,765
5200	Licenses and Permits	538,590	-	-	53,000	591,590
5300	Intergovernmental Revenue and Grants	21,936	-	-	1,155,260	1,177,196
Fees and Charges:						
5400	Charges for Services	3,696,897	-	-	-	3,696,897
5510	Fines	117,191	-	-	-	117,191
5610	Investment Earnings	188,869	54,438	243,948	63,557	550,812
5700	Other Revenue	658,090	-	-	25,184	683,274
TOTAL REVENUES		17,253,684	2,866,510	243,948	1,433,224	21,797,367
EXPENDITURES:						
Current:						
100	General Government	3,752,133	-	-	429,045	4,181,178
200	Public Safety	6,217,835	-	-	693,062	6,910,897
300	Public Works	393,422	-	-	-	393,422
310	Highway and Streets	617,033	-	-	-	617,033
400	Health and Welfare	1,920,896	-	-	8,853	1,929,749
500	Culture and Recreation	1,345,231	-	-	960	1,346,191
600	Conservation and Development	-	-	-	72,791	72,791
Debt Service:						
710	Principal on Debt	1,398,176	2,081,600	-	-	3,479,776
720	Interest on Debt	-	761,241	-	-	761,241
800	Capital Outlay	659,498	-	1,472,020	-	2,131,518
TOTAL EXPENDITURES		16,304,224	2,842,841	1,472,020	1,204,710	21,823,795
Excess(Deficiency) of Revenues Over(Under) Expenditures		949,461	23,670	(1,228,071)	228,514	(26,427)
OTHER FINANCING SOURCES (USES):						
7911	Issuance of Debt	-	-	1,590,000	-	1,590,000
7912	Proceeds from Sale of Assets	15,661	-	-	-	15,661
7915	Transfers In	384,525	-	-	(322,544)	61,981
8911	Transfers Out	(61,981)	-	-	-	(61,981)
8953	Bond Issuance Cost	-	-	(149,828)	-	(149,828)
TOTAL OTHER FINANCING SOURCES (USES)		338,205	-	1,440,172	(322,544)	1,455,833
Net Change in Fund Balances		1,287,666	23,670	212,101	(94,030)	1,429,406
3600	Fund Balance - Beginning, As Restated	\$ 11,353,645	\$ 1,183,311	\$ -	\$ 1,468,388	\$ 14,005,343
3900	Fund Balance - Ending	\$ 12,641,310	\$ 1,206,981	\$ 212,101	\$ 1,374,357	\$ 15,434,749

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

Total Net Change in Fund Balances - Governmental Funds	\$	1,429,406
Current year capital outlay are expenditures in the fund financial statements, but they should be shown as increases in capital assets in the government-wide financial statements. The net effect of removing the 2025 capital outlay and depreciation is to decrease the change in net position.		
Additions to Capital Assets	2,131,519	
Depreciation of Capital Assets	<u>(2,026,255)</u>	105,264
Repayment of notes receivable are recorded as revenue in the fund statements but reduces the notes receivable in the statement of net position.		
Principal Received	<u>(30,549)</u>	(30,549)
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	3,479,776	
Bond Proceeds	(1,590,000)	
Compensated Absences	<u>(15,542)</u>	1,874,234
Interest on long-term debt is not accrued in the governmental funds, but it is recognized as an expenditure at the fund level.		
Amortization of Bond Premium	51,735	
Bond Premium Addition	(98,876)	
Deferred Charge for Refunding	(11,042)	
Accrued Interest Payable	<u>57</u>	(58,126)
Because some property taxes and accounts receivable will not be collected for several months after the City's year end, they are not considered "available" revenues in the governmental funds. This represents the change in unavailable revenue from the prior year.		
Property Taxes	217,330	
TIRZ	267,341	
EMS	<u>330,241</u>	814,911
GASB 68 requires certain plan expenditures to be de-expensed and recorded as deferred resource outflows. These contributions made after the measurement date of the plan caused the change in ending net position. Contributions made before the measurement date and during the previous fiscal year were expended and recorded as a reduction in net pension liability. Finally, the proportionate share of pension expense on the plan as a whole has to be recorded.		
Change in Net Pension Liability	925,709	
Deferred Outflow related to Pension Plan	112,414	
Deferred Inflow related to Pension Plan	<u>684,979</u>	1,723,102
GASB 75 requires certain plan expenditures to be de-expensed and recorded as deferred resource outflows. These contributions made after the measurement date of the plan caused the change in ending net position. Contributions made before the measurement date and during the previous fiscal year were expended and recorded as a reduction in net OPEB liability. Finally, the proportionate share of OPEB expense on the plan as a whole has to be recorded.		
Change in Net OPEB Liability	21	
Deferred Outflow related to OPEB	2,432	
Deferred Inflow related to OPEB	<u>8,575</u>	11,028
Change in Net Position of Governmental Activities	\$	<u>5,869,271</u>

CITY OF MERCEDES
Statement of Net Position - Proprietary Funds
September 30, 2025

	Water and Sewer Fund
ASSETS:	
Current Assets:	
1010 Cash and Cash Equivalents	\$ 2,162,131
1011 Restricted Cash and Cash Equivalents	312,829
1150 Accounts Receivable, Net	766,056
1300 Due from Other Funds	5,418,132
Total Current Assets	8,659,148
Noncurrent Assets:	
Capital Assets	
1791 Capital Assets Not Being Depreciated/Amortized	1,767,711
1792 Capital Assets Being Depreciated/Amortized, Net	35,565,040
Total Capital Assets	37,332,751
Total Noncurrent Assets	37,332,751
TOTAL ASSETS	\$ 45,991,899
DEFERRED OUTFLOWS OF RESOURCES:	
1991 Deferred Charge for Refunding	74,392
1994 Deferred Resource Outflow - Pension	59,109
1999 Deferred Resource Outflow - OPEB	646
TOTAL DEFERRED OUTFLOWS OF RESOURCES	134,147
TOTAL ASSETS & DEFERRED OUTFLOWS OF RESOURCES	\$ 46,126,046
LIABILITIES:	
Current Liabilities:	
2010 Accounts Payable	263,082
2015 Customer Deposits	659,073
2020 Wages and Salaries Payable	13,881
2080 Due to Other Funds	3,072,761
2140 Accrued Interest Payable	33,309
2200 Current Portion of Long-Term Debt	771,702
Total Current Liabilities	4,813,808
Noncurrent Liabilities:	
2504 Long-Term Debt	11,181,040
2580 Net Pension Liability	142,225
2585 Net OPEB Liability	23,832
Total Noncurrent Liabilities	11,347,097
TOTAL LIABILITIES	16,160,905
DEFERRED INFLOWS OF RESOURCES:	
2602 Deferred Resource Inflow - Pension	51,109
2603 Deferred Resource Inflow - OPEB	5,692
TOTAL DEFERRED INFLOWS OF RESOURCES	56,801
NET POSITION	
4001 Net Investment in Capital Assets	24,929,449
3890 Unrestricted	4,978,891
TOTAL NET POSITION	29,908,340
TOTAL LIABILITIES, DEFERRED INFLOWS, & NET POSITION	\$ 46,126,046

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

	Water and Sewer Fund
REVENUES:	
5401 Water Revenues	\$ 4,332,532
5402 Sewer Revenues	3,065,829
TOTAL REVENUES	\$ 7,398,361
EXPENDITURES:	
6100 Personnel Services	494,327
6300 Purchased Professional & Technical Services	42,524
6500 Maintenance and Contractual Services	3,660,294
6600 Supplies	842,585
6800 Depreciation Expense	1,562,970
TOTAL EXPENDITURES	6,602,700
OPERATING INCOME(LOSS)	\$ 795,661
NON-OPERATING REVENUES(EXPENSES):	
7955 Investment Earnings	109,132
8952 Interest Expense - Nonoperating	(278,868)
TOTAL NON-OPERATING REVENUE(EXPENSES)	(169,736)
CHANGE IN NET POSITION	625,926
3890 Net Position - Beginning, as Restated	29,282,414
3900 Net Position - Ending	\$ 29,908,340

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CITY OF MERCEDES
Statement of Cash Flows - Proprietary Funds
For the Year Ended September 30, 2025

	Water and Sewer Fund
CASH FLOWS FROM OPERATING ACTIVITIES	
Cash Received From User Charges	\$ 7,567,763
Cash Payments to Employees for Services	(494,327)
Cash Payments for Suppliers	(4,569,190)
Net Cash Provided (Used) by Operating Activities	<u>2,504,246</u>
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES	
Increase (Decrease) in Interfund Balances	(5,118,132)
Net Cash Provided (Used) by Non-Capital and Related Financing Activities	<u>(5,118,132)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Acquisition and Construction of Capital Assets	(1,326,120)
Bond Proceeds	5,565,505
Reduction of Debt	(993,400)
Interest Paid on Long-Term Debt	(278,868)
Net Cash Provided/(Used) by Capital and Related Financing Activities	<u>2,967,117</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Investment Earnings	109,132
Net Cash Provided/(Used) by Investing Activities	<u>109,132</u>
Increase/(Decrease) in Cash, Restricted Cash, and Cash Equivalents	\$ 462,363
Cash, Restricted Cash, and Cash Equivalents at Beginning of Year	2,012,597
Cash, Restricted Cash, and Cash Equivalents at End of Year	<u>\$ 2,474,960</u>
Reconciliation of Operating Income of Net Cash Provided By Operating Activities:	
Operating Income	795,661
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:	
Depreciation Expense	1,562,970
Effect of Increases and Decreases in Current Assets and Liabilities:	
Decrease (Increase) in Receivables	169,402
Increase(Decrease) in Accounts Payable	13,152
Increase(Decrease) in Accrued Interest Payable	8,892
Increase(Decrease) in Customer Deposits	31,018
Amortization of Bond Premium	(48,102)
Amortization of Deferred Charge on Refunding	7,193
Change in Deferred Pension/OPEB Inflows	50,382
Change in Deferred Pension/OPEB Outflows	(9,306)
Change in Net Pension/OPEB Liability	(77,016)
Net Cash Provided by Operating Activities	<u>\$ 2,504,246</u>

The accompanying notes are an integral part of this statement.

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NOTES TO THE FINANCIAL STATEMENTS

City of Mercedes, Texas
Notes to the Basic Financial Statements
For the Year Ended September 30, 2025

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, 2025

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, 2025

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, 2025

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.

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, 2025

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.

None.

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, 2025

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

iii. Investments

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

iv. Receivables and Payables

Unbilled receivables – An amount for unbilled revenue is recorded in the Water and Sewer (Utility Fund) for services rendered but not yet billed as of the end of the fiscal year. The receivable is derived from the cycle billings generated after 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 more than 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, 2025

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 benefiting 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, 2025

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:

Description	Useful Life
Buildings	25 Years
Infrastructure	15 - 40 Years
Water and Sewer System	15 - 40 Years
Improvements	10 - 25 Years
Furniture and Equipment	3 - 10 Years
Right-of-Use Assets	Length of Agreement

The right-to-use lease asset capitalization level is determined by the Board. The term of the lease must be the noncancelable 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.

