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

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**CITY OF MERCEDES, TEXAS**

Audited Annual Financial Report  
For Year Ended September 30, 2025

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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

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**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**

|   | <b>Governmental Activities</b> |                      | <b>Business-Type Activities</b> |                      | <b>Totals</b>         |                      | <b>Increase<br/>(Decrease)</b> |
|---|--------------------------------|----------------------|---------------------------------|----------------------|-----------------------|----------------------|--------------------------------|
|   | <b>2025</b>                    | <b>2024</b>          | <b>2025</b>                     | <b>2024</b>          | <b>2025</b>           | <b>2024</b>          |                                |
| 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<br>(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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# **BASIC FINANCIAL STATEMENTS**

**CITY OF MERCEDES**  
**Statement of Net Position**  
**September 30, 2025**

|  | Governmental<br>Activities | Business-Type<br>Activities | Total                 | Development<br>Corporation of<br>Mercedes |
|--|----------------------------|-----------------------------|-----------------------|---|
| <b>ASSETS:</b>   |                            |                             |                       |   |
| 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                                 |
| <b>TOTAL ASSETS</b>  | <b>55,873,539</b>          | <b>45,991,899</b>           | <b>96,447,306</b>     | <b>7,559,215</b>                          |
| <b>DEFERRED OUTFLOWS OF RESOURCES:</b>                         |                            |                             |                       |   |
| 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                                       |
| <b>TOTAL DEFERRED OUTFLOWS OF RESOURCES</b>                    | <b>882,772</b>             | <b>134,147</b>              | <b>1,016,919</b>      | <b>35,657</b>                             |
| <b>TOTAL ASSETS AND DEFERRED OUTFLOWS</b>                      | <b>56,756,311</b>          | <b>46,126,046</b>           | <b>102,882,357</b>    | <b>7,594,872</b>                          |
| <b>LIABILITIES:</b>  |                            |                             |                       |   |
| 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                                   |
| <b>TOTAL LIABILITIES</b>                                       | <b>28,590,436</b>          | <b>16,160,905</b>           | <b>39,333,209</b>     | <b>1,295,935</b>                          |
| <b>DEFERRED INFLOWS OF RESOURCES:</b>                          |                            |                             |                       |   |
| 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                                     |
| <b>TOTAL DEFERRED INFLOWS OF RESOURCES</b>                     | <b>689,485</b>             | <b>56,801</b>               | <b>746,286</b>        | <b>33,895</b>                             |
| <b>NET POSITION</b>  |                            |                             |                       |   |
| 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                                 |
| <b>TOTAL NET POSITION</b>                                      | <b>27,476,389</b>          | <b>29,908,340</b>           | <b>57,384,729</b>     | <b>6,265,042</b>                          |
| <b>TOTAL LIABILITIES, DEFERRED INFLOWS, &amp; NET POSITION</b> | <b>\$ 56,756,311</b>       | <b>\$ 46,126,046</b>        | <b>\$ 102,882,357</b> | <b>\$ 7,594,872</b>                       |

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

|   | Program Revenues  |                         |  |  | Net (Expense) Revenue and<br>Changes in Net Position |                             |                      | Development<br>Corporation of<br>Mercedes |
|---|-------------------|-------------------------|--|--|--|-----------------------------|----------------------|---|
|   | Expenses          | Charges for<br>Services | Operating Grants<br>and<br>Contributions | Capital Grants<br>and<br>Contributions | Primary Government                                   |                             |                      |   |
|   |                   |                         |  |  | Governmental<br>Activities                           | Business-Type<br>Activities | Total                |   |
| <b>Primary Government:</b>                  |                   |                         |  |  |  |                             |                      |   |
| <b>GOVERNMENTAL ACTIVITIES:</b>             |                   |                         |  |  |  |                             |                      |   |
| 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>  |   |
| <b>BUSINESS-TYPE ACTIVITIES:</b>            |                   |                         |  |  |  |                             |                      |   |
| Water and Sewer                             | <u>6,881,567</u>  | <u>7,398,361</u>        | -  | -                                      | -  | <u>516,794</u>              | <u>516,794</u>       | -   |
| Total Business-Type Activities              | <u>6,881,567</u>  | <u>7,398,361</u>        | -  | -                                      | -  | <u>516,794</u>              | <u>516,794</u>       | -   |
| <b>TOTAL PRIMARY GOVERNMENT</b>             | <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>  | -   |
| <b>COMPONENT UNIT:</b>                      |                   |                         |  |  |  |                             |                      |   |
| General Government                          |                   |                         |  |  |  |                             |                      | 602,994                                   |
| Economic Development and Assistance         |                   |                         |  |  |  |                             |                      | 311,047                                   |
| Interest on Debt                            |                   |                         |  |  |  |                             |                      | 32,478                                    |
| <b>Total Component Unit Activities</b>      |                   |                         |  |  |  |                             |                      | <u>946,519</u>                            |
| <b>General Revenues:</b>                    |                   |                         |  |  |  |                             |                      |   |
| 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                                    |
| <b>Total General Revenues</b>               |                   |                         |  |  | <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**

