

CITY OF PHARR, TEXAS
AUDITED ANNUAL FINANCIAL REPORT
For The Year Ended September 30, 2005

Juan Nuñez
Certified Public Accountant

CITY OF PHARR, TEXAS
AUDITED ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED SEPTEMBER 30, 2005

TABLE OF CONTENTS

	<u>Page</u>	<u>Exhibit</u>
INTRODUCTORY SECTION		
BOARD OF COMMISIONERS AND ADMINISTRATIVE STAFF	1	
FINANCIAL SECTION		
Independent Auditor's Report	2	
Management's Discussion and Analysis (Required Supplementary Information)	4	
<u>Basic Financial Statements:</u>		
Governmental-wide Financial Statements:		
Statement of Net Assets	12	A - 1
Statement of Activities	13	B - 1
Fund Financial Statements:		
Balance Sheet – Governmental Funds	15	C - 1
Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Assets	17	C - 2
Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds	18	C - 3
Reconciliation of the Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances to the Statement of Activities	20	C - 4
Statement of Net Assets – Proprietary Funds	21	D - 1
Statement of Revenues, Expenses, and Changes in Fund Net Assets – Proprietary Funds	25	D - 2
Statement of Cash Flows – Proprietary Funds	27	D - 3
Notes to the Financial Statements	31	

(Continued)

CITY OF PHARR, TEXAS
AUDITED ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED SEPTEMBER 30, 2005

TABLE OF CONTENTS (CONTINUED)

	<u>Page</u>	<u>Exhibit</u>
<u>Required Supplementary Information</u>		
General Fund – Budgetary Comparison Schedule	65	E - 1
PEDC Special Revenue Fund – Budgetary Comparison Schedule	66	E - 2
<u>Combining Statements</u>		
Combining Balance Sheet – Nonmajor Governmental Funds	67	F - 1
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances – Nonmajor Governmental Funds	69	F - 2
Combining Statement of Net Assets – Internal Service Funds	71	G - 1
Combining Statement of Revenues, Expenses, and Changes in Fund Net Assets – Internal Service Funds	72	G - 2
Combining Statement of Cash Flows – Internal Service Funds	73	G - 3
FEDERAL AWARDS SECTION		
Independent Auditor's Report on Compliance and on Internal Control Over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	75	
Independent Auditor's Report on Compliance with Requirements Applicable to Each Major Program and Internal Control over Compliance in Accordance with OMB Circular A-133	77	
Schedule of Findings and Questioned Costs	79	
Schedule of Status of Prior Audit Findings	104	
Schedule of Expenditures of Federal Awards	111	H - 1
Notes to Schedule of Expenditures of Federal Awards	113	

**CITY OF PHARR, TEXAS
AUDITED ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED SEPTEMBER 30, 2005**

BOARD OF COMMISSIONERS AND ADMINISTRATIVE STAFF

BOARD OF COMMISSIONERS

Leopoldo "Polo" Palacios, Jr. Mayor

Reynaldo Zuniga Commissioner

Raul Martinez Commissioner

Raul Gonzalez Commissioner

Ricardo Medina Commissioner

Carlos Villegas Commissioner

Irma Elizondo Commissioner

ADMINISTRATIVE STAFF

Fred Sandoval City Manager

Ruben Luna Finance Director

Mary Muñoz City Clerk

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P.O. Box 978 + Pharr, Texas 78577-0978 + (956) 787-0521

Independent Auditor's Report

UNQUALIFIED OPINION ON BASIC FINANCIAL STATEMENTS ACCOMPANIED BY REQUIRED SUPPLEMENTARY INFORMATION AND OTHER SUPPLEMENTARY INFORMATION INCLUDING THE SUPPLEMENTARY SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

The Honorable Mayor and Other
Members of the Board of Commissioners
City of Pharr, Texas

Members of the Board:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Pharr, Texas (the City), as of and for the year ended September 30, 2005, which collectively comprise the City's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

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, each major fund, and the aggregate remaining fund information of the City, as of September 30, 2005, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The Honorable Mayor and Other
Members of the Board of Commissioners
June 5, 2006
Page Two

In accordance with *Government Auditing Standards*, we have also issued our report dated June 5, 2006, on our consideration of the City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The Management's Discussion and Analysis and the budgetary comparison information identified as Required Supplementary Information, as listed in the table of contents, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the City's basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole. Although the combining financial statements, as listed in the table of contents, are presented for purposes of additional analysis and are not a required part of the basic financial statements, they have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.



Juan Nuñez
Certified Public Accountant

June 5, 2006

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CITY OF PHARR, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS

In this section of the Annual Financial and Compliance Report, we, the managers of City of Pharr, Texas (the City), discuss and analyze the City's financial performance for the fiscal year ended September 30, 2005. Please read it in conjunction with the Independents Auditor's Report on page 3, and the City's Basic Financial Statements which begin on page 12.

FINANCIAL HIGHLIGHTS

- The assets of the City exceeded its liabilities at the close of the most recent period by \$84,835,076 (net assets). Of this amount \$8,536,275 (unrestricted net assets) may be used to meet the City's ongoing obligations. Compared to last year, the City's net assets increased by \$ 6,706,161 or 8.6%.
- As of the close of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$12,298,575. Approximately 33.9 percent of this total amount, \$4,173,992 is available for spending at the government's discretion (unreserved, undesignated fund balance). Compared to last year, the City's combined fund balances increased by \$ 5,635,248 or 84.6%.
- At the end of the current fiscal year, unreserved fund balance for the general fund was \$601,706 or 2.3 percent of the total general fund expenditures.

USING THIS ANNUAL REPORT

This annual report consists of a series of financial statements. The government-wide financial statements include the Statement of Net Assets and the Statement of Activities (on pages 12 and 13). These provide information about the activities of the City as a whole and present a longer-term view of the City's property and debt obligations and other financial matters. They reflect the flow of total economic resources in a manner similar to the financial reports of a business enterprise.

Fund financial statements (starting on page 15) report the City's operations in more detail than the government-wide statements by providing information about the City's most significant funds. For governmental activities, these statements tell how services were financed in the short term as well as what resources remain for future spending. They reflect the flow of current financial resources, and supply the basis for tax levies and the appropriations budget. For proprietary activities, fund financial statements tell how goods or services of the City were sold to departments within the City or to external customers and how the sales revenues covered the expenses of the goods or services. The remaining statements, fiduciary statements, provide financial information about activities for which the City acts solely as a trustee or agent for the benefit of those outside of the City.

The notes to the financial statements (starting on page 31) provide narrative explanations or additional data needed for full disclosure in the government-wide statements or the fund financial statements.

(Continued)

CITY OF PHARR, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS, (CONT.)

The combining statements for nonmajor funds contain even more information about the City's individual funds. These are not required. The sections labeled Required Schedules and Federal Awards Section contain data used by monitoring or regulatory agencies for assurance that the City is using funds supplied in compliance with the terms of grants.

Reporting the City as a Whole

The Statement of Net Assets and the Statement of Activities

The analysis of the City's overall financial condition and operations begins on page 12. Its primary purpose is to show whether the City is better off or worse off as a result of the year's activities. The Statement of Net Assets includes all of the City's assets and liabilities at the end of the year while the Statement of Activities includes all of the revenues and expenses generated by the City's operations during the year. These apply the accrual basis of accounting, which is the basis used by private sector companies.

All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid. The City's revenues are divided into those provided by grants provided by the U.S. Department of Housing and Urban Development to assist the City provide decent housing, a suitable environment, and expanded economic opportunities, principally for persons of low and moderate income (program revenues), and revenues provided by the taxpayers (general revenues). All of the City's assets are reported whether they serve the current year or future years. Liabilities are considered regardless of whether they must be paid in the current or future years.

These two statements report the City's net assets and changes in them. The City's net assets (the difference between assets and liabilities) provide one measure of the City's financial health, or financial position. Over time, increases or decreases in the City's net assets are one indicator of whether its financial health is improving or deteriorating. To fully assess the overall health of the City, however, you should consider nonfinancial factors as well, such as changes in the City's property tax base and the condition of the City's facilities.

In the Statement of Net Assets and the Statement of Activities, we divide the City into two kinds of activities:

- **Governmental activities**—Most of the City's basic services are reported here, which includes public safety (including police and fire), highways and streets, culture and recreation and general administration. Sales and property taxes, franchise fees, and state and federal grants finance most of these activities.
- **Business-type activities**—The City charges a fee to “customers” to help it cover all or most of the cost of water and sewer services it provides, usage of its international bridge, and usage of its golf course.

(Continued)

CITY OF PHARR, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS, (CONT.)

Reporting the City's Most Significant Funds

Fund Financial Statements

The fund financial statements begin on page 15 and provide detailed information about the most significant funds—not the City as a whole. Laws and contracts require the City to establish some funds, such as grants received from the U.S. Department of Housing and Urban Development. The City's administration establishes many other funds to help it control and manage money 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. These use modified accrual accounting (a method that measures the receipt and disbursement of cash and all other financial assets that can be readily converted to cash) and report balances that are available for future spending. The governmental fund statements provide a detailed short-term view of the City's general operations and the basic services it provides. We describe the differences between governmental activities (reported in the Statement of Net Assets and the Statement of Activities) and 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) in proprietary funds using the same accounting methods employed in the Statement of Net Assets and the Statement of Activities. In fact, the City's enterprise funds (one category of proprietary funds) are the business-type activities reported in the government-wide statements but containing more detail and additional information, such as cash flows. The internal service funds (the other category of proprietary funds) report activities that provide supplies and services for the City's other departments and activities—such as the City's Garage Fund.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

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

Net assets of the City's governmental activities increased from \$32,320,085 to \$39,866,821. Unrestricted net assets – the part of net assets that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation, or other legal requirements – was \$5,146,464 at September 30, 2005. This increase in governmental net assets was largely the result of an increase of \$ 1,984,548 in property and other taxes and an increase of \$ 4,721,750 in transfers in from the enterprise funds.