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, 2025

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. Subscription-Based Information Technology Arrangements (SBITA's)

The City has non-cancellable contracts with SBITA vendors for the right to use information technology (IT) software alone or in combination with tangible capital assets (the underlying IT assets). The City recognized a right-to-use liability, reported with long-term debt, and a right-to-use subscription asset (an intangible asset), reported with other capital assets, in the government-wide financial statements.

At the commencement of an SBITA, the City initially measures the subscription liability at the present value of payments expected to be made during the subscription term. Subsequently, the subscription liability is reduced by the principal portion of SBITA payments made. The subscription asset is initially measured as the initial amount of the subscription liability, adjusted for SBITA payments made at or before the commencement date, plus certain initial implementation cost. Subsequently, the subscription asset is amortized on a straight-line bases over the shorter of the subscription term or the useful life of the underlying IT assets.

City of Mercedes, Texas
Notes to the Basic Financial Statements
For the Year Ended September 30, 2025

Note 1 - Summary of Significant Accounting Policies - Continued

x. Compensated Absences

The City recognizes a liability for compensated absences for leave time that (1) has been earned for services previously rendered by employees, (2) accumulates and is allowed to be carried over to subsequent years, and (3) is more likely than not to be used as time off or settled (for example paid in cash to the employee or payment to an employee benefit account) during or upon separation from employment. Based on the criteria listed, the following types of leave qualify for liability recognition for compensated absences – vacation and sick leave. The liability for compensated absences is reported as incurred in the government-wide and proprietary fund financial statements. A liability for compensated absences is recorded in the governmental funds only if the liability has matured because of employee resignations or retirements.

Vacation

All regular full-time and regular part-time employees accrue vacation leave for each month of active service with the City. Accrual rate increases are based on length of service and number of hours worked per regular work week. Annual leave may be accumulated up to a maximum of 18 days to the end of the fiscal year.

Sick Leave

Sick leave for regular full-time employees will be earned at the rate of 8 hours per month for each full month of employment for a maximum of 96 work hours per calendar year. Sick leave for Firefighter/EMT personnel will be earned at the rate of 12 hours per month for each full month of employment for a maximum of 144 work hours per calendar year. A liability for the estimated value of leave benefits that will be paid upon separation of service or used by employees as time off is included in the liability for compensated absences.

xi. 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.

City of Mercedes, Texas
Notes to the Basic Financial Statements
For the Year Ended September 30, 2025

Note 1 - Summary of Significant Accounting Policies – Continued

xii. 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*.

xiii. 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*.

xiv. 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.

City of Mercedes, Texas
Notes to the Basic Financial Statements
For the Year Ended September 30, 2025

Note 1 - Summary of Significant Accounting Policies – Continued

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).

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.

City of Mercedes, Texas
Notes to the Basic Financial Statements
For the Year Ended September 30, 2025

Note 1 - Summary of Significant Accounting Policies – Continued

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, 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.

xv. *Revenues and Expenditures/Expenses*

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

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

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

xvi. *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.

City of Mercedes, Texas
Notes to the Basic Financial Statements
For the Year Ended September 30, 2025

Note 1 - Summary of Significant Accounting Policies – Continued

xvii. Deficit Fund Balance/Net Position

As of September 30, 2025, the City’s deficit fund balances consisted of the following:

Description	Amount
Keep Mercedes Beautiful	\$1,569

xviii. Recently Issued and Implemented Accounting Pronouncements

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

- 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.

- GASB Statement No 102, "*Certain Risk Disclosures*"- The objective of this statement is to provide users of government financial statement with essential information about risk related to a government's vulnerabilities due to certain concentrations or constraints, whether by an external party or formal authoritative action by the government. A government is to assess whether a concentration or constraint makes the primary government reporting unit or other reporting units that report a liability for revenue debt vulnerable to the risk of a substantial impact. Additionally, this Statement requires a government to assess whether an event or events associated with a concentration or constraint that could cause the substantial impact have occurred, have begun to occur, or are more likely than not to begin to occur within 12 months of the date the financial statements are issued. This statement is effective for fiscal years beginning after June 15, 2024, and all reporting periods thereafter.

City of Mercedes, Texas
Notes to the Basic Financial Statements
For the Year Ended September 30, 2025

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. 103, "*Financial Reporting Model Improvements*"- The objective of this Statement is to improve key components of the financial reporting model to enhance its effectiveness in providing information that is essential for decision making and assessing a government's accountability. This Statement also addresses certain application issues related to Management's Discussion and Analysis, unusual or infrequent items, Net Position of proprietary funds, Major Component Unit Information, and Budgetary Comparison Information. This statement is effective for fiscal years beginning after June 15, 2025, and all reporting periods thereafter.
- GASB Statement 104, "*Disclosure of Certain Capital Assets*"- The objective of this Statement is to provide users of government financial statements with essential information about certain types of capital assets separately in the capital assets note disclosures required by Statement 34, Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments. This statement is effective for fiscal years beginning after June 15, 2025, and all reporting periods thereafter.
- GASB Statement 105, "*Subsequent Events*"- The objective of this Statement is to define subsequent events as transactions or other events that occur after the date of the financial statements but before the date the financial statements are available to be issued. This Statement describes the date the financial statements are available to be issued as the date at which (1) the financial statements are complete in a form and format that complies with generally accepted accounting principles and (2) approvals necessary for issuance have been obtained. This statement is effective for fiscal years beginning after June 15, 2026, and all reporting periods thereafter.

City of Mercedes, Texas
Notes to the Basic Financial Statements
For the Year Ended September 30, 2025

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, 2025, the City’s deposits were covered by the federal deposit insurance or were secured by collateral held by the City’s agent in the City’s name pursuant to the City’s investment policy and its depository agreement.

A reconciliation of the City’s cash and investments is as follows:

Description	Primary Government			Component Unit
	Governmental Activities	Business-Type Activities	Total	
Cash and Cash Equivalents	\$ 15,359,360	\$ 2,162,131	\$ 17,521,491	\$ 618,582
Restricted cash	495,171	312,829	808,001	834,656
	<u>\$ 15,854,531</u>	<u>\$ 2,474,960</u>	<u>\$ 18,329,492</u>	<u>\$ 1,453,238</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, 2025, 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, 2025

Note 2 – Detail Notes on all Funds – Continued

For financial reporting purposes, the City and component units reported amounts for investment pools of \$16,993,583, and \$546,805 respectively, in cash and cash equivalents on the Statement of Net Position as of September 30, 2025. There were no unfunded commitments as of September 30, 2025, and amounts reported in the investment pool had a daily redemption frequency and do not require prior notice for redemption.

B. Accounts Receivable

The City’s Accounts Receivable as of September 30, 2025, consist of the following:

	Primary Government					
	Governmental Activities			Business-type Activities		Component Unit
	General Fund	Debt Service Fund	Total	Water and Sewer Fund	Total Primary Government	
Property taxes	\$ 823,241	\$ 458,487	\$ 1,281,729	\$ -	\$ 1,281,729	\$ -
Sales taxes	1,415,731	-	1,415,731	-	1,415,731	353,933
Ambulance Fees	3,907,804	-	3,907,804	-	3,907,804	-
Trade	272,477	-	272,477	1,015,936	1,288,413	256,269
Other receivables	-	20,904	20,904	-	20,904	-
Accounts Receivable	6,419,254	479,391	6,898,645	1,015,936	7,914,581	610,202
Less: Allowance for uncollectible	(3,526,332)	(173,507)	(3,699,839)	(249,880)	(3,949,719)	-
Accounts Receivable, Net	\$ 2,892,922	\$ 305,884	\$ 3,198,806	\$ 766,056	\$ 3,964,862	\$ 610,202

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 \$526,028 related to the TIRZ receivable.

As an inducement to expand their business operations, the City and component units accepted notes from various businesses. These notes are for cash loans that carry various interest rates and terms. The interest rates vary by the individual entity and are based on individual creditworthiness. Promissory notes exist for the City for various extensions of cash funds to the component units.

City of Mercedes, Texas
Notes to the Basic Financial Statements
For the Year Ended September 30, 2025

Note 2 – Detail Notes on all Funds – Continued

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, 2025, consist of the following:

<u>Description</u>	<u>Governmental Activities</u>	<u>Component Unit</u>
Promissory Note VIDA	\$ 162,954	\$ -
De La Garza Bakery	-	36,390
MD International (Orb-Galvan)	-	76,328
MD International	-	33,844
MD International (Galvan)	-	74,259
First National Bank (Gomez)	-	14,927
First National Bank (Gomez)	-	24,013
Mario and Martha Castaneda	-	36,021
Rene Moreno	-	24,514
The Grind	-	25,482
Shops at Mercedes	1,000,000	1,000,000
Valor Fitness LLC	-	29,674
NTM Ventures LLC	-	58,373
Martha Carrillo	-	67,149
Ashley R. Gonzalez	-	35,756
Project Valdemar	-	38,063
Project Cruz	-	65,793
R. Garza	-	37,577
Columbus Club	-	138,627
Total Notes Receivable	1,162,954	1,816,788
Less: Allowance for Uncollectible	-	(28,327)
Total Notes Receivable, Net	<u>\$ 1,162,954</u>	<u>\$1,788,462</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, 2025, 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, 2025

Note 2 – Detail Notes on all Funds – Continued

The City of Mercedes and the Development Corporation of Mercedes entered into an agreement and have issued \$2,000,000, split equally between the two, note to the Shops at Mercedes, Ltd. in April 2025. The note is fully forgivable and will be used to fund a construction project, whereas forgiveness is conditioned on timely completion of Phase 1 of the project prior to December 2026. Failure to meet the conditions initiates immediate repayment of the principal plus interest at the contractual default rate.

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 as net realizable value. As of September 30, 2025, the City and component units reported redevelopment assets of \$144,612 and \$3,703,917 respectively.