|  | <b>Major Governmental Funds</b> |                             |                     |                                     |                                 |
|--|---------------------------------|-----------------------------|---------------------|-------------------------------------|---------------------------------|
|  | <b>General Fund</b>             | <b>Interest and Sinking</b> | <b>Series 2024</b>  | <b>Non-Major Governmental Funds</b> | <b>Total Governmental Funds</b> |
| <b>ASSETS:</b>   |                                 |                             |                     |                                     |                                 |
| 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                         |
| <b>TOTAL ASSETS</b>  | <b>\$ 14,964,045</b>            | <b>\$ 1,491,961</b>         | <b>\$ 5,677,983</b> | <b>\$ 1,516,302</b>                 | <b>\$ 23,650,291</b>            |
| <b>LIABILITIES:</b>  |                                 |                             |                     |                                     |                                 |
| 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                         |
| <b>TOTAL LIABILITIES</b>                                       | <b>1,044,019</b>                | <b>-</b>                    | <b>5,465,882</b>    | <b>141,945</b>                      | <b>6,651,846</b>                |
| <b>DEFERRED INFLOWS OF RESOURCES:</b>                          |                                 |                             |                     |                                     |                                 |
| 2601 Deferred Resource Inflow - Property Taxes                 | 476,527                         | 284,980                     | -                   | -                                   | 761,507                         |
| 2604 Deferred Resource Inflow - EMS                            | 802,188                         | -                           | -                   | -                                   | 802,188                         |
| <b>TOTAL DEFERRED INFLOWS OF RESOURCES</b>                     | <b>1,278,715</b>                | <b>284,980</b>              | <b>-</b>            | <b>-</b>                            | <b>1,563,696</b>                |
| <b>FUND BALANCES:</b>  |                                 |                             |                     |                                     |                                 |
| 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                      |
| <b>TOTAL FUND BALANCES</b>                                     | <b>12,641,310</b>               | <b>1,206,981</b>            | <b>212,101</b>      | <b>1,374,357</b>                    | <b>15,434,749</b>               |
| <b>TOTAL LIABILITIES, DEFERRED INFLOWS &amp; FUND BALANCES</b> | <b>\$ 14,964,045</b>            | <b>\$ 1,491,961</b>         | <b>5,677,983</b>    | <b>\$ 1,516,302</b>                 | <b>\$ 23,650,291</b>            |

**CITY OF MERCEDES**

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

**September 30, 2025**

|  |    |                          |
|--|----|--------------------------|
| <b>Total Fund Balances - Governmental Funds</b>  | \$ | <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>         |
| <b>Net position of governmental activities</b>   |    | <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<br>Sinking | Series 2024 | Non-Major<br>Governmental Funds | Total Governmental<br>Funds |
| <b>REVENUES:</b>   |                                       |                          |                         |             |                                 |                             |
| 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                  |
| <b>EXPENDITURES:</b>                                       |                                       |                          |                         |             |                                 |                             |
| 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<br>Over(Under) Expenditures |                                       | 949,461                  | 23,670                  | (1,228,071) | 228,514                         | (26,427)                    |
| <b>OTHER FINANCING SOURCES (USES):</b>                     |                                       |                          |                         |             |                                 |                             |
| 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**