In fiscal year 2005, net assets of our business-type activities decreased by \$840,575, about 2 percent. This was the result of current year's operations.

(Continued)

CITY OF PHARR, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS, (CONT.)

Table I
City of Pharr, Texas
Net Assets
 In thousands

	Governmental Activities		Business-type Activities		Total	
	2005	2004	2005	2004	2005	2004
Current and other assets	\$ 19,332,191	\$11,845,867	\$ 9,004,494	\$21,627,465	\$28,336,685	\$33,473,332
Capital assets	55,936,470	55,796,958	60,167,595	60,381,039	116,104,065	116,177,997
Total assets	75,268,661	67,642,825	69,172,089	82,008,504	144,440,750	149,651,329
Long-term liabilities	28,576,232	29,078,663	20,130,043	29,601,498	48,706,275	58,680,161
Other Liabilities	6,825,608	6,244,077	4,073,791	6,598,176	10,899,399	12,842,253
Total liabilities	35,401,840	35,322,740	24,203,834	36,199,674	59,605,674	71,522,414
Net Assets:						
Invested in capital Assets, net of related Debt	28,230,239	26,339,002	38,635,551	28,366,541	66,865,790	54,705,543
Restricted	6,490,118	1,998,395	2,942,893	9,277,772	9,433,011	11,276,167
Unrestricted	5,146,464	3,982,688	3,389,811	8,164,517	8,536,275	12,147,205
Total net assets	\$ 39,866,821	\$32,320,085	\$44,968,255	\$45,808,830	\$84,835,076	\$78,128,915

(Continued)

CITY OF PHARR, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS, (CONT.)

Table II
City of Pharr, Texas
Changes In Net Assets
 In thousands

	Governmental Activities		Business-type Activities		Total	
	2005	2004	2005	2004	2005	2004
Revenue:						
Program Revenues:						
Charges for Services	\$ 6,066,964	\$ 5,299,566	16,065,232	\$13,881,132	\$22,132,196	\$19,180,698
Operating grants and Contributions	1,752,819	1,944,046	-	-	1,752,819	1,944,046
Capital grants and Contributions	-	1,066,827	250,000	2,935,935	250,000	4,002,762
General Revenues:						
Ad valorem taxes	9,714,706	8,595,151	-	-	9,714,706	8,595,151
Other taxes	12,325,595	11,460,602	-	-	12,325,595	11,460,602
Grants and Contributions						
Not restricted	644,591	748,437	-	-	644,591	748,437
Investment earnings	306,545	161,763	609,171	402,504	915,716	564,267
Miscellaneous	2,011,895	709,888	10,001	35,186	2,021,896	745,074
Total Revenues	32,823,115	29,986,280	16,934,404	17,254,757	49,757,519	47,241,037
Expenses:						
General government and administration	5,462,481	4,818,038	-	-	5,462,481	4,818,038
Public safety	14,068,556	12,747,649	-	-	14,068,556	12,747,649
Streets and Highways	2,276,258	2,139,592	-	-	2,276,258	2,139,592
Sanitation	3,519,289	3,410,841	-	-	3,519,289	3,410,841
Culture and recreation	3,641,742	3,155,803	-	-	3,641,742	3,155,803
Economic development and assistance	1,804,651	2,503,432	-	-	1,804,651	2,503,432
Interest on long-term debt	1,478,170	1,536,703	-	-	1,478,170	1,536,703
Water and sewer	-	-	6,885,456	6,297,596	6,885,456	6,297,596
Toll bridge operations	-	-	3,830,037	3,244,366	3,830,037	3,244,366
Golf course operations	-	-	987,571	1,238,932	987,571	1,238,932
Total Expenses	32,251,147	30,312,058	11,703,064	10,780,894	43,954,211	41,092,952
Increase (decrease) in net assets before transfers	571,968	(325,778)	5,231,340	6,473,863	5,803,308	6,148,085
Transfers	6,361,480	1,639,730	(6,361,480)	(1,639,730)	-	-
Net assets - October 1, 2004	32,320,085	28,992,451	45,808,830	40,713,638	78,128,915	69,706,089
Prior Period Adjustments	613,288	2,013,682	289,565	261,059	902,853	2,274,741
Net assets - September 30, 2005	\$39,866,821	\$32,320,085	44,968,255	\$45,808,830	\$84,835,076	\$78,128,915

(Continued)

CITY OF PHARR, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS, (CONT.)

The cost of all governmental activities this year was \$ 32.25 million. However, as shown in the Statement of Activities on page 14, the amount that our taxpayers ultimately financed for these activities through City taxes was only \$ 9.18 million because some of the costs were paid by those who directly benefited from the programs (\$ 6.1 million) or by other governments and organizations that subsidized certain programs with grants and contributions (\$ 1.75 million) or by sales and use taxes and franchise taxes (\$ 11.6 million).

At the end of the year, the City's proprietary funds had total unrestricted net assets of \$ 3,389,811. The Utility Fund and Toll Bridge Fund had unrestricted net assets of \$ 3,949,767 and \$ 2,151,134, respectively. The Golf Course Fund ended the year with an unrestricted net assets deficit of \$ 2,711,090.

The City's total revenues "increased by 5.33 percent (\$ 2.52 million)." The total cost of all programs and services increased by 6.96 percent (\$ 2.86 million).

THE CITY'S FUNDS

As the City completed the year, its governmental funds (as presented in the balance sheet on pages 15–16) reported a combined fund balance of \$ 12.3 million, which is above last year's total of \$ 6.7 million. Included in this year's total change in fund balance is an increase of \$ 1.7 million in the City's General Fund. The primary reason for the General Fund's gain is largely due to a \$ 0.95 net transfer in. Property and other taxes also increased by \$ 1.1 million.

General Fund Budgetary Highlights

The General Fund budget was increased (in thousands) by \$ 1,767 from the original budget to the final budget (an increase of 0.74%). These increases can be summarized as follows:

- \$ 605 in increases in general government
- \$ 517 in increases in public safety
- \$ 124 in increases in streets and highways
- \$ 250 in increase in sanitation
- \$ 271 in increases in culture and recreation

Of this increase, \$ 1,206 was to be funded out of increases in estimated revenues. Although expenditures were greater than budgetary estimates, actual revenues were also greater than budgetary estimates. Also, total other financing sources were greater than budgetary estimates, thus eliminating the need to draw upon existing fund balance.

The City's General Fund balance of \$5.83 million reported on pages 18–19 differs from the General Fund's budgetary fund balance of \$4.03 million reported in the budgetary comparison schedule on page 65. This is principally due to cost savings and added revenues described above.

(Continued)

CITY OF PHARR, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS, (CONT.)

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At the end of September 30, 2005, the City had \$ 172.96 million invested in a broad range of capital assets for its governmental and business-type activities. This investment in capital assets includes land, buildings, improvements, machinery and equipment, park facilities, street, roads, and bridges, storm drainage, sanitary sewer system and water system. The total increase in the City's investment in capital assets for the current fiscal year was 2.8 percent (a 3.4 percent increase for governmental activities and a 2.2 percent increase for business-type activities.)

This year's major additions included (in thousands):

Governmental Activities

Land easements purchased with Capital Project Fund monies	\$ 142
Municipal Library, paid for with proceeds of Capital Project Fund monies	261
Park and street improvements, paid for with Capital Project Fund monies, contributions, and grants	1,822
Building and Subdivision Improvements, paid for with PEDC Special Revenue Fund monies	157
Machinery and equipment, paid for with capital lease proceeds and General Fund monies	603

Business-type Activities

Land easements purchased with Utility Fund monies	27
Construction of 24 inch transmission water line improvements, paid with loan and Utility Fund monies	755
Wastewater collection improvements, paid with loan and Utility Fund monies	874
Machinery and equipment, paid with Utility Fund monies	96
Machinery and equipment, paid with Toll Bridge Fund monies	77
Improvements, paid with Golf Course Fund monies	13
Totaling	<u>\$ 4,827</u>

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CITY OF PHARR, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS, (CONT.)

At the end of the current fiscal year, the City had a total long-term debt outstanding of \$ 50,106,301.

Table III
City of Pharr, Texas
General Obligations, Revenue Bonds, and Other Debt

	Governmental Activities		Business-type Activities		Totals	
	2005	2004	2005	2004	2005	2004
Certificates of Obligation	\$23,195,000	\$23,330,000	\$ -	\$ -	\$23,195,000	\$23,330,000
Revenue Bonds	-	-	21,444,000	31,707,000	21,444,000	31,707,000
Other	5,381,230	5,748,663	86,071	307,499	5,467,301	6,056,162
Totals	\$28,576,230	\$29,078,663	\$21,530,071	\$32,014,499	\$50,106,301	\$61,093,162

Debt

The City's total debt decreased by \$ 10,986,861 or 18.00% during the current fiscal year. Moody's Investors Service rated the bonds issued in fiscal year 2005, "Baa2". The City's other outstanding bonds underlying rating is "Aaa Moody's and "AAA" by Standard & Poor's Rating Services.