D. Capital Assets – Governmental Activities

The City’s capital asset activity for governmental activities for the year ending September 30, 2025, is as follows:

	Balance 10/1/2024 *	Additions	Retirements	Transfers	Balance 9/30/2025
Governmental Activities					
Capital assets, not being depreciated/amortized					
Land	\$ 1,277,932	\$ -	\$ -	\$ -	\$ 1,277,932
Construction in Progress	3,756,501	507,408	-	(3,756,501)	507,408
Total capital assets, not being depreciated/amortized	5,034,433	507,408	-	(3,756,501)	1,785,340
Capital assets, being depreciated/amortized					
Buildings	14,118,562	-	-	3,682,741	17,801,303
Improvements	4,987,089	52,027	-	73,760	5,112,876
Infrastructure	26,103,471	178,487	-	-	26,281,958
Machinery and Equipment	9,492,820	400,702	-	-	9,893,522
Right-of-Use Asset	2,178,601	992,894	-	-	3,171,495
Total capital assets, being depreciated/amortized	56,880,542	1,624,110	-	3,756,501	62,261,155
Less Accumulated Depreciation/Amortization for:					
Buildings	(4,281,844)	(379,531)	-	-	(4,661,375)
Improvements	(1,740,217)	(190,546)	-	-	(1,930,763)
Infrastructure	(11,732,218)	(522,412)	-	-	(12,254,630)
Machinery and Equipment	(7,565,201)	(639,590)	-	-	(8,204,791)
Right-of-Use Asset	(1,311,249)	(294,176)	-	-	(1,605,425)
Total Accumulated Depreciation/Amortization	(26,630,729)	(2,026,255)	-	-	(28,656,984)
Total capital assets, being depreciated/amortized, net	30,249,813	(402,144)	-	3,756,501	33,604,170
Governmental activities, capital assets, net	\$ 35,284,246	\$ 105,264	\$ -	\$ -	\$ 35,389,511

* Beginning Balances have been restated

City of Mercedes, Texas
Notes to the Basic Financial Statements
For the Year Ended September 30, 2025

Note 2 – Detail Notes on all Funds – Continued

The City’s capital asset activity for business-type activities for the year ending September 30, 2025, is as follows:

Business-Type Activities	Balance 10/1/2024 *	Additions	Retirements	Transfers	Balance 9/30/2025
Capital assets, not being depreciated					
Land	199,100	-	-	-	199,100
Construction in Progress	4,618,501	804,015	-	(3,853,904)	1,568,612
Total capital assets, not being depreciated	<u>4,817,601</u>	<u>804,015</u>	<u>-</u>	<u>(3,853,904)</u>	<u>1,767,712</u>
Capital assets, being depreciated					
Buildings	21,123,073	24,897	-	-	21,147,970
Infrastructure	40,428,951	407,642	-	3,853,904	44,690,497
Machinery and Equipment	3,797,683	89,566	-	-	3,887,249
Total capital assets, being depreciated	<u>65,349,707</u>	<u>522,105</u>	<u>-</u>	<u>3,853,904</u>	<u>69,725,716</u>
Less Accumulated Depreciation for:					
Buildings	(9,974,417)	(457,684)	-	-	(10,432,101)
Infrastructure	(20,597,134)	(977,530)	-	-	(21,574,664)
Machinery and Equipment	(2,026,156)	(127,756)	-	-	(2,153,912)
Total Accumulated Depreciation	<u>(32,597,707)</u>	<u>(1,562,970)</u>	<u>-</u>	<u>-</u>	<u>(34,160,677)</u>
Total capital assets, being depreciated, net	32,752,000	(1,040,865)	-	3,853,904	35,565,039
Business-type activities, capital assets, net	<u>37,569,601</u>	<u>(236,850)</u>	<u>-</u>	<u>-</u>	<u>37,332,751</u>
Total capital assets, net	<u>\$ 72,853,847</u>	<u>\$ (131,586)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 72,722,261</u>

* Beginning Balances have been restated

The City’s capital asset activity for component unit for the year ending September 30, 2025, is as follows:

Component Unit	Beginning Balance	Additions	Retirements	Ending Balance
Capital Assets Being Depreciated				
Furniture and Equipment	\$ 11,885	\$ -	\$ -	\$ 11,885
Right-to-Use Assets	43,290	-	(34,373)	8,917
Total Capital Assets Being Depreciated	<u>55,175</u>	<u>-</u>	<u>(34,373)</u>	<u>20,802</u>
Less: Accumulated Depreciation	<u>(32,581)</u>	<u>(19,198)</u>	<u>34,373</u>	<u>(17,406)</u>
Capital Assets Being Depreciated, Net	<u>\$ 22,594</u>	<u>\$ (19,198)</u>	<u>\$ -</u>	<u>\$ 3,396</u>

City of Mercedes, Texas
Notes to the Basic Financial Statements
For the Year Ended September 30, 2025

Note 2 – Detail Notes on all Funds – Continued

For the year ended September 30, 2025, depreciation expense was charged to governmental functions of the primary government as follows:

<u>Description</u>	<u>Amount</u>
General Government	\$ 547,270
Public Safety	904,593
Public Works	51,499
Highways and Streets	80,770
Health and Welfare	252,606
Culture and Recreation	179,988
Conservation and Development	9,528
Total Depreciation/Amortization Expense	<u>\$ 2,026,255</u>

For the year ended September 30, 2025, depreciation expense was charged to governmental functions of the primary government as follows:

<u>Description</u>	<u>Amount</u>
Water System	915,286
Sewer System	647,684
Total Depreciation Expense	<u>\$ 1,562,970</u>

For the year ended September 30, 2025, depreciation expense was charged to governmental functions of the primary government as follows:

<u>Description</u>	<u>Amount</u>
Economic Development and Assistance	19,198
Total Depreciation/Amortization Expense	<u>\$ 19,198</u>

City of Mercedes, Texas
Notes to the Basic Financial Statements
For the Year Ended September 30, 2025

Note 2 – Detail Notes on all Funds – Continued

E. Interfund Receivables and Payables

Inter-fund balances as of September 30, 2025, consisted of the following individual fund receivables and payables:

	Due From Other Funds	Due To Other Funds
General Fund:		
Utility Fund	\$ 3,072,761	\$ -
TIRZ Fund	42,559	-
Special Revenue Fund	65,000	-
Series 2021 Fund	10,000	-
Keep Mercedes Beautiful Component Unit	1,355	-
	78,805	689,007
Total General Fund	3,270,481	689,007
 TIRZ Fund:		
General Fund	-	42,559
Total Special Revenue Fund	-	42,559
 Special Revenue Fund:		
General Fund	-	65,000
Total Special Revenue Fund	-	65,000
 Series 2021 Fund:		
General Fund	-	10,000
Total Debt Service Fund	-	10,000
 Series 2024 Fund:		
Enterprise Fund	-	5,418,132
Total Debt Service Fund	-	5,418,132
 Keep Mercedes Beautiful		
General Fund	-	1,355
Total Special Revenue Fund	-	1,355
Total Governmental Activities	\$ 3,270,481	\$ 6,226,054

City of Mercedes, Texas
Notes to the Basic Financial Statements
For the Year Ended September 30, 2025

Note 2 – Detail Notes on all Funds – Continued

Enterprise Fund:

General Fund	-	3,072,761
Series 2021 Fund	5,418,132	-
Total Enterprise Fund	5,418,132	3,072,761

Component Unit:

General Fund	689,007	78,805
Total Component Unit	\$ 689,007	\$ 78,805

On September 30, 2020, the City and the Development Corporation of Mercedes reached an agreement of the amounts they would pay each other in a timely manner. The City agreed to pay the Development Corporation of Mercedes \$241,324, 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, 2025, the City owed Development Corporation of Mercedes \$347,506, for sales taxes for a total amount due to Development Corporation of Mercedes of \$610,202.

F. Long-Term Liabilities

Primary Government

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

City of Mercedes, Texas
Notes to the Basic Financial Statements
For the Year Ended September 30, 2025

Note 2 – Detail Notes on all Funds – Continued

As of September 30, 2025, the City’s governmental long-term debt obligations outstanding are summarized by the following table:

	Interest Rate Payable	Amounts Original Issue	Maturity Date	Balance 10/1/2024	Increase	Decrease	Balance 9/30/2025	Due in One Year
Governmental Activities								
<i>Bonds Payable</i>								
Series 2013 Public Property Finance Contractual Obligations	2.59%	\$ 1,020,000	9/30/2028	\$ 695,000	\$ -	\$ (170,000)	\$ 525,000	\$ 170,000
Series 2015 Combination Tax and Limited Pledge Revenue C.O.	2.73%	1,685,000	9/30/2030	475,000	-	(235,000)	240,000	240,000
Series 2015 Obligation Refunding Bonds	2.05-2.42%	930,000	9/30/2026	1,300,000	-	(200,000)	1,100,000	210,000
Series 2016 Limited Tax Refunding Bonds	4.00-4.25%	3,042,000	9/30/2036	3,050,000	-	(570,350)	2,479,650	588,650
Series 2018 Combination and Limited Pledge	3.00-4.00%	8,610,000	9/30/2038	7,810,000	-	(425,000)	7,385,000	440,000
Series 2021 Combination Tax and Limited Pledge	2.45%	4,510,000	9/30/2033	4,312,000	-	(107,250)	4,204,750	112,750
Series 2024 Combination Tax and Limited Pledge	4.00-5.00%	1,590,000	9/30/2049	-	1,590,000	(374,000)	1,216,000	10,000
<i>Total Bonds Payable</i>		21,387,000		17,642,000	1,590,000	(2,081,600)	17,150,400	1,771,400
<i>Notes Payable</i>								
N/P Development Corporation of Mercedes	0.00%	1,000,000	3/30/2026	218,750	-	(125,000)	93,750	93,750
<i>Total Notes Payable</i>		1,000,000		218,750	-	(125,000)	93,750	93,750
<i>Leases Payable</i>								
CB3 Consultants, LLC - Equipment	3.28%	893,476	7/27/2030	-	893,476	(56,774)	836,702	163,443
SpectrumVOIP, Inc. - Phone Equipment	3.44%	78,675	4/5/2028	-	78,674	(26,806)	51,868	19,610
KnowBe4, Inc. - Subscription	3.00%	20,744	10/1/2026	-	20,744	(6,711)	14,033	6,913
Enterprise FM Trust - Vehicle	3.31%	1,041,360	4/1/2028	761,761	-	(204,533)	557,228	210,669
Enterprise FM Trust - Vehicle	3.31%	56,520	4/1/2028	41,345	-	(11,101)	30,244	11,434
Enterprise FM Trust - Vehicle	3.31%	87,827	4/1/2028	64,246	-	(17,250)	46,996	17,768
<i>Total Leases Payable</i>		2,178,601		867,352	992,894	(323,176)	1,537,071	429,835
<i>Total Bonds, Notes, and Leases Payable</i>		24,565,601		18,728,102	2,582,894	(2,529,776)	18,781,221	2,294,985
<i>Other Debt Obligations</i>								
Settlement Payable				4,420,697	-	(950,000)	3,470,697	-
Amortization of Bond Premiums				572,021	98,876	(51,735)	619,162	51,735
Compensated Absences				348,495	-	(15,452)	333,043	29,974
<i>Total Other Debt Obligations</i>				5,341,213	98,876	(1,017,187)	4,422,902	81,709
Total Governmental Activities				\$ 24,069,315	\$ 2,681,770	\$ (3,546,963)	\$ 23,204,122	\$ 2,376,694

As of September 30, 2025, the City’s business-type long-term debt obligations currently outstanding are summarized by the following table:

	Interest Rate Payable	Amounts Original Issue	Maturity Date	Balance 10/1/2024	Increase	Decrease	Balance 9/30/2025	Due in One Year
Business-Type Activities								
<i>Bonds Payable</i>								
Series 2006 Combination Tax and Subordinated Lien Revenue C.O.	4.55%	\$ 240,000	9/30/2026	\$ 110,000	\$ -	\$ (65,000)	\$ 45,000	\$ 45,000
Series 2013 Utility System Revenue Bonds	1.19-2.18%	1,970,000	9/30/2033	1,640,000	-	(170,000)	1,470,000	170,000
Series 2016 Limited Tax Refunding Bonds	4.00-4.25%	2,636,400	9/30/2036	1,950,000	-	(364,650)	1,585,350	376,350
Series 2021 Combination Tax and Limited Pledge	2.45%	3,690,000	9/30/2033	3,528,000	-	(87,750)	3,440,250	92,250
Series 2024 Combination Tax and Limited Pledge	4.00-5.00%	5,170,000	9/30/2049	-	5,170,000	(306,000)	4,864,000	40,000
<i>Total Bonds Payable</i>		13,706,400		7,228,000	5,170,000	(993,400)	11,404,600	723,600
<i>Other Debt Obligations</i>								
Amortization of Bond Premiums				177,549	395,505	(48,102)	524,952	48,102
Compensated Absences				35,930	-	(12,738)	23,192	-
<i>Total Other Debt Obligations</i>				213,479	395,505	(60,840)	548,144	48,102
Total Business-Type Activities				\$ 7,441,479	\$ 5,565,505	\$ (1,054,240)	\$ 11,952,744	\$ 771,702

City of Mercedes, Texas
Notes to the Basic Financial Statements
For the Year Ended September 30, 2025

Note 2 – Detail Notes on all Funds – Continued

As of September 30, 2025, the City’s component unit long-term debt obligations currently outstanding are summarized by the following table:

Component Unit Activities	Interest Rate Payable	Amounts Original Issue	Maturity Date	Balance 10/1/2024	Increase	Decrease	Balance 9/30/2025	Due in One Year
<i>Bonds Payable</i>								
Series 2007 sales tax revenue bond	4.55%	\$ 3,500,000	8/15/2027	\$ 765,000	\$ -	\$ (245,000)	\$ 520,000	\$ 255,000
<i>Total Bonds Payable</i>		3,500,000		765,000	-	(245,000)	520,000	255,000
<i>Notes Payable</i>								
U.S. Department of Agriculture	1.00%	750,000	2/16/2041	477,435	-	(26,074)	451,361	26,334
Office of the Governor	3.25-5.0%	1,075,000	2/1/2025	56,202	-	(56,202)	-	-
Valley Telephone Cooperative	Varies	2,000,000	3/1/2026	437,500	-	(250,000)	187,500	187,500
<i>Total Notes Payable</i>		3,825,000		971,137	-	(332,276)	638,861	213,834
<i>Leases Payable</i>								
Building	3.00%	34,997	3/1/2025	8,945	-	(8,945)	-	-
Office Equipment	3.00%	8,917	6/30/2027	5,068	-	(1,795)	3,272	1,849
<i>Total Leases Payable</i>		43,914		14,012	-	(10,740)	3,272	1,849
<i>Other Debt Obligations</i>								
Settlement Payable	Varies	2,195,882	11/20/2028	581,225	-	(564,590)	16,635	16,635
<i>Total Other Debt Obligations</i>		2,195,882		581,225	-	(564,590)	16,635	16,635
<i>Total Component Unit Activities</i>		\$ 9,564,796		2,331,374	-	(1,152,607)	1,178,768	487,318
Total Debt Obligations				\$ 33,842,168	\$ 8,247,275	\$ (5,753,809)	\$ 36,335,633	\$ 3,635,714

Note Payable – Governmental Activities

Governmental activities note payable as of September 30, 2025, 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.

\$	93,750
<u>\$</u>	<u>93,750</u>

City of Mercedes, Texas
Notes to the Basic Financial Statements
For the Year Ended September 30, 2025

Note 2 – Detail Notes on all Funds – Continued

Governmental activities note payable as of September 30, 2025, 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.

451,361

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.

-

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.

187,500

\$ 638,861

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, 2025, the settlement payable balance for the City and DCM totaled \$3,470,697 and \$16,635 respectively.

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

Year Ending September 30,	Bonds Payable		Notes Payable		Leases Payable		Bonds, Notes, and Leases Payable	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2026	1,771,400	575,929	93,750	-	429,835	39,790	\$ 2,294,985	\$ 615,718
2027	1,642,850	516,610	-	-	442,731	26,894	2,085,581	543,504
2028	1,723,750	456,850	-	-	332,988	14,182	2,056,738	471,032
2029	1,572,200	399,682	-	-	178,598	7,402	1,750,798	407,084
2030	1,510,850	349,507	-	-	152,918	2,082	1,663,768	351,589
2031-2035	5,933,600	1,080,481	-	-	-	-	5,933,600	1,080,481
2036-2040	2,352,750	307,622	-	-	-	-	2,352,750	307,622
2041-2045	323,000	109,775	-	-	-	-	323,000	109,775
2046-2050	320,000	26,655	-	-	-	-	320,000	26,655
	<u>\$ 17,150,400</u>	<u>\$ 3,823,111</u>	<u>\$ 93,750</u>	<u>\$ -</u>	<u>\$ 1,537,071</u>	<u>\$ 90,349</u>	<u>\$ 18,781,221</u>	<u>\$ 3,913,460</u>

City of Mercedes, Texas
Notes to the Basic Financial Statements
For the Year Ended September 30, 2025

Note 2 – Detail Notes on all Funds – Continued

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

Year Ending September 30,	Bonds Payable	
	Principal	Interest
2026	706,100	298,030
2027	742,150	275,225
2028	798,750	249,725
2029	856,800	223,669
2030	849,650	199,732
2031-2035	3,280,150	652,424
2036-2040	596,250	408,659
2041-2045	726,750	246,994
2046-2050	720,000	59,974
	\$ 9,276,600	\$ 2,614,431

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 Leases Payable		Total Requirements	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2026	\$ 255,000	\$ 23,660	\$ 213,834	\$ 4,514	\$ 1,849	\$ 67	\$ 470,683	\$ 28,241
2027	265,000	12,058	26,598	4,250	1,423	14	293,021	16,322
2028	-	-	26,864	3,984	-	-	26,864	3,984
2029	-	-	27,132	3,716	-	-	27,132	3,716
2030	-	-	27,404	3,444	-	-	27,404	3,444
2031-2035	-	-	141,184	13,056	-	-	141,184	13,056
2036-2040	-	-	148,386	11,644	-	-	148,386	11,644
2041-2045	-	-	27,459	10,218	-	-	27,459	10,218
	\$ 520,000	\$ 35,718	\$ 638,861	\$ 54,826	\$ 3,272	\$ 81	\$ 1,162,133	\$ 90,625

Certain general obligation and revenue bonds contain covenants, which among other things require the City to complete its audit within 180 days of the City's fiscal year-end. As of September 30, 2025, the City was in compliance with this covenant.

City of Mercedes, Texas
Notes to the Basic Financial Statements
For the Year Ended September 30, 2025

Note 3 – Defined Benefit – Pension Plan – TMRS

Plan Description

The City participates as one of 888 plans in the nontraditional, joint contributory, hybrid defined benefit 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, Texas Government Code (the TMRS Act) as an agent multiple-employer retirement system for municipal employees in the State of Texas.

TMRS places the general administration and management of the system with a six-member Board of Trustees. Although the Governor, with advice and consent of the senate, appoint the Board, TMRS is not fiscally dependent on the State of Texas TMRS’ 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 that can be obtained at www.tmr.com.

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 of statues governing TMRS.

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

Employees Covered by Benefit Terms

As of the December 31, 2024, valuation and measurement date, the following employees were covered by the benefit terms:

Description	Amount
Inactive employees or beneficiaries currently receiving benefits	98
Inactive employees entitled to but not yet receiving benefits	184
Active employees	139
Total participants	421

City of Mercedes, Texas
Notes to the Basic Financial Statements
For the Year Ended September 30, 2025

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

Contributions

The contribution rate for employees in TMRS is 7% of employee gross earnings, and the city matching percentage is 200%, both 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 were required to contribute 7% of their annual gross earnings during the fiscal year. The contribution rates for the City were 15.80% and 15.80% in fiscal year 2025 and 2024 respectively. The Cities actuarially determined contribution to TMRS for plan year ended December 31, 2024, were \$915,565, and were equal to TMRS retirement contributions.

Net Pension Liability

The City’s Net Pension Liability was measured as of December 31, 2024, and the Total Pension Liability used to calculate the Net Pension Liability was determined by an actuarial valuation as of that date.

Valuation Date:

Notes 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	21 Years (longest amortization ladder)
Asset Valuation Method	10 Year smoothed market; 12% soft corridor
Inflation	2.50%
Salary Increases	3.60% to 11.85% including inflation
Investment Rate of Return	6.75%
Retirement Age	Experience-based table of rates that vary by age. Last updated for the 2023 valuation pursuant to an experience study of the period ending 2022.
Mortality	Post-retirement: 2019 Municipal Retirees of Texas Mortality Tables. Male rates are multiplied by 103% and female rates are multiplied by 105%. The rates are projected on a fully generational basis by the most recent Scale MP-2021 (with immediate convergence). Pre-retirement: PUB(10) mortality tables, with the 110% of the Public Safety table used for males and the 100% of the General Employee table used for females. The rates are projected on a fully generational basis by the most recent Scale MP-2021 (with immediate convergence).

Other Information:

Notes There were no benefit changes during the year.

City of Mercedes, Texas
Notes to the Basic Financial Statements
For the Year Ended September 30, 2025

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 4.08% (based on the daily rate closest to but not later than the measurement date of the Bond Buyer 20-Bond GO Index). A single discount rate of 6.75% was used to measure the net pension liability as of December 31, 2024. This single discount rate was based on the expected rate of return on pension plan investments of 6.75%.

	1% Decrease	Discount Rate	1% Increase
	5.75%	6.75%	7.75%
City's Net Pension Liability	\$ 5,889,448	\$ 1,953,495	\$ (1,243,044)

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

Discount Rate

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

City of Mercedes, Texas
Notes to the Basic Financial Statements
For the Year Ended September 30, 2025

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

Net Pension Liability

	Increase (Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a) - (b)
Balance at 12/31/23	\$ 27,075,101	\$ 24,116,853	\$ 2,958,248
Changes for the year:			
Service cost	1,054,260		1,054,260
Interest	1,802,677		1,802,677
Difference between expected/actual experience	(42,548)		(42,548)
Changes of assumptions			-
Benefit payments, including refund of employee contributions	(1,791,802)	(1,791,802)	-
Contributions - employer		915,565	(915,565)
Contributions - employee		413,634	(413,634)
Net investment income		2,506,390	(2,506,390)
Administrative expenses		(16,071)	16,071
Other changes		(376)	376
Net change	1,022,587	2,027,340	(1,004,753)
Balance at 12/31/24	\$ 28,097,688	\$ 26,144,193	\$ 1,953,495

Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources

Related to Pensions

For the year ended December 31, 2024, the City recognized pension expense in the amount of \$660,680.