|  |                    |                     |
|--|--------------------|---------------------|
| <b>Total Net Change in Fund Balances - Governmental Funds</b>  |                    | \$ 1,429,406        |
| <br>   |                    |                     |
| 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             |
| <br>   |                    |                     |
| 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)            |
| <br>   |                    |                     |
| 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           |
| <br>   |                    |                     |
| 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)            |
| <br>   |                    |                     |
| 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             |
| <br>   |                    |                     |
| 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           |
| <br>   |                    |                     |
| 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<br>Fund     |
|--|-----------------------------|
| <b>ASSETS:</b>   |                             |
| 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   | <u>8,659,148</u>            |
| 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   | <u>37,332,751</u>           |
| Total Noncurrent Assets  | <u>37,332,751</u>           |
| TOTAL ASSETS   | <u>\$ 45,991,899</u>        |
| <b>DEFERRED OUTFLOWS OF RESOURCES:</b>                         |                             |
| 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                           | <u>134,147</u>              |
| <b>TOTAL ASSETS &amp; DEFERRED OUTFLOWS OF RESOURCES</b>       | <u><u>\$ 46,126,046</u></u> |
| <b>LIABILITIES:</b>  |                             |
| 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                                      | <u>4,813,808</u>            |
| Noncurrent Liabilities:  |                             |
| 2504 Long-Term Debt  | 11,181,040                  |
| 2580 Net Pension Liability                                     | 142,225                     |
| 2585 Net OPEB Liability  | 23,832                      |
| Total Noncurrent Liabilities                                   | <u>11,347,097</u>           |
| TOTAL LIABILITIES  | <u>16,160,905</u>           |
| <b>DEFERRED INFLOWS OF RESOURCES:</b>                          |                             |
| 2602 Deferred Resource Inflow - Pension                        | 51,109                      |
| 2603 Deferred Resource Inflow - OPEB                           | 5,692                       |
| TOTAL DEFERRED INFLOWS OF RESOURCES                            | <u>56,801</u>               |
| <b>NET POSITION</b>  |                             |
| 4001 Net Investment in Capital Assets                          | 24,929,449                  |
| 3890 Unrestricted  | 4,978,891                   |
| TOTAL NET POSITION   | <u>29,908,340</u>           |
| <b>TOTAL LIABILITIES, DEFERRED INFLOWS, &amp; NET POSITION</b> | <u><u>\$ 46,126,046</u></u> |

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

|  | Water and<br>Sewer Fund |
|--|-------------------------|
| <b>REVENUES:</b>                                 |                         |
| 5401 Water Revenues                              | \$ 4,332,532            |
| 5402 Sewer Revenues                              | 3,065,829               |
| TOTAL REVENUES                                   | \$ 7,398,361            |
| <b>EXPENDITURES:</b>                             |                         |
| 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               |
| <b>OPERATING INCOME(LOSS)</b>                    | <b>\$ 795,661</b>       |
| <b>NON-OPERATING REVENUES(EXPENSES):</b>         |                         |
| 7955 Investment Earnings                         | 109,132                 |
| 8952 Interest Expense - Nonoperating             | (278,868)               |
| TOTAL NON-OPERATING REVENUE(EXPENSES)            | (169,736)               |
| <b>CHANGE IN NET POSITION</b>                    | <b>625,926</b>          |
| 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**

|   | <b>Water and<br/>Sewer Fund</b> |
|---|---------------------------------|
| <b>CASH FLOWS FROM OPERATING ACTIVITIES</b>   |                                 |
| 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>                |
| <b>CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES</b>                                 |                                 |
| Increase (Decrease) in Interfund Balances   | (5,118,132)                     |
| Net Cash Provided (Used) by Non-Capital and Related Financing Activities                | <u>(5,118,132)</u>              |
| <b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>                         |                                 |
| 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>                |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>   |                                 |
| 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                      |
| <b>Cash, Restricted Cash, and Cash Equivalents at Beginning of Year</b>                 | 2,012,597                       |
| <b>Cash, Restricted Cash, and Cash Equivalents at End of Year</b>                       | <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<br/>Activities</u> | <u>Component<br/>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<br>10/1/2024 * | Additions   | Retirements | Transfers   | Balance<br>9/30/2025 |
|--|------------------------|-------------|-------------|-------------|----------------------|
| <b>Governmental Activities</b>                         |                        |             |             |             |                      |
| 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:

| <b>Business-Type Activities</b>               | <b>Balance<br/>10/1/2024 *</b> | <b>Additions</b>    | <b>Retirements</b> | <b>Transfers</b>   | <b>Balance<br/>9/30/2025</b> |
|---|--------------------------------|---------------------|--------------------|--------------------|------------------------------|
| 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:

| <b>Component Unit</b>                  | <b>Beginning<br/>Balance</b> | <b>Additions</b>   | <b>Retirements</b> | <b>Ending<br/>Balance</b> |
|--|------------------------------|--------------------|--------------------|---------------------------|
| 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:

|   | <b>Due From<br/>Other Funds</b> | <b>Due To<br/>Other Funds</b> |
|---|---------------------------------|-------------------------------|
| <b>General Fund:</b>                      |                                 |                               |
| Utility Fund                              | \$ 3,072,761                    | \$ -                          |
| TIRZ Fund                                 | 42,559                          | -                             |
| Special Revenue Fund                      | 65,000                          | -                             |
| Series 2021 Fund                          | 10,000                          | -                             |
| Keep Mercedes Beautiful<br>Component Unit | 1,355                           | -                             |
|   | 78,805                          | 689,007                       |
| Total General Fund                        | 3,270,481                       | 689,007                       |
| <br><b>TIRZ Fund:</b>                     |                                 |                               |
| General Fund                              | -                               | 42,559                        |
| Total Special Revenue Fund                | -                               | 42,559                        |
| <br><b>Special Revenue Fund:</b>          |                                 |                               |
| General Fund                              | -                               | 65,000                        |
| Total Special Revenue Fund                | -                               | 65,000                        |
| <br><b>Series 2021 Fund:</b>              |                                 |                               |
| General Fund                              | -                               | 10,000                        |
| Total Debt Service Fund                   | -                               | 10,000                        |
| <br><b>Series 2024 Fund:</b>              |                                 |                               |
| Enterprise Fund                           | -                               | 5,418,132                     |
| Total Debt Service Fund                   | -                               | 5,418,132                     |
| <br><b>Keep Mercedes Beautiful</b>        |                                 |                               |
| General Fund                              | -                               | 1,355                         |
| Total Special Revenue Fund                | -                               | 1,355                         |
| <b>Total Governmental Activities</b>      | \$ 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     |
|---|-----------------------|------------------------|---------------|----------------------|---------------------|-----------------------|----------------------|---------------------|
| <b>Governmental Activities</b>                              |                       |                        |               |                      |                     |                       |                      |                     |
| <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              |
| <b>Total Governmental Activities</b>                        |                       |                        |               | <b>\$ 24,069,315</b> | <b>\$ 2,681,770</b> | <b>\$ (3,546,963)</b> | <b>\$ 23,204,122</b> | <b>\$ 2,376,694</b> |

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   |
|--|-----------------------|------------------------|---------------|---------------------|---------------------|-----------------------|----------------------|-------------------|
| <b>Business-Type Activities</b>                                |                       |                        |               |                     |                     |                       |                      |                   |
| <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            |
| <b>Total Business-Type Activities</b>                          |                       |                        |               | <b>\$ 7,441,479</b> | <b>\$ 5,565,505</b> | <b>\$ (1,054,240)</b> | <b>\$ 11,952,744</b> | <b>\$ 771,702</b> |

**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          |
| Total Component Unit Activities     |                       | \$ 9,564,796           |               | 2,331,374         | -            | (1,152,607)    | 1,178,768         | 487,318         |
| <b>Total Debt Obligations</b>       |                       |                        |               | \$ 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<br>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<br>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<br>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](http://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<br>Liability<br>(a) | Plan Fiduciary<br>Net Position<br>(b) | Net Pension<br>Liability<br>(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<br>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<br>Outflows of<br>Resources | Deferred<br>Inflows of<br>Resources |
|--|--------------------------------------|-------------------------------------|
| Difference between expected and actual economic experience<br>(Net of current year amortization)   | \$ -                                 | \$ 273,150                          |
| Change in actuarial assumptions  | -                                    | 140,544                             |
| Differences between projected and actual investment earnings<br>(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<br>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](http://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<br>Liability<br>(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<br>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<br>3.08% | Current Discount Rate<br>4.08% | 1% Increase<br>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<br>Outflows of<br>Resources | Deferred<br>Inflows of<br>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<br>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:

| <b>Governmental Activities:</b>           | <b>Transfers In</b> | <b>Transfers Out</b> |
|---|---------------------|----------------------|
| 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              |
| <b>Total Interfund Transfers</b>          | <b>\$ 462,673</b>   | <b>\$ 462,673</b>    |