Additional information on the City's long-term debt can be found in note 3F on pages 49-55 of the report.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

- The unemployment rate for the City is currently 7.8 percent, which is a decrease from a rate of 11.2 percent a year ago. The state and national average unemployment rates are 5.3 percent and 5.1 percent, respectively.
- Appraisal values used in preparing the 2006 budget were up \$ 96.2 million, or 7.1 percent from the prior year. Improvements were up \$ 51.7 million.
- Due to the large increase in appraisal values, the City maintained the same tax rate (\$ 0.68312 per \$ 100 valuation).
- The 2006 General Fund operating budget was prepared using \$ 4,113,312 as the estimated unreserved fund balance at September 30, 2005. The actual unreserved fund balance for the General Fund was \$ 5,832,125; nevertheless, a \$ 1,467,982 fund balance is projected at September 30, 2006.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the City's Finance Department at 318 S. Cage Blvd., City of Pharr, Texas 78577.

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CITY OF PHARR, TEXAS
STATEMENT OF NET ASSETS
SEPTEMBER 30, 2005

EXHIBIT A-1

	Primary Government		
	Governmental Activities	Business Type Activities	Total
ASSETS			
Cash and Cash Equivalents	\$ 8,399,614	\$ 1,495,288	\$ 9,894,902
Investments – Current	449,597	445,258	894,855
Receivables (net of allowance for uncollectibles)	7,866,961	1,296,419	9,163,380
Internal Balances	1,654,648	(1,654,648)	-
Inventories	91,220	92,675	183,895
Prepaid Items	150	-	150
Deferred Charges	819,609	1,705,452	2,525,061
Capitalized Debt Issuance Costs	179,423	103,321	282,744
Discount or (Premium) on Issuance of Debt	(129,031)	9,915	(119,116)
Restricted Assets:			
Temporarily Restricted:			
Temp. Restricted Asset – Cash and Cash Equivalents	-	5,510,814	5,510,814
Capital Assets:			
Land	3,943,981	2,250,107	6,194,088
Infrastructure, net	20,228,169	26,237,860	46,466,029
Buildings, net	19,665,349	20,070,276	39,735,625
Improvements other than Buildings, net	2,533,770	765,314	3,299,084
Machinery and Equipment, net	2,250,445	4,834,642	7,085,087
Construction in Progress	7,314,756	6,009,396	13,324,152
Total Assets	<u>75,268,661</u>	<u>69,172,089</u>	<u>144,440,750</u>
LIABILITIES			
Accounts Payable and other current liabilities	6,322,196	992,660	7,314,856
Intergovernmental Payable	70,273	34,194	104,467
Deferred Revenues	240,332	64,191	304,523
Other Current Liabilities	192,807	47,351	240,158
Payable from Restricted Assets	-	2,935,395	2,935,395
Noncurrent Liabilities			
Due Within One Year	2,037,839	51,717	2,089,556
Due in More Than One Year	26,538,393	20,078,326	46,616,719
Total Liabilities	<u>35,401,840</u>	<u>24,203,834</u>	<u>59,605,674</u>
NET ASSETS			
Invested in Capital Assets, Net of Related Debt	28,230,239	38,635,551	66,865,790
Restricted for:			
Restricted for Debt Service	1,134,548	1,189,325	2,323,873
Restricted for Capital Projects	2,900,000	1,113,828	4,013,828
Restricted for Municipal Court	1,100,099	-	1,100,099
Restricted for Equity Deficits	1,327,383	-	1,327,383
Restricted for Worker's Comp. Claims	28,088	-	28,088
Restricted for Other Purposes	-	639,740	639,740
Unrestricted Net Assets	5,146,464	3,389,811	8,536,275
Total Net Assets	<u>\$ 39,866,821</u>	<u>\$ 44,968,255</u>	<u>\$ 84,835,076</u>

The accompanying notes are an integral part of this statement.

CITY OF PHARR, TEXAS
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2005

Functions / Programs	Program Revenues			
	Expenses	Charges For Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary Government:				
GOVERNMENT ACTIVITIES:				
General Government	\$ 5,462,481	\$ 2,051,034	\$ -	\$ -
Public Safety	14,068,556	62,647	546,090	-
Highways and Streets	2,276,258	-	150,016	-
Sanitation	3,519,289	3,464,029	-	-
Culture and Recreation	3,248,548	489,254	243,960	-
Economic Development and Assistance	2,197,845	-	724,569	-
Bond Interest	1,478,170	-	88,184	-
Total Governmental Activities:	32,251,147	6,066,964	1,752,819	-
BUSINESS-TYPE ACTIVITIES:				
Utility	6,885,456	7,644,861	-	250,000
Toll Bridge	3,830,037	7,611,692	-	-
Golf Course	987,571	808,679	-	-
Total Business-Type Activities:	11,703,064	16,065,232	-	250,000
TOTAL PRIMARY GOVERNMENT:	\$ 43,954,211	\$ 22,132,196	\$ 1,752,819	\$ 250,000

General Revenues:

Taxes:

- Property Taxes, Levied for General Purposes
- Property Taxes, Levied for Debt Services
- Sales Taxes
- Franchise Taxes
- Other Taxes
- Penalty and Interest

Grants and Contributions Not Restricted

Miscellaneous Income

Investment Earnings

Transfers In (Out)

Total General Revenues and Transfers

Change In Net Assets

Net Assets-Beginning

Prior Period Adjustments

Net Assets-Ending

The accompanying notes are an integral part of this statement.

Net (Expense) Revenues and
Changes in Net Assets
Primary Government

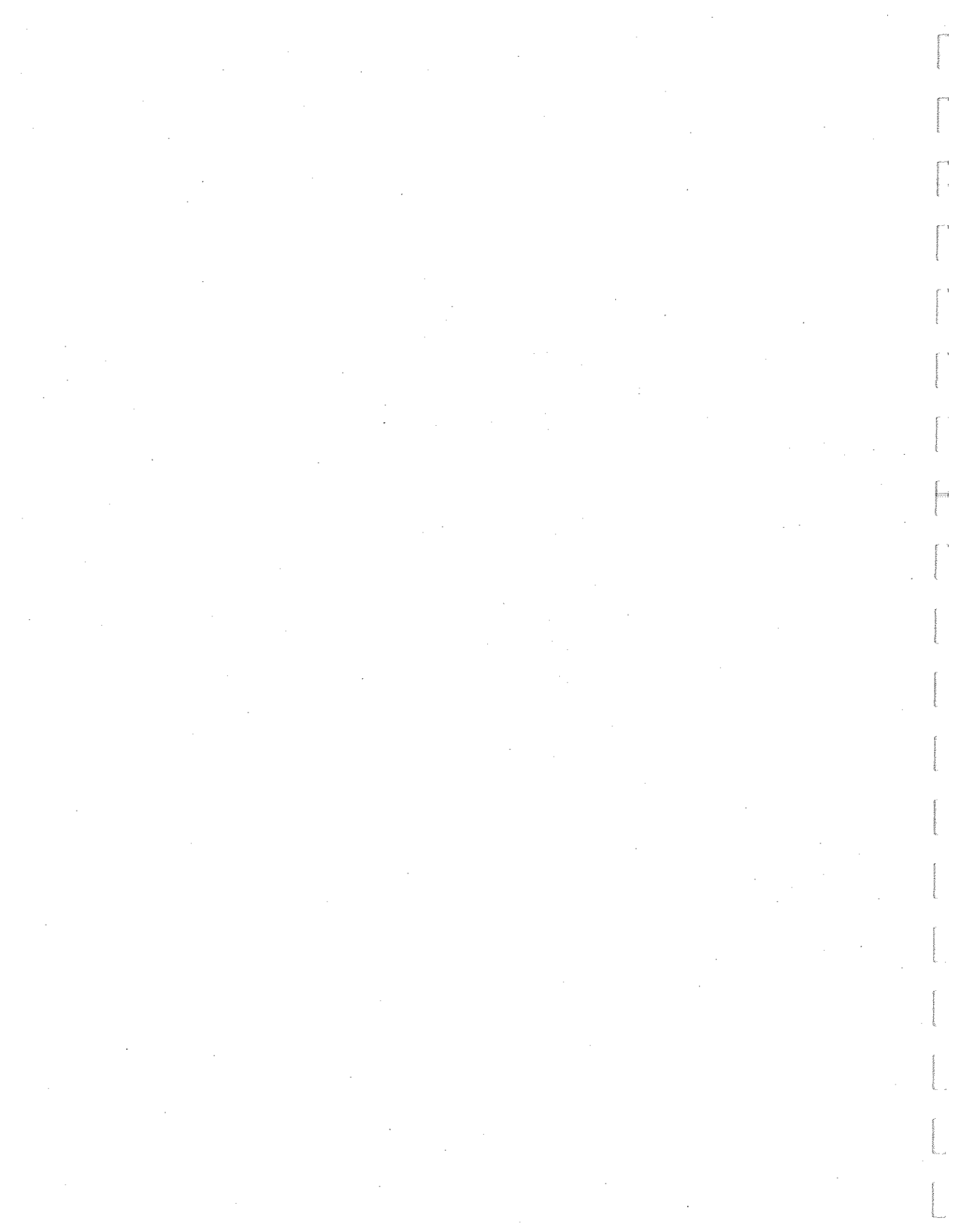
Governmental Activities	Business-type Activities	Total
\$ (3,411,447)	\$ -	\$ (3,411,447)
(13,459,819)	-	(13,459,819)
(2,126,242)	-	(2,126,242)
(55,260)	-	(55,260)
(2,515,334)	-	(2,515,334)
(1,473,276)	-	(1,473,276)
(1,389,986)	-	(1,389,986)
<u>(24,431,364)</u>	<u>-</u>	<u>(24,431,364)</u>
-	1,009,405	1,009,405
-	3,781,655	3,781,655
-	(178,892)	(178,892)
-	<u>4,612,168</u>	<u>4,612,168</u>
<u>(24,431,364)</u>	<u>4,612,168</u>	<u>(19,819,196)</u>
8,081,230	-	8,081,230
1,093,793	-	1,093,793
10,042,628	-	10,042,628
1,512,522	-	1,512,522
770,445	-	770,445
539,683	-	539,683
644,591	-	644,591
2,011,895	10,001	2,021,896
306,545	609,171	915,716
6,361,480	(6,361,480)	-
<u>31,364,812</u>	<u>(5,742,308)</u>	<u>25,622,504</u>
6,933,448	(1,130,140)	5,803,308
32,320,085	45,808,830	78,128,915
613,288	289,565	902,853
<u>\$ 39,866,821</u>	<u>\$ 44,968,255</u>	<u>\$ 84,835,076</u>