As of September 30, 2025, 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)	\$ -	\$ 273,150
Change in actuarial assumptions	-	140,544
Differences between projected and actual investment earnings (Net of current year amortization)	-	288,299
Contributions subsequent to the measurement date	811,873	-
Total	\$ 811,873	\$ 701,993

City of Mercedes, Texas
Notes to the Basic Financial Statements
For the Year Ended September 30, 2025

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

\$811,873 is reported as deferred outflows of resources related to pensions resulting from contributions subsequent to measurement date which will be recognized as a reduction of the net pension liability for the year ending September 30, 2025. Other amounts reported as deferred outflows and inflows of resources related to pensions expense as follows:

Year Ending December 31,	Amount
2025	\$ (172,850)
2026	204,351
2027	(386,614)
2028	(175,698)
2029	-
Thereafter	-
Total	\$ (530,811)

Note 4 – Other Post Employment Benefits

Plan Description

The City participates, as part of the City, in the single-employer benefit group-term life insurance plan operated by the Texas Municipal Retirement System (TMRS) Known as the supplemental Death Benefits Fund (SDBF). 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); retired employees are insured for \$7,500; this coverage is an “other postemployment benefit,” or OPEB. TMRS issues a publicly comprehensive annual financial report that can be obtained at www.tmr.com

The City offers supplemental death benefits to both active and retired employees.

City of Mercedes, Texas
Notes to the Basic Financial Statements
For the Year Ended September 30, 2025

Note 4 – Other Post Employment Benefits - Continued

Employees Covered by Benefit Terms

Description	Amount
Inactive employees or beneficiaries currently receiving benefits	66
Inactive employees entitled to but not yet receiving benefits	18
Active employees	139
Total participants	223

Actuarial Assumptions and Other Inputs

The total OPEB liability in the December 31, 2024, 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	3.60% to 11.85% including inflation
Discount rate*	4.08%
Retirees' share of benefit related costs	\$0
Administrative expenses	All administrative expenses are paid through the Pension Trust and accounted for under reporting requirements of GASB Statement No. 68.
Mortality rates – service retirees	2019 Municipal Retirees of Texas Mortality Tables. Male rates are multiplied by 103% and female rates are multiplied by 105%. The rates are projected on a fully generational basis by the most recent Scale MP-2021 (with immediate convergence).
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 the most recent Scale MP-2021 (with immediate convergence) to account for future mortality improvements subject to the floor.

City of Mercedes, Texas
Notes to the Basic Financial Statements
For the Year Ended September 30, 2025

Note 4 – Other Post Employment Benefits – Continued

* The discount rate was based on the Bond Buyer “20-Bond GO Index” rate closest to, but not later than December 31, 2024.

Note: The actuarial assumptions used in the December 31, 2024, valuation were based on the results of an actuarial experience study for the period ending December 31, 2022.

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 0.14% and 0.14% in calendar 2024 and 2023 respectively. The City’s contributions to TMRS for the year ended September 30, 2025, were \$7,958 and were equal to the required Contributions.

	Total OPEB Liability (a)
Balance at 12/31/23	\$ 322,706
Changes for the year:	
Service cost	14,724
Interest	12,277
Change in benefit terms	-
Difference between expected/actual experience	4,244
Changes of assumptions	(17,774)
Benefit payments, including refund of employee contributions	(8,835)
Net change	4,636
Balance at 12/31/24	\$ 327,342

Total OPEB allocation:

City of Mercedes	95.66%	\$	313,121
Development Corporation of Mercedes	4.34%	\$	14,221

City of Mercedes, Texas
Notes to the Basic Financial Statements
For the Year Ended September 30, 2025

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 4.08%, 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 (3.08) or 1 Percentage higher (5.08) than the current rate.

	1% Decrease 3.08%	Current Discount Rate 4.08%	1% Increase 5.08%
Total OPEB Liability	\$ 390,405	\$ 327,342	\$ 277,962

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

For the year ended September 30, 2025, the City recognized OPEB expense in the amount of \$5,019.

As of September 30, 2025, the City reported deferred outflows of resources and deferred inflows of resources related to OPEBs from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual economic experience (Net of current year amortization)	\$ -	\$ 17,088
Change in actuarial assumptions	-	61,099
Contributions subsequent to the measurement date	8,874	-
Total	\$ 8,874	\$ 78,187

\$20,026 deferred outflows of resources related to OPEBs resulting from contributions subsequent to the measurement date which will be recognized as a reduction of the total OPEB liability for the year ending September 30, 2025.

City of Mercedes, Texas
Notes to the Basic Financial Statements
For the Year Ended September 30, 2025

Note 4 – Other Post Employment Benefits – Continued

Other amounts reported as deferred outflows and inflows of resources related to OPEBs will be recognized in OPEB expense as follows:

Year Ending December 31,	Amount
2025	\$ (20,562)
2026	(23,117)
2027	(27,667)
2028	(5,425)
2029	(1,416)
Thereafter	-
Total	\$ (78,187)

Note 5 – Interfund Transfers

The City’s Interfund transfers as of September 30, 2025, consisted of the following:

Governmental Activities:	Transfers In	Transfers Out
General Fund	\$ 384,525	\$ 61,981
ARPA Fund	16,166	400,691
Special Revenue Fund	61,981	-
Total Transfers - Governmental Activities	462,673	462,673
Total Interfund Transfers	\$ 462,673	\$ 462,673

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, 2025, 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.

City of Mercedes, Texas
Notes to the Basic Financial Statements
For the Year Ended September 30, 2025

Note 6 – Commitments and Contingencies – Continued

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, 2025, 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.

Economic Incentive Commitments

The Development Corporation of Mercedes, a discretely presented component unit of the City, extended economic incentives to the following entities as follows as of September 30, 2025:

Description	Amount Committed	Paid in Previous Years	Paid in Current Year	Remaining Commitment
Rio Grande Livestock Show	\$ 300,000	\$ 250,000	\$ 25,000	\$ 25,000
Orchard Grove Apartments	450,000	400,000	50,000	-
Project Travel Center *	268,342	41,133	27,209	200,000
Project Rios of Mercedes	257,000	51,400	51,400	154,200
Project Merit 30	1,000,000	-	1,000,000	-
Total Commitments	\$ 2,275,342	\$ 742,533	\$ 1,153,609	\$ 379,200

*Commitment amount may vary

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, 2025, 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, 2025

Note 8 – Compliance and Accountability

A. Finance-Related Legal and Contractual Provisions

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

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

B. Excess of expenditures over appropriations

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

None.

Note 9 – Fund Balances

Fund balances as of September 30, 2025 were summarized by the following table:

	General Fund	Bond Series 2024	Debt Service Fund	Non-Major Governmental Funds	Total Governmental Funds
Fund Balance					
Nonspendable					
Inventory	\$ 68,059	\$ -	\$ -	\$ -	\$ 68,059
Prepaid Items	55,065				55,065
Redevelopment Assets	144,612	-	-	-	144,612
Total nonspendable	267,736	-	-	-	267,736
Restricted					
Special Revenue Fund	-	-	-	31,971	31,971
Debt service fund	-	-	1,206,981	-	1,206,981
Municipal court technology fund	-	-	-	140,583	140,583
Local forfeiture fund	-	-	-	12,938	12,938
Keep Mercedes Beautiful fund	-	-	-	(1,569)	(1,569)
Hotel/Motel fund	-	-	-	728,324	728,324
TIF fund	-	-	-	14,821	14,821
Recreation program fund	-	-	-	3,182	3,182
Parks Fund	-	-	-	345,780	345,780
Capital Projects P.P.F.C.O. 2013 Series	-	-	-	4,060	4,060
Capital Projects Series 2015 C.O.	-	-	-	2,439	2,439
Capital Projects Series 2018 Bond	-	-	-	17,971	17,971
Capital Projects Series 2021 Bond	-	-	-	65,961	65,961
Capital Projects Series 2024 Bond	-	212,101	-	-	212,101
Community Development	1,000,000	-	-	-	1,000,000
Streets - Right of way	-	-	-	6,878	6,878
Total Restricted	1,000,000	212,101	1,206,981	1,373,339	3,792,421
Assigned					
Library Fund	-	-	-	1,018	1,018
Total Assigned	-	-	-	1,018	1,018
Unassigned					
General fund	11,373,574	-	-	-	11,373,574
Total Unassigned	11,373,574	-	-	-	11,373,574
Total Fund Balance	\$ 12,641,310	\$ 212,101	\$ 1,206,981	\$ 1,374,357	\$ 15,434,749

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City of Mercedes, Texas
Notes to the Basic Financial Statements
For the Year Ended September 30, 2025

Note 10 – Net Investment in Capital Assets

The City’s breakdown of net investment in capital assets as of September 30, 2025, is shown by the following table:

Description	Governmental Activities	Business-Type Activities
Capital Assets, Net of Accumulated Depreciation	\$ 35,389,511	\$ 37,332,751
Less: Outstanding Long-Term Debt	(18,781,221)	(11,952,742)
Less: Unamortized Bond Premium	(619,162)	(524,952)
Plus: Deferred Charges on Refunding	157,437	74,392
Total Net Investment in Capital Assets	<u>\$ 16,146,565</u>	<u>\$ 24,929,449</u>

Note 11 – Prior Period Restatement

The City’s restated beginning fund balance/net position is shown by the following table:

Description	Governmental Activities	Business-Type Activities	Governmental Funds
Beginning fund balance/net position, as previously reported	\$ 24,344,645	\$ 28,508,707	\$ 14,651,874
Adjustment - Capital Assets, Net	(1,576,328)	773,707	-
Adjustment - Accounts Receivable/Uncollectible	(1,161,199)	-	(646,531)
Beginning fund balance/net position, as restated	<u>\$ 21,607,118</u>	<u>\$ 29,282,414</u>	<u>\$ 14,005,343</u>

Note 12 – Subsequent Events

Management has evaluated subsequent events through the date that the financial statements were available to be issued, February 26, 2026, and has determined there were no other events other than the one listed above that would require disclosure.