**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:

| <b>Description</b>        | <b>Amount<br/>Committed</b> | <b>Paid in<br/>Previous Years</b> | <b>Paid in<br/>Current Year</b> | <b>Remaining<br/>Commitment</b> |
|---------------------------|-----------------------------|-----------------------------------|---------------------------------|---------------------------------|
| 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<br>2024 | Debt Service<br>Fund | Non-Major<br>Governmental Funds | Total<br>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<br>Activities | Business-Type<br>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          | \$ 16,146,565              | \$ 24,929,449               |

**Note 11 – Prior Period Restatement**

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

| Description   | Governmental<br>Activities | Business-Type<br>Activities | Governmental<br>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            | \$ 21,607,118              | \$ 29,282,414               | \$ 14,005,343         |

**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      |                     |
| <b>Revenues:</b>   |                      |                      |                      |                     |
| 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   | <u>16,079,109</u>    | <u>16,802,343</u>    | <u>17,253,684</u>    | <u>451,341</u>      |
| <b>Expenditures:</b>   |                      |                      |                      |                     |
| 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             |
| <b>Debt Service:</b>   |                      |                      |                      |                     |
| 710  | 625,000              | 1,412,402            | 1,398,176            | 14,226              |
| 800  | 996,928              | 785,822              | 659,498              | 126,324             |
| Total Expenditures   | <u>16,284,284</u>    | <u>17,107,518</u>    | <u>16,304,224</u>    | <u>803,294</u>      |
| <b>Excess (Deficiency) of Revenues Over (Under) Expenditures</b> |                      |                      |                      |                     |
|  | <u>(205,175)</u>     | <u>(305,175)</u>     | <u>949,461</u>       | <u>1,254,636</u>    |
| <b>Other Financing Sources (Uses):</b>                           |                      |                      |                      |                     |
| 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)                               | <u>205,175</u>       | <u>305,175</u>       | <u>338,205</u>       | <u>33,030</u>       |
| <b>Change in Fund Balance</b>                                    | <u>-</u>             | <u>-</u>             | <u>1,287,666</u>     | <u>1,287,666</u>    |
| <b>Fund Balance - Beginning, As Restated</b>                     | <u>\$ 11,353,645</u> | <u>\$ 11,353,645</u> | <u>\$ 11,353,645</u> | <u>\$ -</u>         |
| <b>Fund Balance - Ending</b>                                     | <u>\$ 11,353,645</u> | <u>\$ 11,353,645</u> | <u>\$ 12,641,310</u> | <u>\$ 1,287,666</u> |

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                 |
| <b>Total Pension Liability</b>  |                              |                      |                      |                      |                      |                      |                      |                      |
| 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)          |
| <b>Net Change in Total Pension Liability</b>                                  | 1,022,587                    | 834,827              | 907,968              | 1,632,150            | 987,452              | 253,873              | 977,843              | 596,952              |
| <b>Total Pension Liability - Beginning</b>                                    | 27,075,101                   | 26,240,274           | 25,332,305           | 23,700,155           | 22,712,703           | 22,458,830           | 21,480,987           | 20,884,035           |
| <b>Total Pension Liability - Ending (a)</b>                                   | <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> |
| <b>Plan Fiduciary Net Position</b>  |                              |                      |                      |                      |                      |                      |                      |                      |
| 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)                |
| <b>Net Change in Plan Fiduciary Net Position</b>                              | 2,027,340                    | 2,288,526            | (1,831,858)          | 2,674,998            | 1,541,308            | 2,153,105            | (276,917)            | 2,158,519            |
| <b>Plan Fiduciary Net Position - Beginning</b>                                | 24,116,853                   | 21,828,327           | 23,660,184           | 20,985,186           | 19,443,877           | 17,290,773           | 17,567,690           | 15,409,172           |
| <b>Plan Fiduciary Net Position - Ending (b)</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> |
| <b>Net Pension Liability - Ending (a) - (b)</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>  |
| <b>Plan Fiduciary Net Position as a Percentage of Total Pension Liability</b> | 93.05%                       | 89.07%               | 83.19%               | 93.40%               | 88.54%               | 85.61%               | 76.99%               | 81.78%               |
| <b>Covered Payroll</b>  | \$ 5,889,720                 | \$ 5,614,119         | \$ 5,402,265         | \$ 5,259,629         | \$ 5,305,900         | \$ 4,568,193         | \$ 4,122,806         | \$ 4,099,672         |
| <b>Net Pension Liability as a Percentage of Covered Payroll</b>               | 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> |
| <br>Covered payroll  | <br>5,889,720                | <br>5,614,119    | <br>\$ 5,402,265   | <br>\$ 5,447,028   | <br>\$ 5,305,900   | <br>\$ 4,568,193   | <br>\$ 4,122,806   | <br>\$ 4,099,672   | <br>\$ 4,134,721   |
| <br>Contributions as a percentage of covered payroll             | <br>15.55%                   | <br>15.66%       | <br>15.57%         | <br>18.09%         | <br>20.44%         | <br>19.64%         | <br>19.10%         | <br>19.24%         | <br>18.84%         |