CITY OF PHARR, TEXAS
BALANCE SHEET
GOVERNMENTAL FUNDS
SEPTEMBER 30, 2005

	General Fund	Major Special Revenue Fund	Other Funds
ASSETS			
Cash and Cash Equivalents	\$ 3,809,125	\$ 1,768,490	\$ 2,941,898
Investments – Current	449,597	-	-
Taxes Receivable	2,392,756	-	389,644
Allowance for Uncollectible Taxes (credit)	(253,321)	-	(41,991)
Receivables (net of allowance for uncollectibles)	2,605,315	357,764	217,700
Intergovernmental Receivables	1,973,096	-	225,997
Due from Other Funds	2,290,690	661,168	3,872,261
Inventories	87,340	-	-
Prepaid Items	-	150	-
Advances to Other Funds	2,715,597	-	-
Total Current Assets	<u>\$ 16,070,195</u>	<u>\$ 2,787,572</u>	<u>\$ 7,605,509</u>
LIABILITIES AND FUND BALANCES:			
Liabilities:			
Accounts Payable	\$ 1,118,982	\$ 331,623	\$ 724,996
Wages and Salaries Payable	586,327	6,354	-
Intergovernmental Payable	70,273	-	-
Due to Other Funds	6,042,409	690,101	1,673,310
Deferred Revenue	2,242,272	-	485,247
Other Current Liabilities	177,807	-	15,000
Total Liabilities	<u>10,238,070</u>	<u>1,028,078</u>	<u>2,898,553</u>
Fund Balances:			
Reserved For:			
Debt Service	-	-	1,134,548
Capital Projects	-	-	1,759,616
Inventories	87,340	-	-
Municipal Court	1,100,099	-	-
Advance to Other Funds	2,715,597	-	-
Unreserved Designated For:			
Deficit Fund Balance-Capital Projects Fund	1,140,384	-	-
Deficit Fund Balance-City Garage Fund	186,999	-	-
Unreserved and Undesignated:			
Reported in the General Fund	601,706	-	-
Reported in the Special Revenue Fund	-	1,759,494	1,812,792
Total Fund Balances	<u>5,832,125</u>	<u>1,759,494</u>	<u>4,706,956</u>
Total Liabilities and Fund Balances	<u>\$ 16,070,195</u>	<u>\$ 2,787,572</u>	<u>\$ 7,605,509</u>

The accompanying notes are an integral part of this statement.

<u>Total</u>	
Governmental	
Funds	
<hr/>	
\$	8,519,513
	449,597
	2,782,400
	(295,312)
	3,180,779
	2,199,093
	6,824,119
	87,340
	150
	2,715,597
	<hr/>
\$	26,463,276
<hr/>	
\$	2,175,601
	592,681
	70,273
	8,405,820
	2,727,519
	192,807
	<hr/>
\$	14,164,701
<hr/>	
	1,134,548
	1,759,616
	87,340
	1,100,099
	2,715,597
	1,140,384
	186,999
	601,706
	3,572,286
	<hr/>
	12,298,575
	<hr/>
\$	26,463,276
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CITY OF PHARR, TEXAS
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE
STATEMENT OF NET ASSETS
SEPTEMBER 30, 2005

EXHIBIT C-2

Total Fund Balances - Governmental Funds \$ 12,298,575

The City uses internal service funds to charge the costs of certain activities, such as self-insurance and printing, to appropriate functions in other governmental funds. The assets and liabilities of the internal service funds are included in governmental activities in the statement of net assets. The net effect of this consolidation is to increase (decrease) net assets. 753,939

Capital assets used in governmental activities are not financial resources and therefore are not reported in governmental funds. At the beginning of the year, the cost of these assets was \$83,532,699 and the accumulated depreciation was \$28,630,498. In addition, long-term liabilities, including bonds payable, are not due and payable in the current period, and, therefore are not reported as liabilities in the funds. The net effect of including the beginning balances for capital assets (net of depreciation) and long-term debt in the governmental activities is to increase (decrease) net assets 22,755,399

Current year capital outlays and long-term debt principal payments are expenditures in the fund financial statements, but they should be shown as increases in capital assets and reductions in long-term debt in the government-wide financial statements. The net effect of including the 2005 capital outlays and debt principal payments is to increase (decrease) net assets. 4,210,869

The 2005 depreciation expense increases accumulated depreciation. The net effect of the current year's depreciation is to decrease net assets. (2,639,147)

Various other reclassifications and eliminations are necessary to convert from the modified accrual basis of accounting to accrual basis of accounting. These include recognizing deferred revenue as revenue, eliminating interfund transactions, reclassifying the proceeds of bond sales as an increase in bonds payable, and recognizing the liabilities associated with maturing long-term debt and interest. The net effect of these reclassifications and recognitions is to increase (decrease) net assets. 2,487,186

Net Assets of Governmental Activities \$ 39,866,821

CITY OF PHARR, TEXAS
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2005

	General Fund	Major Special Revenue Fund	Other Funds
REVENUES			
Taxes:			
Property Taxes	\$ 7,965,289	\$ -	\$ 1,098,978
General Sales and Use Taxes	7,531,971	2,510,657	-
Franchise Tax	1,512,522	-	-
Other Taxes	179,358	-	591,087
Penalty and Interest on Taxes	462,514	-	77,169
License and Permits	680,857	-	-
Intergovernmental Revenue and Grants	604,903	-	1,691,575
Charges for Services	3,971,441	-	-
Fines	1,414,666	-	-
Investment Earnings	69,773	60,073	176,699
Rents and Royalties	42,002	280,459	-
Contributions & Donations from Private Services	115	-	322,014
Other Revenue	823,386	-	11,804
Total Revenues	<u>25,258,797</u>	<u>2,851,189</u>	<u>3,969,326</u>
EXPENDITURES:			
Current:			
General Government	4,657,817	-	358,066
Public Safety	12,768,664	-	683,718
Public Works	5,201,076	-	150,016
Culture and Recreation	2,922,227	-	401,219
Economic Development and Assistance	77,140	1,477,046	554,920
Debt Service:			
Principal - bonds/capital leases/ loans	-	398,955	1,155,000
Interest - bonds/capital leases/ loans	-	186,128	1,292,042
Issuance Costs	-	-	179,423
Capital Outlay:			
Capital Outlay - Construction	-	137,019	1,831,242
Total Expenditures	<u>25,626,924</u>	<u>2,199,148</u>	<u>6,605,646</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>(368,127)</u>	<u>652,041</u>	<u>(2,636,320)</u>
OTHER FINANCING SOURCES (USES):			
Capital-related Debt Issued (Regular Bonds)	-	-	16,110,000
Sale of Land and Personal Property	-	856,768	-
Proceeds from Capital Leases	34,574	-	422,952
Transfers In	5,835,000	224,050	4,661,610
Premium or Discount on Issuance of Bonds	-	-	129,031
Transfers Out (Use)	(3,778,717)	(508,382)	(72,081)
Other (Uses)	-	-	(16,134,609)
Total Other Financing Sources (Uses)	<u>2,090,857</u>	<u>572,436</u>	<u>5,116,903</u>
Net Change in Fund Balance	1,722,730	1,224,477	2,480,583
Fund Balance - October 1 (Beginning)	4,470,187	535,017	1,658,123
Prior Period Adjustments	(360,792)	-	568,250
Fund Balance - September 30 (Ending)	<u>\$ 5,832,125</u>	<u>\$ 1,759,494</u>	<u>\$ 4,706,956</u>

The accompanying notes are an integral part of this statement.