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**REQUIRED SUPPLEMENTARY
INFORMATION**

CITY OF MERCEDES

**Schedules of Revenues, Expenditures, and Changes in Fund Balances Budget and Actual (Budgetary Basis)
September 30, 2025**

	Budgeted Amounts		Actual Amounts	Variance
	Original	Final	Budgetary Basis	
Revenues:				
5110	\$ 5,107,099	\$ 5,312,773	\$ 4,575,186	\$ (737,588)
5120	5,691,180	6,374,122	6,593,187	219,066
5170	680,000	714,000	736,411	22,411
5190	128,750	97,335	127,329	29,994
5200	589,500	791,050	538,590	(252,460)
5300	17,500	17,500	21,936	4,436
5400	2,406,950	2,710,750	3,696,897	986,147
5510	71,000	71,000	117,191	46,191
5610	50,000	200,000	188,869	(11,131)
5700	1,337,130	513,813	658,090	144,277
Total Revenues	16,079,109	16,802,343	17,253,684	451,341
Expenditures:				
100	3,772,344	3,812,927	3,752,133	60,794
200	6,380,325	6,227,632	6,217,835	9,797
300	430,173	582,537	393,422	189,115
310	713,506	893,506	617,033	276,473
400	1,933,859	1,933,859	1,920,896	12,963
500	1,432,149	1,458,833	1,345,231	113,602
Debt Service:				
710	625,000	1,412,402	1,398,176	14,226
800	996,928	785,822	659,498	126,324
Total Expenditures	16,284,284	17,107,518	16,304,224	803,294
Excess (Deficiency) of Revenues Over (Under) Expenditures				
	(205,175)	(305,175)	949,461	1,254,636
Other Financing Sources (Uses):				
7912	5,175	5,175	15,661	10,486
7915	300,000	300,000	384,525	84,525
8911	(100,000)	-	(61,981)	(61,981)
Total Other Funding Sources (Uses)	205,175	305,175	338,205	33,030
Change in Fund Balance	-	-	1,287,666	1,287,666
Fund Balance - Beginning, As Restated	\$ 11,353,645	\$ 11,353,645	\$ 11,353,645	\$ -
Fund Balance - Ending	\$ 11,353,645	\$ 11,353,645	\$ 12,641,310	\$ 1,287,666

CITY OF MERCEDES, TEXAS
SCHEDULE OF CHANGES IN NET PENSION LIABILITY AND RELATED RATIOS
FOR THE YEAR ENDED SEPTEMBER 30, 2025

	Plan Year Ended December 31,							
	2024	2023	2022	2021	2020	2019	2018	2017
Total Pension Liability								
Service cost	\$ 1,054,260	\$ 977,979	\$ 936,213	\$ 924,643	\$ 931,185	\$ 814,509	\$ 723,965	\$ 712,113
Interest (on the total pension liability)	1,802,677	1,753,755	1,696,778	1,587,158	1,522,121	1,487,612	1,447,569	1,398,746
Changes of benefit terms	-	-	-	-	-	-	-	-
Difference between expected and actual experience	(42,548)	(205,386)	(399,108)	418,406	(209,134)	(490,403)	(398,692)	(478,060)
Change of assumptions	-	(196,096)	-	-	-	96,939	-	-
Benefit payments, including refunds of employee contributions	(1,791,802)	(1,495,425)	(1,325,915)	(1,298,057)	(1,256,720)	(1,654,784)	(794,999)	(1,035,847)
Net Change in Total Pension Liability	1,022,587	834,827	907,968	1,632,150	987,452	253,873	977,843	596,952
Total Pension Liability - Beginning	27,075,101	26,240,274	25,332,305	23,700,155	22,712,703	22,458,830	21,480,987	20,884,035
Total Pension Liability - Ending (a)	<u>\$ 28,097,688</u>	<u>\$ 27,075,101</u>	<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>
Plan Fiduciary Net Position								
Contributions - employer	915,565	879,170	\$ 841,132	\$ 879,935	\$ 959,839	\$ 827,756	\$ 766,842	\$ 783,036
Contributions - employee	413,634	392,988	378,159	368,174	371,413	319,774	288,596	286,977
Net investment income	2,506,390	2,527,977	(1,728,123)	2,737,517	1,476,699	2,675,917	(526,655)	2,135,982
Benefit payments, including refunds of employee contributions	(1,791,802)	(1,495,425)	(1,325,915)	(1,298,057)	(1,256,720)	(1,654,784)	(794,999)	(1,035,847)
Administrative expense	(16,071)	(16,072)	(14,945)	(12,658)	(9,550)	(15,104)	(10,170)	(11,068)
Other	(376)	(112)	17,834	87	(373)	(454)	(531)	(561)
Net Change in Plan Fiduciary Net Position	2,027,340	2,288,526	(1,831,858)	2,674,998	1,541,308	2,153,105	(276,917)	2,158,519
Plan Fiduciary Net Position - Beginning	24,116,853	21,828,327	23,660,184	20,985,186	19,443,877	17,290,773	17,567,690	15,409,172
Plan Fiduciary Net Position - Ending (b)	<u>\$ 26,144,193</u>	<u>\$ 24,116,853</u>	<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>
Net Pension Liability - Ending (a) - (b)	<u>\$ 1,953,495</u>	<u>\$ 2,958,248</u>	<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>
Plan Fiduciary Net Position as a Percentage of Total Pension Liability	93.05%	89.07%	83.19%	93.40%	88.54%	85.61%	76.99%	81.78%
Covered Payroll	\$ 5,889,720	\$ 5,614,119	\$ 5,402,265	\$ 5,259,629	\$ 5,305,900	\$ 4,568,193	\$ 4,122,806	\$ 4,099,672
Net Pension Liability as a Percentage of Covered Payroll	33.17%	52.69%	81.67%	31.79%	51.17%	71.56%	125.35%	95.45%

CITY OF MERCEDES, TEXAS
SCHEDULE OF PENSION CONTRIBUTIONS
FOR THE YEAR ENDED SEPTEMBER 30, 2025

	Plan Year Ended December 31,								
	2024	2023	2022	2021	2020	2019	2018	2017	2016
Actuarially determined contribution	915,565	879,170	\$ 841,132	\$ 876,640	\$ 959,839	\$ 933,895	\$ 809,721	\$ 783,036	\$ 795,685
Contributions in relation to actuarially determined contribution	<u>(915,565)</u>	<u>(879,170)</u>	<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>
Contribution deficiency (excess)	<u><u>-</u></u>	<u><u>-</u></u>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>
Covered payroll	5,889,720	5,614,119	\$ 5,402,265	\$ 5,447,028	\$ 5,305,900	\$ 4,568,193	\$ 4,122,806	\$ 4,099,672	\$ 4,134,721
Contributions as a percentage of covered payroll	15.55%	15.66%	15.57%	18.09%	20.44%	19.64%	19.10%	19.24%	18.84%

CITY OF MERCEDES, TEXAS
Notes to Schedule of Contributions

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

Methods and Assumptions Used to Determine Contribution Rates:

Actuarial Cost Method	Entry Age Normal
Amortization Method	Level Percentage of Payroll, Closed
Remaining Amortization Period	21 years (Longest Amortization Ladder)
Asset Valuation Method	10 Year smoothed market; 12% soft corridor
Inflation	2.5%
Salary Increases	3.60% to 11.85% including inflation
Investment Rate of Return	6.75%
Retirement Age	Experience-based table of rates that vary by age. Last updated for the 2023 valuation pursuant to an experience study of the period ending 2022.
Mortality	Post-retirement: 2019 Municipal Retirees of Texas Mortality Tables. Male rates are multiplied by 103% and female rates are multiplied by 105%. The rates are projected on a fully generational basis by the most recent Scale MP-2021 (with immediate convergence). Pre-retirement: PUB(10) mortality tables, with the 110% of the Public Safety table used for males and the 100% of the General Employee table used for females. The rates are projected on a fully generational basis by the most recent Scale MP-2021 (with immediate convergence).

Other Information:

Notes: 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, 2025

	Plan Year Ended December 31,					
	2024	2023	2022	2021	2020	2019
Total OPEB Liability						
Service cost	\$ 14,724	\$ 11,228	\$ 24,310	\$ 22,616	\$ 20,162	\$ 14,161
Interest (on the total OPEB liability)	12,277	12,082	8,280	8,357	8,866	14,145
Changes of benefit terms	-	-	-	-	-	-
Difference between expected and actual experience	4,244	(5,011)	(19,830)	(6,176)	14,641	(139,319)
Change of assumptions	(17,774)	16,474	(149,333)	13,696	55,292	51,382
Benefit payments, including refunds of employee contributions	(8,835)	(9,544)	(7,563)	(6,838)	(2,653)	(1,827)
Net Change in Total OPEB Liability	<u>4,636</u>	<u>25,229</u>	<u>(144,136)</u>	<u>31,655</u>	<u>96,308</u>	<u>(61,458)</u>
Total OPEB Liability - Beginning	<u>322,706</u>	<u>297,477</u>	<u>441,613</u>	<u>409,958</u>	<u>313,644</u>	<u>375,102</u>
Total OPEB Liability - Ending	<u>\$ 327,342</u>	<u>\$ 322,706</u>	<u>\$ 297,477</u>	<u>\$ 441,613</u>	<u>\$ 409,952</u>	<u>\$ 313,644</u>
Covered Payroll	\$ 5,889,720	\$ 5,614,119	\$ 5,402,265	\$ 5,259,629	\$ 5,305,900	\$ 4,568,193
Total OPEB Liability as a Percentage of Covered Payroll	5.56%	5.75%	5.51%	8.40%	7.73%	6.87%

CITY OF MERCEDES, TEXAS
NOTES TO SCHEDULE OF CONTRIBUTIONS
FOR THE YEAR ENDED SEPTEMBER 30, 2025

Valuation Date: December 31, 2024
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	3.60% to 11.85% including inflation
Discount Rate	4.08%
Retirees' share of benefit-related costs	\$0
Administrative expenses	All administrative expenses are paid through the Pension Trust and accounted for under reporting requirements of GASB Statement No. 68.
Mortality Rates - Service Retirees	2019 Municipal Retirees of Texas Mortality Tables. Male rates are multiplied by 103% and female rates are multiplied by 105%. The rates are projected on a fully generational basis by the most recent Scale MP-2021 (with immediate convergence).
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 the most recent Scale MP-2021 (with immediate convergence) to account for future mortality improvements subject to the floor.

* The Discount rate was based on the Bond Buyer "20-Bond GO Index" rate closest to, but not later than December 31, 2024.