CITY OF MERCEDES, TEXAS  
Notes to Schedule of Contributions

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

**Methods and Assumptions Used to Determine Contribution Rates:**

|                               |  |
|-------------------------------|--|
| Actuarial Cost Method         | Entry Age Normal   |
| Amortization Method           | Level Percentage of Payroll, Closed  |
| Remaining Amortization Period | 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).<br>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              |
| <b>Total OPEB Liability</b>                                    |                              |                   |                   |                   |                   |                   |
| 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)           |
| <b>Net Change in Total OPEB Liability</b>                      | <u>4,636</u>                 | <u>25,229</u>     | <u>(144,136)</u>  | <u>31,655</u>     | <u>96,308</u>     | <u>(61,458)</u>   |
| <b>Total OPEB Liability - Beginning</b>                        | <u>322,706</u>               | <u>297,477</u>    | <u>441,613</u>    | <u>409,958</u>    | <u>313,644</u>    | <u>375,102</u>    |
| <b>Total OPEB Liability - Ending</b>                           | <u>\$ 327,342</u>            | <u>\$ 322,706</u> | <u>\$ 297,477</u> | <u>\$ 441,613</u> | <u>\$ 409,952</u> | <u>\$ 313,644</u> |
| <br>   |                              |                   |                   |                   |                   |                   |
| <b>Covered Payroll</b>   | \$ 5,889,720                 | \$ 5,614,119      | \$ 5,402,265      | \$ 5,259,629      | \$ 5,305,900      | \$ 4,568,193      |
| <br>   |                              |                   |                   |                   |                   |                   |
| <b>Total OPEB Liability as a Percentage of Covered Payroll</b> | 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

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**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<br>Technology | Library         | Special Revenue   | Local Forfeiture | Keep Mercedes<br>Beautiful | Hotel/Motel       | TIRZ             | Recreation Program | Parks Fund        | Total Nonmajor<br>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                            |
| <b>TOTAL ASSETS</b>  | <b>\$ 140,583</b>       | <b>\$ 1,018</b> | <b>\$ 116,093</b> | <b>\$ 12,938</b> | <b>\$ -</b>                | <b>\$ 724,519</b> | <b>\$ 57,380</b> | <b>\$ 3,182</b>    | <b>\$ 353,280</b> | <b>\$ 1,408,993</b>                     |
| 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                                 |
| <b>TOTAL LIABILITIES</b>   | <b>-</b>                | <b>-</b>        | <b>84,122</b>     | <b>-</b>         | <b>1,569</b>               | <b>(3,805)</b>    | <b>42,559</b>    | <b>-</b>           | <b>7,500</b>      | <b>131,945</b>                          |
| 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                                  |
| <b>TOTAL FUND BALANCES</b>   | <b>140,583</b>          | <b>1,018</b>    | <b>31,971</b>     | <b>12,938</b>    | <b>(1,569)</b>             | <b>728,324</b>    | <b>14,821</b>    | <b>3,182</b>       | <b>345,780</b>    | <b>1,277,048</b>                        |
| <b>TOTAL LIABILITIES, DEFERRED INFLOWS &amp;<br/>FUND BALANCES</b> | <b>\$ 140,583</b>       | <b>\$ 1,018</b> | <b>\$ 116,093</b> | <b>\$ 12,938</b> | <b>\$ -</b>                | <b>\$ 724,519</b> | <b>\$ 57,380</b> | <b>\$ 3,182</b>    | <b>\$ 353,280</b> | <b>\$ 1,408,993</b>                     |