Total
Governmental
Funds

\$ 9,064,267
 10,042,628
 1,512,522
 770,445
 539,683
 680,857
 2,296,478
 3,971,441
 1,414,666
 306,545
 322,461
 322,129
 835,190
32,079,312

5,015,883
 13,452,382
 5,351,092
 3,323,446
 2,109,106

1,553,955
 1,478,170
 179,423

1,968,261
34,431,718

(2,352,406)

16,110,000
 856,768
 457,526
 10,720,660
 129,031
 (4,359,180)
 (16,134,609)
7,780,196

5,427,790
 6,663,327
 207,458

\$ 12,298,575

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CITY OF PHARR, TEXAS EXHIBIT C-4
 RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES,
 AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES
 FOR THE YEAR ENDED SEPTEMBER 30, 2005

Total Net Change in Fund Balances - Governmental Funds \$ 5,427,790

The City uses some internal service funds to charge the costs of certain activities primarily to the governmental funds. The net income (loss) of these internal service funds are reported with governmental activities. The net effect of this consolidation is to increase (decrease) net assets. (176,822)

Current year capital outlays and long-term debt principal payments are expenditures in the fund financial statements, but they should be shown as increases in capital assets and reductions in long-term debt in the government-wide financial statements. The net effect of removing the 2005 capital outlays and debt principal payments is to increase (decrease) net assets. 4,210,869

Depreciation is not recognized as an expense in governmental funds since it does not require the use of current financial resources. The net effect of the current year's depreciation is to decrease net assets. (2,639,147)

Various other reclassifications and eliminations are necessary to convert from the modified accrual basis of accounting to accrual basis of accounting. These include recognizing deferred revenue as revenue, adjusting current year revenue to show the revenue earned from the current year's tax levy, eliminating interfund transactions, reclassifying the proceeds of bond sales, and recognizing the liabilities associated with maturing long-term debt and interest. The net effect of these reclassifications and recognitions is to increase (decrease) net assets. 110,758

Change in Net Assets of Governmental Activities \$ 6,933,448

CITY OF PHARR, TEXAS
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
SEPTEMBER 30, 2005

	Business-Type Activities -	
	Utility Fund	Toll Bridge Fund
ASSETS		
Current Assets:		
Cash and Cash Equivalents	\$ 1,444,548	\$ 35,560
Investments – Current	-	445,258
Accounts Receivable-Net of Uncollectible Allowance	1,232,000	45,110
Due from Other Funds	1,496,852	45,044
Inventories	59,009	-
Deferred Charges	54,927	1,650,525
Capitalized Debt Issuance Costs	-	103,321
Discount and (Premium) on Issuance of Debt	-	9,915
Total Current Assets	4,287,336	2,334,733
Noncurrent Assets:		
Restricted Assets – Current:		
Temp. Restricted Assets – Cash & Cash Equivalent	4,339,746	1,171,068
Capital Assets:		
Land Purchase and Improvements	431,120	819,645 ✓
Infrastructure	19,803,981	16,777,449 ✓
Accumulated Depreciation - Infrastructure	(5,907,127)	(4,436,443) X
Buildings	24,759,717	2,958,583 ✓
Accumulated Depreciation – Buildings	(7,043,483)	(776,403) ✓
Improvements other than Buildings	36,330	13,713 ✓
Accumulated Depreciation – Other Improvements	(36,330)	(8,228) ✓
Machinery and Equipment	8,833,977	1,666,043 ✓
Accumulated Depreciation – Machinery & Equipment	(5,063,352)	(868,397) ✓
Construction in Progress	6,009,396	-
Total Noncurrent Assets	46,163,975	17,317,030
Total Assets	50,451,311	19,651,763

The accompanying notes are an integral part of this statement.

Golf Course Fund	Total Enterprise Fund	Governmental Activities -
		Total Internal Service Funds
\$ 15,180	\$ 1,495,288	\$ (119,898)
-	445,258	-
19,309	1,296,419	-
67,755	1,609,651	637,085
33,666	92,675	3,880
-	1,705,452	-
-	103,321	-
-	9,915	-
<u>135,910</u>	<u>6,757,979</u>	<u>521,067</u>
-	5,510,814	-
999,342	2,250,107	-
-	36,581,430	-
-	(10,343,570)	-
210,000	27,928,300	694,000
(38,138)	(7,858,024)	(137,300)
921,854	971,897	307,880
(162,025)	(206,583)	(155,566)
553,081	11,053,101	870,130
(286,710)	(6,218,459)	(666,294)
-	6,009,396	-
<u>2,197,404</u>	<u>65,678,409</u>	<u>912,850</u>
<u>2,333,314</u>	<u>72,436,388</u>	<u>1,433,917</u>

(Continued)

CITY OF PHARR, TEXAS
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
SEPTEMBER 30, 2005

	Business-Type Activities -	
	Utility Fund	Toll Bridge Fund
LIABILITIES		
Current Liabilities:		
Accounts Payable	206,945	-
Wages and Salaries Payable	43,852	14,278
Compensated Absences Payable	471,252	168,495
Intergovernmental Payable	33,896	-
Due to Other Funds	103,800	401,635
Deferred Revenue	-	64,191
Capital Leases Payable – Current	51,717	-
Other Current Liabilities	47,351	-
Advance from Other Funds	-	-
Payable from Restricted Assets - Current		
Accounts Payable	238,695	-
Water Meter Deposits	1,207,098	-
Current Portion of Long-Term Debt	937,000	465,000
Accrued Interest	43,319	44,283
Total Current Liabilities	<u>3,384,925</u>	<u>1,157,882</u>
Noncurrent Liabilities:		
Bonds Payable – Non-Current		
Revenue Bonds Payable	10,752,000	9,290,000
Capital Leases Payable – Noncurrent	36,326	-
Total Noncurrent Liabilities	<u>10,788,326</u>	<u>9,290,000</u>
Total Liabilities	<u>14,173,251</u>	<u>10,447,882</u>
NET ASSETS		
Invested in Capital Assets, Net of Debt	30,047,185	6,390,962
Restricted for Debt Service	1,167,527	21,798
Restricted for Capital Projects	1,113,581	247
Restricted for Worker's Comp. Claims	-	-
Restricted for Other Purposes	-	639,740
Unrestricted Net Assets	3,949,767	2,151,134
Total Net Assets	<u>\$ 36,278,060</u>	<u>\$ 9,203,881</u>

The accompanying notes are an integral part of this statement.

EXHIBIT D-1, (Cont.)

Golf Course Fund	Total Enterprise Fund	Governmental Activities -
		Total Internal Service Funds
\$ 13,199	\$ 220,144	\$ 537,809
6,698	64,828	1,990
67,938	707,685	23,846
298	34,194	-
43,270	548,705	116,333
-	64,191	-
-	51,717	-
-	47,351	-
2,715,597	2,715,597	-
-	238,695	-
-	1,207,098	-
-	1,402,000	-
-	87,602	-
<u>2,847,000</u>	<u>7,389,807</u>	<u>679,978</u>
-	20,042,000	-
-	36,326	-
-	<u>20,078,326</u>	-
<u>2,847,000</u>	<u>27,468,133</u>	<u>679,978</u>
2,197,404	38,635,551	912,850
-	1,189,325	-
-	1,113,828	-
-	-	28,088
-	639,740	-
(2,711,090)	3,389,811	(186,999)
<u>\$ (513,686)</u>	<u>\$ 44,968,255</u>	<u>\$ 753,939</u>

CITY OF PHARR, TEXAS
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2005

	Business-Type Activities –	
	Utility Fund	Toll Bridge Fund
OPERATING REVENUES:		
Charges for Water Services	\$ 4,815,520	\$ -
Charges for Sewer Service	2,829,341	-
Charges for Services - Toll Bridge	-	7,611,692
Charges for Services - Golf Course	-	-
Charges for Services - City Garage	-	-
Charges for Services - Worker's Comp. Claims	-	-
Total Operating Revenues	7,644,861	7,611,692
OPERATING EXPENSES:		
Personnel Services – Salaries and Wages	1,437,734	665,921
Personnel Services – Employee Benefits	678,028	236,740
Purchased Professional & Technical Services	521,270	883,294
Purchased Property Services	515,178	133,515
Other Operating Expenses	495,600	305,547
Supplies	1,233,566	166,525
Depreciation	1,325,789	654,045
Total Operating Expenses	6,207,165	3,045,587
Operating Income (Loss)	1,437,696	4,566,105
NON-OPERATING REVENUES (EXPENSES):		
Investment Earnings	184,357	420,620
Other Non-Operating Revenues	10,001	-
Interest Expense – Non-Operating	(603,576)	(626,493)
Non-operating Expenses	(74,715)	(157,957)
Total Non-operating Revenue (Expenses)	(483,933)	(363,830)
Income (loss) Before Contributions & Transfers	953,763	4,202,275
Capital Contributions	250,000	-
Non-Operating Transfer In	-	72,081
Transfers Out	(135,000)	(6,298,561)
Change in Net Assets	1,068,763	(2,024,205)
Total Net Assets – October 1 (Beginning)	35,070,462	11,239,500
Prior Period Adjustments	138,835	(11,414)
Total Net Assets – September 30 (Ending)	\$ 36,278,060	\$ 9,203,881

The accompanying notes are an integral part of this statement.