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CITY OF MERCEDES, TEXAS
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED SEPTEMBER 30, 2025

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 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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**COMBINING NON-MAJOR
FUNDS**

CITY OF MERCEDES
 Combining Balance Sheet - Nonmajor Governmental Funds
 September 30, 2025

EXHIBIT H-1

Special Revenue Funds

	Municipal Technology	Library	Special Revenue	Local Forfeiture	Keep Mercedes Beautiful	Hotel/Motel	TIRZ	Recreation Program	Parks Fund	Total Nonmajor Special Revenue Funds
ASSETS:										
1010 Cash and Cash Equivalents	\$ 140,583	\$ 1,018	\$ 116,093	\$ 12,938	\$ -	\$ 724,519	\$ 57,380	\$ 3,182	\$ 353,280	\$ 1,408,993
TOTAL ASSETS	\$ 140,583	\$ 1,018	\$ 116,093	\$ 12,938	\$ -	\$ 724,519	\$ 57,380	\$ 3,182	\$ 353,280	\$ 1,408,993
LIABILITIES:										
2010 Accounts Payable	-	-	15,937	-	214	(3,805)	-	-	7,500	19,846
2020 Wages and Salaries Payable	-	-	3,185	-	-	-	-	-	-	3,185
2080 Internal Balances	-	-	65,000	-	1,355	-	42,559	-	-	108,915
TOTAL LIABILITIES	-	-	84,122	-	1,569	(3,805)	42,559	-	7,500	131,945
FUND BALANCES:										
Restricted for:										
3005 General Government	-	1,018	-	-	-	-	-	3,182	-	4,201
3008 Municipal Court	140,583	-	-	-	-	-	-	-	-	140,583
3009 Tourism	-	-	-	-	-	728,324	-	-	-	728,324
3010 Public Safety	-	-	31,971	12,938	-	-	-	-	-	44,909
3410 Parkland	-	-	-	-	-	-	-	-	345,780	345,780
3415 Community Development	-	-	-	-	(1,569)	-	14,821	-	-	13,251
TOTAL FUND BALANCES	140,583	1,018	31,971	12,938	(1,569)	728,324	14,821	3,182	345,780	1,277,048
TOTAL LIABILITIES, DEFERRED INFLOWS & FUND BALANCES	\$ 140,583	\$ 1,018	\$ 116,093	\$ 12,938	\$ -	\$ 724,519	\$ 57,380	\$ 3,182	\$ 353,280	\$ 1,408,993

CITY OF MERCEDES
Combining Balance Sheet - Nonmajor Governmental Funds
September 30, 2025

EXHIBIT H-1

Capital Project Funds

	PPFCO Series 2013	Series 2015	Series 2018	Street Maintenance	Series 2021	Total Nonmajor Capital Projects Fund
ASSETS:						
1010 Cash and Cash Equivalents	\$ 4,060	\$ 2,439	\$ 17,971	\$ 6,878	75,961	\$ 107,309
TOTAL ASSETS	\$ 4,060	\$ 2,439	\$ 17,971	\$ 6,878	\$ 75,961	\$ 107,309
LIABILITIES:						
2080 Internal Balances	-	-	-	-	10,000	10,000
TOTAL LIABILITIES	-	-	-	-	10,000	10,000
FUND BALANCES:						
Restricted for:						
3510 Construction	\$ 4,060	\$ 2,439	\$ 17,971	\$ 6,878	65,961	\$ 97,309
TOTAL FUND BALANCES	4,060	2,439	17,971	6,878	65,961	97,309
TOTAL LIABILITIES, DEFERRED INFLOWS & FUND BALANCES	\$ 4,060	\$ 2,439	\$ 17,971	\$ 6,878	75,961	\$ 107,309

CITY OF MERCEDES
 Combining Statement of Revenues, Expenditures, and Changes in Fund Balance - Nonmajor Governmental Funds
 For the Year Ended September 30, 2025

EXHIBIT H-2

Special Revenue Funds												Total Nonmajor Special Revenue Funds	
Municipal Technology	Urban County	Library	Special Revenue	Local Forfeiture	Keep Mercedes Beautiful	Hotel/Motel	TIRZ	Recreation Program	ARPA	Parks Fund			
REVENUES:													
5180	Other Taxes	-	-	-	-	-	136,224	-	-	-	-	136,224	
5200	Licenses and Permits	-	-	-	-	-	-	-	-	53,000	-	53,000	
5300	Intergovernmental Revenue and Grants	-	186,212	-	636,112	-	-	-	332,935	-	-	822,324	
Fees and Charges:													
5610	Investment Earnings	10,802	-	-	3,378	635	32,089	-	-	4,639	8,251	55,155	
5700	Other Revenue	16,201	-	687	-	380	-	3,762	-	-	810	21,841	
TOTAL REVENUES		27,003	186,212	687	639,490	1,015	-	168,313	3,762	-	337,574	62,061	1,088,544
EXPENDITURES:													
Current:													
100	General Government	28,866	186,212	-	-	-	170,599	-	-	-	43,368	429,045	
200	Public Safety	-	-	-	683,800	9,263	-	-	-	-	-	693,062	
400	Health and Welfare	-	-	-	-	-	8,853	-	-	-	-	8,853	
500	Culture and Recreation	-	-	960	-	-	-	-	-	-	-	960	
600	Conservation and Development	-	-	-	-	-	-	72,791	-	-	-	72,791	
TOTAL EXPENDITURES		28,866	186,212	960	683,800	9,263	8,853	170,599	72,791	-	-	43,368	1,204,710
Excess(Deficiency) of Revenues Over(Under)													
Expenditures		(1,863)	-	(273)	(44,309)	(8,248)	(8,853)	(2,285)	(69,028)	-	337,574	18,693	(116,166)
OTHER FINANCING SOURCES (USES)													
Net Change in Fund Balances		(1,863)	-	(273)	17,672	(8,248)	(8,853)	(2,285)	(69,028)	-	\$ (46,951)	18,693	(54,185)
3600 Fund Balance - Beginning		142,445	\$ -	1,291	14,299	21,186	7,283	\$ 730,610	\$ 83,849	\$ 3,182	\$ 46,951	\$ 327,087	\$ 1,331,233
3900 Fund Balance - Ending		\$ 140,583	\$ -	\$ 1,018	\$ 31,971	\$ 12,938	\$ (1,569)	\$ 728,324	\$ 14,821	\$ 3,182	\$ -	\$ 345,780	\$ 1,277,048

The accompanying notes are an integral part of this statement.

CITY OF MERCEDES
Combining Statement of Revenues, Expenditures, and Changes in Fund Balance - Nonmajor Governmental Funds
For the Year Ended September 30, 2025

EXHIBIT H-2

Capital Project Funds												
		PPFCO Series 2013		Series 2015		Series 2018	Street Maintenance		Series 2021	Total Nonmajor Capital Projects Fund		
REVENUES:												
5610 Investment Earnings	\$	180	\$	-	\$	463	\$	-	\$	3,119	\$	3,763
5700 Other Revenue		-		-		-	3,343			-		3,343
TOTAL REVENUES		180		-		463	3,343			3,119		7,106
EXPENDITURES:												
TOTAL EXPENDITURES		-		-		-	-			-		-
Excess(Deficiency) of Revenues Over(Under) Expenditures		180		-		463	3,343			3,119		7,106
OTHER FINANCING SOURCES (USES)												
Net Change in Fund Balances		180		-		463	3,343			3,119		7,106
3600 Fund Balance - Beginning		3,880		2,439		17,507	3,535			62,842		90,203
3900 Fund Balance - Ending	\$	4,060	\$	2,439	\$	17,971	\$	6,878	\$	65,961	\$	97,309

The accompanying notes are an integral part of this statement.

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COMPONENT UNIT

Development Corporation of Mercedes
Balance Sheet - Governmental Funds
September 30, 2025

	<u>Major Governmental Funds</u>			Governmental Funds
	General Fund	IRP Loan Fund	RBEG Grant Fund	
ASSETS:				
1010 Cash and Cash Equivalents	\$ 618,582	\$ -	\$ -	\$ 618,582
1050 Sales Taxes Receivable	353,933	-	-	353,933
1260 Due From City of Mercedes	241,324	-	-	241,324
1300 Due from Other Funds	1,693	-	-	1,693
Restricted and Non-Spendable Assets:				
1611 Restricted Cash and Cash Equivalents	272,169	303,941	258,547	834,656
1617 Restricted Notes Receivable, Net	1,076,328	125,207	586,927	1,788,462
1990 Redevelopment Assets	3,558,100	-	145,817	3,703,917
TOTAL ASSETS	\$ 6,122,128	\$ 429,148	\$ 991,291	\$ 7,542,567
LIABILITIES:				
2010 Accounts Payable	2,863	-	-	2,863
2020 Wages and Salaries Payable	12,861	-	-	12,861
2080 Due to Other Funds	-	1,693	-	1,693
2090 Due to City of Mercedes	78,805	-	-	78,805
TOTAL LIABILITIES	94,530	1,693	-	96,223
FUND BALANCES:				
Non-spendable for:				
3002 Non-Spendable	3,558,100	-	145,817	3,703,917
Restricted for:				
3425 Restricted	1,350,190	427,455	845,474	2,623,118
Unassigned for:				
3600 Unassigned	1,119,309	-	-	1,119,309
TOTAL FUND BALANCES	6,027,599	427,455	991,291	7,446,344
TOTAL LIABILITIES, DEFERRED INFLOWS & FUND BALANCES	\$ 6,122,128	\$ 429,148	\$ 991,291	\$ 7,542,567

Development Corporation of Mercedes
 Reconciliation of the Balance Sheet - Governmental to the Governmental Activities - Statement of Net Position
 September 30, 2025

Total Fund Balances - Governmental Funds	\$	7,446,344
<p>Amounts Reported for governmental activities in the statement of net position are different because:</p>		
<p>Long-term receivable due from the City of Mercedes is not available to pay current expenditures in the funds.</p>		
Notes Receivable	<u>93,750</u>	93,750
<p>Capital assets used in governmental activities are not financial resources, and therefore are not reported in governmental funds:</p>		
Capital Assets Being Depreciated	20,802	
Accumulated Depreciation	<u>(17,406)</u>	
Total Capital Assets, Net		3,396
<p>Long-term liabilities, including bonds payable, are not due and payable in the current period, and therefore are not reported as liabilities at the fund level.</p>		
Debt Service - Due Within One Year	(487,318)	
Debt Service - Due in More Than One Year	<u>(691,450)</u>	
Total Long-Term Liabilities		(1,178,768)
<p>Interest on long-term debt is not accrued in the governmental funds, but is recognized as an expenditure in the funds.</p>		
Accrued Interest Payable	<u>(2,353)</u>	
Total Accrued Interest Payable		(2,353)
<p>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 resource inflow. This resulted in a decrease in net position.</p>		
Net Pension Liability	(84,868)	
Deferred Outflow related to Pension Plan	35,271	
Deferred Inflow related to Pension Plan	<u>(30,498)</u>	
		(80,095)
<p>Included in the noncurrent liabilities is the recognition of the City's net OPEB liability required by GASB Statement No. 75, a deferred resource outflow and a deferred resource inflow. This resulted in a decrease in net position.</p>		
Net OPEB Liability	(14,221)	
Deferred Outflow related to OPEB	386	
Deferred Inflow related to OPEB	<u>(3,397)</u>	
		<u>(17,232)</u>
Net position of governmental activities	\$	<u>6,265,042</u>

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

		<u>Major Governmental Funds</u>			
		General Fund	IRP Loan Fund	RBEG Grant Fund	Total Governmental Funds
REVENUES:					
5120	General Sales and Use Taxes	\$ 2,314,497	\$ -	\$ -	\$ 2,314,497
5301	Intergovernmental Revenue	151,562	-	-	151,562
5610	Investment Earnings	33,277	6,129	16,573	55,979
	Total Revenues	<u>2,499,337</u>	<u>6,129</u>	<u>16,573</u>	<u>2,522,038</u>
EXPENDITURES:					
Current:					
100	General Government	606,534	-	-	606,534
650	Economic Development and Assistance	297,996	271	14,509	312,777
Debt Service:					
710	Principal on Debt	1,126,532	26,074	-	1,152,606
720	Interest on Debt	28,743	4,774	-	33,517
	Total Expenditures	<u>2,059,805</u>	<u>31,119</u>	<u>14,509</u>	<u>2,105,434</u>
	Excess(Deficiency) of Revenues Over(Under) Expenditures	439,531	(24,990)	2,063	416,604
OTHER FINANCING SOURCES (USES):					
	Total Other Financing Sources (Uses)	-	-	-	-
	Net Change in Fund Balances	439,531	(24,990)	2,063	416,604
3600	Fund Balance - Beginning	\$ 5,588,067	\$ 452,445	\$ 989,227	\$ 7,029,739
3900	Fund Balance - Ending	<u>\$ 6,027,599</u>	<u>\$ 427,455</u>	<u>\$ 991,291</u>	<u>\$ 7,446,344</u>