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

**EXHIBIT H-1**

**Capital Project Funds**

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

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

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**

|  |                     | <b>Capital Project Funds</b> |                    |                    |                           |                    | <b>Total Nonmajor Capital</b> |
|--|---------------------|------------------------------|--------------------|--------------------|---------------------------|--------------------|-------------------------------|
|  |                     | <b>PPFCO Series 2013</b>     | <b>Series 2015</b> | <b>Series 2018</b> | <b>Street Maintenance</b> | <b>Series 2021</b> | <b>Projects Fund</b>          |
| <b>REVENUES:</b>                           |                     |                              |                    |                    |                           |                    |                               |
| 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                         |
| <b>EXPENDITURES:</b>                       |                     |                              |                    |                    |                           |                    |                               |
| TOTAL EXPENDITURES                         |                     | -                            | -                  | -                  | -                         | -                  | -                             |
| Excess(Deficiency) of Revenues Over(Under) |                     |                              |                    |                    |                           |                    |                               |
| Expenditures                               |                     | 180                          | -                  | 463                | 3,343                     | 3,119              | 7,106                         |
| <b>OTHER FINANCING SOURCES (USES)</b>      |                     |                              |                    |                    |                           |                    |                               |
| 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

|  | Major Governmental Funds |                   |                    | Governmental<br>Funds |
|--|--------------------------|-------------------|--------------------|-----------------------|
|  | General Fund             | IRP Loan Fund     | RBEG Grant<br>Fund |                       |
| <b>ASSETS:</b>   |                          |                   |                    |                       |
| 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             |
| <b>TOTAL ASSETS</b>  | <b>\$ 6,122,128</b>      | <b>\$ 429,148</b> | <b>\$ 991,291</b>  | <b>\$ 7,542,567</b>   |
| <b>LIABILITIES:</b>  |                          |                   |                    |                       |
| 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                |
| <b>TOTAL LIABILITIES</b>   | <b>94,530</b>            | <b>1,693</b>      | <b>-</b>           | <b>96,223</b>         |
| <b>FUND BALANCES:</b>  |                          |                   |                    |                       |
| 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             |
| <b>TOTAL FUND BALANCES</b>   | <b>6,027,599</b>         | <b>427,455</b>    | <b>991,291</b>     | <b>7,446,344</b>      |
| <b>TOTAL LIABILITIES, DEFERRED<br/>INFLOWS &amp; FUND BALANCES</b> | <b>\$ 6,122,128</b>      | <b>\$ 429,148</b> | <b>\$ 991,291</b>  | <b>\$ 7,542,567</b>   |

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

|  |           |                         |
|--|-----------|-------------------------|
| <b>Total Fund Balances - Governmental Funds</b>  | \$        | <u>7,446,344</u>        |
| <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   |           | 93,750                  |
|  |           | <u>93,750</u>           |
| <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>         |
| <b>Net position of governmental activities</b>   | <b>\$</b> | <b><u>6,265,042</u></b> |

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 |
| <b>REVENUES:</b>                       |  |                                 |                   |                   |                          |
| 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>         |
| <b>EXPENDITURES:</b>                   |  |                                 |                   |                   |                          |
| 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<br>Over(Under) Expenditures | 439,531                         | (24,990)          | 2,063             | 416,604                  |
| <b>OTHER FINANCING SOURCES (USES):</b> |  |                                 |                   |                   |                          |
|  | 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

|   |                  |           |
|---|------------------|-----------|
| <b>Total Net Change in Fund Balances - Governmental Funds</b>   | \$               | 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

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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 City Commission of  
City of Mercedes, Texas

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

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 a significant deficiency.

### Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether City of Mercedes' financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the financial 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 management's response. 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:**

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. Consistency 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:**

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