Golf Course Fund	Total Enterprise Fund	Governmental Activities -
		Total Internal Service Funds
\$ -	\$ 4,815,520	\$ -
-	2,829,341	-
-	7,611,692	-
808,679	808,679	-
-	-	783,833
-	-	548,821
<u>808,679</u>	<u>16,065,232</u>	<u>1,332,654</u>
315,191	2,418,846	93,957
116,065	1,030,833	643,363
121,074	1,525,638	16,529
112,628	761,321	204,668
87,450	888,597	5,606
122,157	1,522,248	448,172
75,455	2,055,289	97,368
<u>950,020</u>	<u>10,202,772</u>	<u>1,509,663</u>
<u>(141,341)</u>	<u>5,862,460</u>	<u>(177,009)</u>
4,194	609,171	187
-	10,001	-
-	(1,230,069)	-
<u>(37,551)</u>	<u>(270,223)</u>	<u>-</u>
<u>(33,357)</u>	<u>(881,120)</u>	<u>187</u>
<u>(174,698)</u>	<u>4,981,340</u>	<u>(176,822)</u>
-	250,000	-
-	72,081	-
-	(6,433,561)	-
<u>(174,698)</u>	<u>(1,130,140)</u>	<u>(176,822)</u>
(501,132)	45,808,830	845,211
162,144	289,565	85,550
<u>\$ (513,686)</u>	<u>\$ 44,968,255</u>	<u>\$ 753,939</u>

CITY OF PHARR, TEXAS
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2005

	Business-Type Activities –	
	Utility Fund	Toll Bridge Fund
<u>Cash Flows from Operating Activities:</u>		
Cash Received from Users	\$ 9,862,746	\$ 7,749,977
Cash Received from Interfund Service Provided	-	-
Cash Payments to Employees for Services	(1,561,653)	(650,860)
Cash Payments to Suppliers	(5,576,080)	(1,393,743)
Net Cash Provided by (Used for) Operating Activities	<u>2,725,013</u>	<u>5,705,374</u>
<u>Cash Flows from Non-Capital Financing Activities:</u>		
Proceeds From Others	10,001	-
Operating Transfers In	-	72,081
Operating Transfer Out	(135,000)	(6,298,561)
Net Cash Provided by (Used for) Non-Capital Financing Activities	<u>(124,999)</u>	<u>(6,226,480)</u>
<u>Cash Flows from Capital & Related Financing Activities:</u>		
Proceeds from capital leases	-	-
Principal and Interest Paid	(1,894,298)	(9,844,618)
Acquisition or Construction of Capital Assets	(1,702,347)	(77,071)
Capital Contributions	250,000	-
Net Cash Provided by (Used for) Capital & Related Financing Activities	<u>(3,346,645)</u>	<u>(9,921,689)</u>
<u>Cash Flows from Investing Activities:</u>		
Interest on Investments	184,357	420,620
Net Increase (Decrease) in Cash and Cash Equivalents	(562,274)	(10,022,175)
Cash and Cash Equivalents at the Beginning of the Year:	6,346,568	11,674,061
Cash and Cash Equivalents at the End of the Year:	<u>\$ 5,784,294</u>	<u>\$ 1,651,886</u>

The accompanying notes are an integral part of this statement.

Golf Course Fund	Total Enterprise Funds	Governmental Activities--
		Total Internal Service Funds
\$ 823,195	\$ 18,435,918	\$ -
-	-	755,930
(320,597)	(2,533,110)	(116,801)
(530,851)	(7,500,674)	(878,224)
<u>(28,253)</u>	<u>8,402,134</u>	<u>(239,095)</u>
18,469	28,470	85,550
-	72,081	-
-	<u>(6,433,561)</u>	-
<u>18,469</u>	<u>(6,333,010)</u>	<u>85,550</u>
-	-	-
-	(11,738,916)	-
(13,053)	(1,792,471)	-
-	250,000	-
<u>(13,053)</u>	<u>(13,281,387)</u>	<u>-</u>
4,194	609,171	187
(18,643)	(10,603,092)	(153,358)
33,823	18,054,452	33,460
<u>\$ 15,180</u>	<u>\$ 7,451,360</u>	<u>\$ (119,898)</u>

(Continued)

CITY OF PHARR, TEXAS
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2005

	Business-Type Activities –	
	Utility Fund	Toll Bridge Fund
<u>Reconciliation of Operating Income (Loss) to Net Cash</u>		
<u>Provided By (Used For) Operating Activities:</u>		
Operating Income (Loss):	\$ 1,437,696	\$ 4,566,105
Adjustments to Reconcile Operating Income to Net Cash		
Provided by (Used for) Operating Activities:		
Depreciation	1,325,789	654,045
Effect of Increases and Decreases in Current		
Assets and Liabilities:		
Decrease (increase) in Receivables	567,459	(16,373)
Decrease (increase) in Interfund Receivables	1,629,622	154,658
Decrease (increase) in Inventories & Prepaid Items	20,804	-
Increase (decrease) in Accounts Payable	(222,560)	(110,813)
Increase (decrease) in Wages & Compensated Absences	(123,919)	15,061
Increase (decrease) in Interfund Payable	16,292	378,500
Increase (decrease) in Intergovernmental Payable	(801,264)	-
Increase (decrease) in Other Current Liabilities	7,415	-
Increase (decrease) in Water Meter Deposits	(683,752)	-
Increase (decrease) in Deferred Revenues	(448,569)	64,191
Net Cash Provided by (Used For)		
Operating Activities	<u>\$ 2,725,013</u>	<u>\$5,705,374</u>

The accompanying notes are an integral part of this statement.

Golf Course Fund	Total Enterprise Funds	Governmental Activities -
		Total Internal Service Funds
\$ (141,341)	\$ 5,862,460	\$ (177,009)
75,455	2,055,289	97,368
2,485	553,571	-
8,260	1,792,540	(583,538)
3,771	24,575	6,814
(9,098)	(342,471)	492,502
(5,406)	(114,264)	(22,844)
81,351	476,143	(52,388)
(135)	(801,399)	-
(43,595)	(36,180)	-
-	(683,752)	-
-	(384,378)	-
<u>\$ (28,253)</u>	<u>\$ 8,402,134</u>	<u>\$ (239,095)</u>

CITY OF PHARR, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2005

Note 1 Summary of Significant Accounting Policies

The basic financial statements of the City of Pharr, Texas (the City), have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the City's accounting policies are described below.

The accounting policies of the City, as reflected in the accompanying financial statements, conform to generally accepted accounting principles for local governmental units as prescribed by the Governmental Accounting Standards Board (GASB).

In fiscal year 2003, the City implemented GASB Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*, GASB Statement No. 37, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments: Omnibus*, which provides additional guidance for the implementation of GASB Statement No. 34; and GASB Statement No. 38, *Certain Financial Statement Note Disclosures*, which changed note disclosure requirements for governmental entities.

GASB Statement No. 34 established a new financial reporting model for state and local governments that included the addition of the management's discussion and analysis, government-wide financial statements, required supplementary information, and the elimination of the effects of internal service activities and the use of account groups to the already required fund financial statements and notes.

The GASB determined that fund accounting has and will continue to be essential in helping governments to achieve fiscal accountability and should, therefore, be retained. The GASB also determined that government-wide financial statements are needed to allow users of financial reports to assess a government's operational accountability. The new GASB model integrates fund-based financial reporting and government-wide financial reporting as complementary components of a single comprehensive financial reporting model.

A. Reporting Entity

The City is a home-rule municipal corporation, incorporated under the laws of the State of Texas. It is governed by an elected mayor and six-member Commission. As required by GAAP, the accompanying financial statements of the reporting entity include those of the City (the primary government) and its blended component unit, an entity for which the City is considered to be financially accountable. A blended component unit, although a legally separate entity, is, in substance, part of the government's operations and so data from this unit is combined with data of the primary government. Each discretely presented component unit, on the other hand, is reported in a separate column in the government-wide financial statements to emphasize that it is legally separate from the City. The City has no discretely presented component units.

(Continued)

CITY OF PHARR, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2005

Note 1 Summary of Significant Accounting Policies, (Cont.)

Blended Component Unit:

The Pharr Economic Development Corporation, Inc. (PEDC) was organized on behalf of the City for the specific purpose of the promotion and development of commercial, industrial, and manufacturing enterprises to promote and encourage employment and the public welfare. PEDC is governed by a five-member board of directors. Members are appointed by the City Commission and may be removed from office by the City Commission for cause or at will. PEDC's primary source of revenues is sales and use tax revenues generated by the City. In addition, the City approves the programs and expenditures of PEDC and approves amendments to PEDC's bylaws and Articles of Incorporation. PEDC is presented as a governmental fund type and has a September 30, year-end.

Complete financial statements for PEDC may be obtained at its administrative office at PEDC, 1215 S. Cage Blvd., Pharr, TX 78577.

B. Government-wide and fund financial statements

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the nonfiduciary activities of the primary government and its component unit. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by tax and intergovernmental revenues, 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.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. 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 that are restricted to meeting operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary 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.

(Continued)

CITY OF PHARR, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2005

Note 1 Summary of Significant Accounting Policies, (Cont.)

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 revenues in the year for which they are levied. Grants and similar items are recognized as revenues 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. For this purpose, the government considers revenues to be available if they are 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.

Property taxes, franchise taxes, licenses, interest, and charges for services associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the City.

Grant funds are considered earned to the extent of the expenditures made under the provisions of the grant. Accordingly, when such funds are received, they are recorded as deferred revenues until the related and authorized expenditures have been made. If balances have not been expended by the end of the project period, grantors sometimes require the City to refund all or part of the unused amount.

The Proprietary Fund Types and Fiduciary Funds are accounted for on a flow of economic resources measurement focus and utilize the accrual basis of accounting. This basis of accounting recognizes revenues in the accounting period in which they are earned and become measurable and expenses in the accounting period in which they are incurred and become measurable. The City applies all GASB pronouncements as well as the Financial Accounting Standards Board pronouncements issued on or before November 30, 1989, unless these pronouncements conflict or contradict GASB pronouncements. With this measurement focus, all assets and all liabilities associated with the operation of these funds are included on the fund Statement of Net Assets. The fund equity is
(Continued)

CITY OF PHARR, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2005

Note 1 **Summary of Significant Accounting Policies, (Cont.)**

segregated into invested in capital assets, net of related debt, restricted net assets, and unrestricted net assets. 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 enterprise and internal service funds are charges to customers for sales and services. Operating expenses for enterprise and internal service funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses. 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.

The City reports the following major governmental funds:

The General Fund (Major Fund #1) is the City's primary operating Fund. It accounts for all financial resources of the City, except those required to be accounted for in another fund.

The PEDC Special Revenue Fund (Major Fund #2) accounts for the activities of Pharr Economic Development Corporation, Inc., a blended component unit of the City.