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

Total Net Change in Fund Balances - Governmental Funds	\$	416,604
<p>Current year capital outlay and depreciation expense are expenditures in the fund financial statements, but they should be shown as increases (decreases) in capital assets to increase (decrease) the change in net position.</p>		
Depreciation of Capital Assets	<u>(19,198)</u>	(19,198)
<p>Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position.</p>		
Principal Repayment	<u>1,152,606</u>	1,152,606
<p>Interest on long-term debt is not accrued in the governmental funds, but it is recognized as an expenditure at the fund level.</p>		
Interest Expense	<u>1,039</u>	1,039
<p>Long-term receivable due from the City of Mercedes is not available to pay current expenditures in the funds.</p>		
VTX Note Receivable	<u>(125,000)</u>	(125,000)
<p>GASB 68 requires certain plan expenditures to be de-expensed and recorded as deferred resource outflows. These contributions made after the measurement date of the plan caused the change in ending net position. Contributions made before the measurement date and during the previous fiscal year were expended and recorded as a reduction in net pension liability. Finally, the proportionate share of pension expense on the plan as a whole has to be recorded.</p>		
Change in Net Pension Liability	2,104	
Deferred Outflow related to Pension Plan	15,428	
Deferred Inflow related to Pension Plan	<u>12,311</u>	29,843
<p>GASB 75 requires certain plan expenditures to be de-expensed and recorded as deferred resource outflows. These contributions made after the measurement date of the plan caused the change in ending net position. Contributions made before the measurement date and during the previous fiscal year were expended and recorded as a reduction in net OPEB liability. Finally, the proportionate share of OPEB expense on the plan as a whole has to be recorded.</p>		
Change in Net OPEB Liability	(4,733)	
Deferred Outflow related to OPEB	209	
Deferred Inflow related to OPEB	<u>(850)</u>	(5,374)
Change in Net Position of Governmental Activities	\$	1,450,520

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**INTERNAL CONTROL/
COMPLIANCE SECTION**

ADRIAN WEBB, CPA

Certified Public Accountant
Edinburg, Texas

INDEPENDENT AUDITOR'S 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 Members of City Council
and City Manager
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, 2025, and the related notes to the financial statements, which collectively comprise the City of Mercedes, Texas' basic financial statements and have issued our report thereon dated February 26, 2026.

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.

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. We consider the deficiency described in the accompanying schedule of findings and management's response as item 2025-001, to be a material weakness.

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described in the accompanying schedule of findings and management's response as item 2025-002 to be 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 statements. 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 responses. 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
February 26, 2026

CITY OF MERCEDES, TEXAS
SCHEDULE OF FINDINGS AND MANAGEMENT'S RESPONSE
FOR THE YEAR ENDED SEPTEMBER 30, 2025

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? Yes

Significant Deficiency(ies) identified which were not considered material weaknesses? Yes

Noncompliance material to the financial statements noted. No

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

CITY OF MERCEDES, TEXAS
SCHEDULE OF FINDINGS AND MANAGEMENT’S RESPONSE – CONTINUED
FOR THE YEAR ENDED SEPTEMBER 30, 2025

II. Findings Related to the Financial Statements Which are Required to be in Accounting with Generally Accepted Government Auditing Standards

2025-001 Improve Internal Controls Over Financial Reporting (Material Weakness)

Criteria:

Management is responsible for the preparation and fair presentation, as well as the accuracy of its financial statements, including disclosures 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. As part of satisfying that responsibility, staff should possess those skills, knowledge, and experience necessary to complete year-end close and diligently employ that knowledge, skill, and experience to produce reliable and accurate financial information.

Generally accepted auditing standards defined internal control as a process – affected by the Members of City Council, management, and other personnel – designed to provide reasonable assurance regarding the achievement of objectives in the following categories:

- Reliability of financial reporting
- Effectiveness and efficiency of operations, and
- Compliance with applicable laws and regulations.

The Committee of Sponsoring Organizations of the Treadway Commission (“COSO”) established the following framework that stress the need for policies and procedures to promote effective internal control for an entity:

- Control Environment – Establish structures, reporting lines, authorities and responsibilities.
- Risk Assessment – Select and develop control activities that mitigate risks.
- Control Activities – Deploy control activities through policies and procedures.
- Information and Communication – Communicate internal control information internally.
- Monitoring – Evaluations are used to determine if controls are present and functioning.

An overall purpose of internal control over financial reporting is to foster the preparation of reliable financial statements. Reliable financial statements must be accurate.

Condition:

Accuracy in External Financial Reporting

Adjustments from prior audit were not entered into financial system in a timely manner.

Adjustments included the following for the government fund financial statements:

- Adjustment to reconcile the Deferred Inflow/Deferred Outflows.
- Adjustments to reconcile Capital Outlay.
- Adjustments related to the Due To/Due From accounts.
- Adjustments related to EMS.

Adjustments included the following for the government-wide financial statements:

- Adjustments related to Deferred Outflows.
- Adjustments related to Capital Assets.
- Adjustments Related to Debt.

CITY OF MERCEDES, TEXAS
SCHEDULE OF FINDINGS AND MANAGEMENT'S RESPONSE – CONTINUED
FOR THE YEAR ENDED SEPTEMBER 30, 2025

Recording of Accruals

The City did not have a proper cutoff to ensure revenues and expenditures are recognized in the proper period.

Allowance for Uncollectible Accounts Receivable

The City's assessment of uncollectible accounts was not appropriately performed or supported. Specifically, the City did not provide sufficient support demonstrating a consistent, documented evaluation of collectability (including support for the allowance for uncollectible accounts and/or determination of accounts requiring write-off) based on aging, payment history, subsequent collections, and documented collection efforts.

Cause:

Understaffing within the finance/accounting function, which limited the ability to complete required accounting procedures timely and consistently, including review and oversight activities; and insufficient training, resulting in inconsistent understanding and application of the City's accounting policies and documentation/review expectations across personnel.

Effect:

Failure to consistently follow established accounting policies increases the risk that transactions may be recorded inaccurately or inconsistently, resulting in potential misstatements in the financial statements, key controls (such as reconciliations, reviews, and documentation standards) may not operate effectively on a timely basis, management's ability to support balances and transactions is reduced, increasing audit effort and the likelihood of audit adjustments, and financial reporting timelines may be delayed, and compliance and governance oversight may be impacted.

Recommendation:

We recommend the City strengthen its control environment and compliance with accounting policies by:

- Reinforcing accounting policies and accountability.
- Evaluate staffing levels.
- Obtain training on accounting policies, documentation expectations, reconciliations, and review controls.
- Enhancing supervisory review, which includes performing periodic quality control checks to confirm policy compliance and to identify areas needing additional training or clarification.

Response:

City management concurs with the auditor's recommendation, see Corrective Action Plan on Page 79.

CITY OF MERCEDES, TEXAS
SCHEDULE OF FINDINGS AND MANAGEMENT’S RESPONSE – CONTINUED
FOR THE YEAR ENDED SEPTEMBER 30, 2025

**2025-002 Inconsistent Application of Human Resources Policies and Procedures
(Significant Deficiency)**

Criteria:

The City should maintain consistent, documented conflict-of-interest policies and procedures and ensure that personnel and departments responsible for administering these policies provide accurate and consistent guidance. Consistence in implementation and documentation is necessary to support compliance, mitigate ethics risks, and demonstrate an effective control environment.

Condition:

During our audit procedures related to vendors, payroll, and disbursements, we noted that Human Resources, Finance Department, and City Administration personnel provided inconsistent responses to the same conflict-of-interest policy questionnaire. The inconsistent responses indicate that the City does not sufficiently adhere to its understanding of its policies and procedures related to conflict-of-interest, including when disclosures are required, how potential conflicts are evaluated, and what documentation should be retained.

Cause:

Insufficient training for staff on conflict-of-interest requirements and City policy application.

Effect:

Inconsistent HR responses increase the risk that:

- Conflict-of-interest requirements and disclosures may be applied inconsistently, increasing noncompliance risk with applicable conflict-of-interest frameworks and vendor disclosure requirements;
- Management and governance bodies may receive unreliable information for decision-making related to conflicts, recusals, and disclosures;
- the City may be unable to demonstrate compliance through adequate documentation reviewed; and
- reputational risk increases due to perceived lack of transparency or inconsistent enforcement.

Recommendation:

We recommend the City strengthen controls over conflict-of-interest policy administration by implementing the following:

- Create a decision matrix defining key terms and required actions.
- Require Human Resources to escalate conflict-of-interest interpretations to a designated authority (e.g., City Attorney) and retain evidence of review for non-routine situations.
- Obtain annual training for relevant departments covering conflict-of-interest requirements, vendor disclosure, documentation expectations, and when to consult legal/compliance.
- Quality control checks Periodically perform supervisory/independent quality reviews of a sample of HR questionnaire responses to confirm consistency, completeness, and appropriate escalation.

Response:

City management concurs with the auditor's recommendation, see Corrective Action Plan on Page 79.

CITY OF MERCEDES, TEXAS
STATUS OF PRIOR YEAR AUDIT FINDINGS
FOR THE YEAR ENDED SEPTEMBER 30, 2025

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

- All audit findings included in the prior audit's schedule of findings and management responses 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

2024-001 Controls Over Reporting of Financial Information (Significant Deficiency)

Status: Corrected.

2024-002 Improve Internal Controls Over Financial Reporting (Material Weakness)

Status: Partially corrected, see Finding 2025-001.

2024-003 Capital Assets (Material Weakness)

Status: Corrected.

2024-004 Expenditures Over Appropriations (Significant Deficiency)

Status: Corrected.

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

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

2025-001 Improve Internal Controls Over Financial Reporting (Material Weakness)

Corrective Action Plan

The City is currently working on correcting this finding by ensuring that the required accounting procedures are complete and provided to the auditor in a timely manner.

Proposed Completion Date – September 30, 2026

Contact Person – Meredith Hernandez, Finance Director

2025-002 Inconsistent Application of Human Resources Policies and Procedures (Significant Deficiency)

Corrective Action Plan

The City is currently working on correcting this finding by conducting quality control checks, as well as holding annual training.

Proposed Completion Date – September 30, 2026

Contact Person – Meredith Hernandez, Finance Director