The City reports the following major proprietary funds:

The Utility Fund (Major Fund #3) is used to account for the operation of providing water and sewer services to the residents of the City.

The Toll Bridge Fund (Major Fund #4) is used to account for the operations of the City's international toll bridge.

The Golf Course Fund (Major Fund #5) is used to account for the operations of the City's golf course.

Additionally, the City reports the following fund types:

Governmental Funds:

1. Special Revenue Funds account for resources restricted to, or designated for, specific purposes by the City or a grantor in a special revenue fund. Most federal and state financial assistance is accounted for in a special revenue fund.

(Continued)

CITY OF PHARR, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2005

Note 1 Summary of Significant Accounting Policies, (Cont.)

2. Debt Service Funds account for resources accumulated and payments made for principal and interest on long-term general obligation debt of governmental funds.
3. Permanent Funds account for donations for which the donor has stipulated that the principal may not be expended and where the income may only be used for purposes that support the City's programs. The City has no permanent funds.

Proprietary Funds:

4. The Internal Service Funds account for revenues and expenses related to service provided to other departments inside the City on a cost reimbursement basis. The City's internal service funds are the City Garage Fund and Worker's Compensation Fund.

Fiduciary Funds:

5. The Private Purpose Trust Funds account for donations for which the donor has stipulated that both principal and the income may be used for purposes that benefit parties outside the City. The City has no private purpose trust funds.
6. The Agency Funds accounts for resources held for others in a custodial capacity by the City. The City has no agency funds.

D. Assets, liabilities, and net assets or equity

1. Deposits and investments

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 date of acquisition. Investments for the City are reported at fair value.

The Public Funds Investment Act for the State of Texas allows the City to invest in the following:

- Obligations of, or guaranteed by governmental entities, including:
 - Obligations of the United States or its agencies or instrumentalities
 - Direct obligations of this state or its agencies and instrumentalities
 - Collateralized mortgage obligations directly issued by a federal agency or instrumentality of the United States, the underlying security for which is guaranteed by an agency or instrumentality of the United States

(Continued)

CITY OF PHARR, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2005

Note 1 Summary of Significant Accounting Policies, (Cont.)

- Other obligations, the principal and interest of which are unconditionally guaranteed or insured by or backed by the full faith and credit of, this state or the United States or their respective agencies and instrumentalities
 - Obligations of states, agencies, counties, cities, and other political subdivisions of any state rated as to investment quality by a nationally recognized investment rating firm not less than A or its equivalent
 - Bonds issued, assumed or guaranteed by the State of Israel
-
- Certificates of deposit
 - Fully collateralized repurchase agreements
 - Bankers' acceptances
 - Commercial paper
 - No-load money market mutual funds
 - Guaranteed investment contracts
 - Investment pools

The City's investment policy further restricts investments to the following:

- Obligations of the United States or its instrumentalities; direct obligations of the State of Texas or its agencies; other obligations, the principal and interest of which are unconditionally guaranteed or insured by, or back by the full faith and credit of, the State of Texas, the United States, or its instrumentalities; obligations of states, agencies, counties, and other political subdivisions of any state rated as to investment quality by a nationally recognized rating firm not less than A or its equivalent.
-
- Certificates of deposit
 - Fully collateralized repurchase agreements
 - Commercial paper
 - No-load money market mutual funds
 - Guaranteed investment contracts
 - Investment pools

2. Receivables and payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the noncurrent portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds". Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances".

(Continued)

CITY OF PHARR, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2005

Note 1 **Summary of Significant Accounting Policies, (Cont.)**

Advances between funds, as reported in fund financial statements, are offset by a fund balance reserve account in applicable governmental funds to indicate that they are not available for appropriation and are not expendable available financial resources.

Property taxes are levied by October 1 on the assessed value listed as of the prior January 1 for all real and business personal property located in the City in conformity with Subtitle E, Texas Property Tax Code. Taxes are due on receipt of the tax bill and are delinquent if not paid before February 1 of the year following the year in which imposed. On January 31 of each year, a tax lien attaches to property to secure the payment of all taxes, penalties, and interest ultimately imposed. Property tax revenues are considered available when they become due or past due and receivable within the current period.

The appraisal and recording of all property within the City is the responsibility of the Hidalgo County Appraisal District (HCAD), an independent governmental unit with a board of directors appointed by the taxing jurisdictions within the county and funded from assessments against those taxing jurisdictions. HCAD is required by law to assess property at 100% of its appraised value. Real property must be reappraised at least every two years. Under certain circumstances, taxpayers and taxing units, including the City, may challenge orders of the HCAD Review Board through various appeals and, if necessary, legal action.

Tax collections are prorated between the general fund and debt service fund based on the tax rate approved by the Board. For the year ended September 30, 2005, the rates were \$0.60165 and \$0.08147, respectively, per \$100 of assessed value.

Delinquent taxes are prorated between maintenance and debt service based on rates adopted for the year of the levy. Allowances for uncollectible tax receivables within the general and debt service funds are based on historical experience in collecting property taxes. Uncollectible personal property taxes are periodically reviewed and written off, but the City is prohibited from writing off real property taxes without specific statutory authority from the Texas Legislature. The property tax receivable allowance is equal to 10.6 percent of outstanding property taxes at September 30, 2005.

3. Inventories

Inventories of supplies on the balance sheet are stated at cost. Inventory items are recorded as expenditures when they are purchased. Supplies are used for almost all functions of activity.

(Continued)

CITY OF PHARR, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2005

Note 1 Summary of Significant Accounting Policies, (Cont.)

4. Restricted Assets

Certain proceeds of the Utility Fund and Toll Bridge Fund's revenue bonds, as well as certain resources set aside for their repayment, are classified as restricted assets on the balance sheet because they are maintained in separate bank accounts and their use is limited by applicable bond covenants. The "interest and sinking fund" accounts are used to segregate resources accumulated for debt service payments over the next twelve months. The "reserve fund" accounts are used to report resources set aside to make up potential future deficiencies in the interest and sinking fund accounts. The "improvement and contingency fund" accounts are used to report resources set aside to meet unexpected contingencies or to fund asset renewals and replacements.

5. Capital assets

Capital assets, which include land, buildings, furniture, and equipment, are reported in the applicable governmental activities column in the government-wide financial statements. 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 two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

When assets are retired or otherwise disposed of, the related costs or other recorded amounts are removed.

Land, buildings, furniture, and equipment of the City, as well as the component unit, are depreciated using the straight line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Land improvements	20
Buildings	45
Buildings improvements	Remaining life of building or 20 years whichever is less
Machinery & equipment	5 – 25
Information systems (computer equipment)	5
Vehicles	5 – 8
Infrastructure	10 – 50

(Continued)

CITY OF PHARR, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2005

Note 1 Summary of Significant Accounting Policies, (Cont.)

6. Compensated absences

The City's policy allows employees to accumulate unused sick leave on an unlimited basis. However, if an employee is terminated, resigns or retires, the employee will not receive pay for accumulated sick leave in excess of 90 days. The City's policy also allows employees to accumulate vacation up to 30 days for employees with less than 20 years of service and up to 40 days for employees with more than 20 years of service. All compensated absences are accrued when incurred in the government-wide, proprietary, and fiduciary fund financial statements. A liability for these amounts is reported in governmental funds only if they have matured; for example, as a result of employee resignations and retirements.

7. Arbitrage payable

The Federal Tax Reform Act of 1986 requires issuers of tax-exempt debt to make payments to the United States Treasury for investment income received at yields that exceed the issuer's tax exempt borrowing rates. The Treasury requires payment for each issue every five years. The estimated liability is updated annually for all tax-exempt issuances or changes in yields until such time payment of the calculated liability is due. The City had no arbitrage liability as of September 30, 2005.

8. 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 assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

(Continued)

CITY OF PHARR, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2005

Note 1 **Summary of Significant Accounting Policies, (Cont.)**

9. Fund equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

10. Comparative data / reclassifications

Comparative data for the prior year has not been presented due to the implementation of GASB Statement No. 34.

Note 2 **Stewardship, Compliance, and Accountability**

A. Budgetary Data

The Board of Commissioners (the Board) adopts an "appropriated budget" for the General Fund and Debt Service Fund. The City is required to present the adopted and final amended budgeted revenues and expenditures for the General Fund and PEDC Special Revenue Fund. The City compares the final amended budget to actual revenues and expenditures. The General Fund Budget and PEDC Special Revenue Fund Budget reports appear on Exhibit E-1 and Exhibit E-2, respectively.

The following procedures are followed in establishing the budgetary data reflected in the basic financial statements.

1. Prior to September 30, the City prepares a budget for the next succeeding fiscal year beginning October 1. The operating budget includes proposed expenditures and the means of financing them.
2. A meeting of the Board is then called for the purpose of adopting the proposed budget. At least ten days' public notice of the meeting must be given.

(Continued)

CITY OF PHARR, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2005

Note 2 Stewardship, Compliance, and Accountability, (Cont.)

3. Prior to October 1, the budget is legally enacted through passage of a resolution by the Board. Once a budget is approved, it can only be amended at the function and fund level by approval of a majority of the members of the Board. Amendments are presented to the Board at its regular meetings. Each amendment must have Board approval. As required by law, such amendments are made before the fact, are reflected in the official minutes of the Board, and are not made after fiscal year end. The City had five budget amendments during the year.
4. Each budget is controlled by the budget coordinator at the revenue and expenditure function/object level. Budgeted amounts are as amended by the Board. All budget appropriations lapse at year end.
5. PEDC's Board of Director adopts an "appropriated budget" for its Special Revenue Fund. The Special Revenue Fund Budget report appears on Exhibit E-2.

B. Excess of Expenditures Over Appropriations

For the year ended September 30, 2005, expenditures of the General Fund exceeded appropriations in the public safety, highways and streets, sanitation, culture and recreation, and conservation and development functions by \$ 342,673, \$ 221,548, \$ 23,983, \$ 88,532, and \$ 46,740, respectively. Expenditures of PEDC's Special Revenue Fund exceeded appropriations in the Conservation and Development, debt service, and capital outlay functions by \$ 32,246, \$ 2,867 and \$ 137,019, respectively.

C. Deficit Fund Equity

As of September 30, 2005, the Capital Projects Fund has a deficit fund balance of \$ 1,140,384. The City's Golf Course Enterprise Fund and City Garage Fund have deficit balances of \$ 2,711,090 and \$ 186,999, respectively in unrestricted net assets. At September 30, 2005, the City has designated fund balance in the General Fund for the deficits in the Capital Project Fund and City Garage Fund. In the future, the City plans to designate fund balance for the deficit in the Golf Course Fund.

CITY OF PHARR, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2005

Note 3 Detailed Notes on All Funds

A. Deposits and investments

It is the City's policy 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. The City's Depository Agreement requires such coverage to be 103%. At September 30, 2005, the City's deposits were entirely covered by 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.

Investments

Investments at fair value, including accrued interest, as of September 30, 2005 are as follows:

	Fair Value	Investment Maturities (in Years)	
		1 or less	2
Certificates of deposits	\$ 894,855	\$ 894,855	\$ -
U.S. Government securities	-	-	-
Investment Pool	-	-	-
	<u>\$ 894,855</u>	<u>\$ 894,855</u>	<u>\$ -</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 risk to the rising interest rates.

Credit risk. As of September 30, 2005, the certificates of deposits were issued by the City's bank depository, First National Bank and another local bank, Lone Star National Bank. The certificates of deposits were rated Baa1 by Moody's Investor Service. However, the collateral pledged against the certificates of deposit is comprised of government securities, which carry a AAA rating.

Concentration of credit risk. The City's Investment Policy requires the City to diversify its investments by security type and institution. The maximum percent allowed for certificates of deposit is 50%. At September 30, 2005, the City had 100% of its investments in certificates of deposits. 28% of these investments were at the City's depository bank and 72% were at another local bank.

(Continued)



CITY OF PHARR, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2005

Note 3 Detailed Notes on All Funds, (Cont.)

B. Receivables

Receivables as of September 30, 2005, for the City's individual major funds and nonmajor, internal service, and fiduciary funds in the aggregate, including the applicable allowance for uncollectible accounts, are as follows:

	General	Major Special Revenue	Utility	Toll Bridge	Golf Course	Nonmajor and other Funds	Total
Taxes	\$ 2,392,756	\$ -	\$ -	\$ -	\$ -	\$ 389,644	\$ 2,782,400
Accounts	5,991,908	-	1,376,010	45,110	19,309	147,434	7,579,771
Special Assessments	-	-	-	-	-	-	-
Notes	-	357,764	-	-	-	70,266	428,030
Intergovernmental	1,973,096	-	-	-	-	225,997	2,199,093
Gross receivables	10,357,760	357,764	1,376,010	45,110	19,309	833,341	12,989,294
Less: allowance for Uncollectibles	(3,639,914)	-	(144,010)	-	-	(41,991)	(3,825,915)
Net total receivable	<u>\$ 6,717,846</u>	<u>\$ 357,764</u>	<u>\$ 1,232,000</u>	<u>\$ 45,110</u>	<u>\$ 19,309</u>	<u>\$ 791,350</u>	<u>\$9,163,379</u>

Governmental funds report deferred revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenues recognition in connection with resources that have been received, but not yet earned.

At the end of the current fiscal year, the various components of deferred revenue and unearned revenue reported in the governmental funds were as follows:

	Unavailable	Unearned
Delinquent property taxes receivable (general fund)	\$ 2,139,435	\$ -
Delinquent property taxes receivable (debt service fund)	347,653	-
Notes receivable	-	70,266
Advance funding	-	170,165
Total deferred/unearned revenue for governmental funds	<u>\$ 2,487,088</u>	<u>\$ 240,431</u>

C. Capital assets

Prior to GASB Statement No. 34, the City was not required to calculate depreciation expense for reporting capital assets. In accordance with the implementation of GASB Statement No. 34, the City calculated depreciation expense for reporting capital assets.

(Continued)

CITY OF PHARR, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2005

Note 3 Detailed Notes on All Funds, (Cont.)

Capital asset activity for the governmental activities for the year ended September 30, 2005 was as follows:

	Beginning Balance	Increase	Decrease	Adjustments	Ending Balance
Governmental Activities:					
Capital assets, not being depreciated:					
Primary Government:					
Land	\$ 2,352,454	\$ 141,885	\$ -	\$ -	\$ 2,494,339
Construction in progress	5,154,055	2,160,701	-	-	7,314,756
Component Unit:					
Land	1,673,364	-	(223,722)	-	1,449,642
Construction in progress	2,210,932	174,331	-	(2,385,263)	-
Total capital assets, not being depreciated	11,390,805	2,476,917	(223,722)	(2,385,263)	11,258,737
Capital assets, being depreciated:					
Primary Government:					
Buildings	23,613,065	-	-	-	23,613,065
Improvements other than buildings	1,657,420	-	-	-	1,657,420
Machinery & equipment	3,535,055	603,140	-	-	4,138,195
Infrastructure	40,901,897	-	-	2,385,263	43,287,160
Component Unit:					
Buildings	1,742,697	-	-	-	1,742,697
Improvements other than buildings	2,389,511	19,694	-	-	2,409,205
Machinery & equipment	58,798	-	-	-	58,798
Total capital assets being depreciated	73,898,443	622,834	-	2,385,263	76,906,540
Less accumulated depreciation for:					
Primary Government:					
Buildings	4,968,770	417,911	-	14,467	5,401,148
Improvements other than buildings	1,117,146	52,716	-	15,394	1,185,256
Machinery & equipment	1,559,184	266,934	-	67,509	1,893,627
Infrastructure	21,301,694	1,757,297	-	-	23,058,991
Component Unit:					
Buildings	231,175	58,090	-	-	289,265
Improvements other than buildings	267,949	79,650	-	-	347,599
Machinery & equipment	46,372	6,549	-	-	52,921
Total accumulated Depreciation	29,492,290	2,639,147	-	97,370	32,228,807
Total capital assets, being depreciated, net	44,406,153	(2,016,313)	-	2,287,893	44,677,733
Governmental activities Capital assets, net	\$ 55,796,958	\$ 460,604	\$(223,722)	\$ (97,370)	\$ 55,936,470

(Continued)

CITY OF PHARR, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2005

Note 3 Detailed Notes on All Funds, (Cont.)

Capital asset activity for the business-type activities for the year ended September 30, 2005 was as follows:

	Beginning Balance	Increase	Decrease	Adjustments	Ending Balance
Business-type Activities:					
Capital assets, not being depreciated:					
Primary Government:					
Land	\$ 2,223,157	\$ 26,950	\$ -	\$ -	\$ 2,250,107
Construction in progress	4,380,766	1,628,630	-	-	6,009,396
Component Unit:					
Land	-	-	-	-	-
Construction in progress	-	-	-	-	-
Total capital assets, not being depreciated	6,603,923	1,655,580	-	-	8,259,503
Capital assets, being depreciated:					
Primary Government:					
Buildings	27,928,300	-	-	-	27,928,300
Improvements other than buildings	958,844	13,053	-	-	971,897
Machinery & equipment	10,879,889	173,212	-	-	11,053,101
Infrastructure	36,581,430	-	-	-	36,581,430
Component Unit:					
Buildings	-	-	-	-	-
Improvements other than buildings	-	-	-	-	-
Machinery & equipment	-	-	-	-	-
Total capital assets being depreciated	76,348,463	186,265	-	-	76,534,728
Less accumulated depreciation for:					
Primary Government:					
Buildings	7,228,459	629,565	-	-	7,858,024
Improvements other than buildings	179,630	26,953	-	-	206,583
Machinery & equipment	5,699,341	519,118	-	-	6,218,459
Infrastructure	9,463,917	879,653	-	-	10,343,570
Component Unit:					
Buildings	-	-	-	-	-
Improvements other than buildings	-	-	-	-	-
Machinery & equipment	-	-	-	-	-
Total accumulated Depreciation	22,571,347	2,055,289	-	-	24,626,636
Total capital assets, being depreciated, net	53,777,116	(1,869,024)	-	-	51,908,092
Business-type activities Capital assets, net	\$ 60,381,039	\$(213,444)	\$ -	\$ -	\$ 60,167,595

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CITY OF PHARR, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2005

Note 3 **Detailed Notes on All Funds, (Cont.)**

Depreciation expense of the governmental activities was charged to functions/programs as follows:

Governmental Activities:	
General Government	\$ 416,000
Public Safety	1,010,000
Public Works	459,000
Culture and Recreation	280,000
Conservation and Development	474,147
Total depreciation expense – governmental activities	<u>2,639,147</u>
Business-type Activities:	
Utility	1,325,789
Bridge	654,045
Golf Course	<u>75,455</u>
Total depreciation expense – business-type activities	<u>\$ 2,055,289</u>

Construction and Improvement Commitments

At September 30, 2005, the City has contractual commitments of approximately \$1,282,307 related to renovations/additions to the municipal library, street drainage improvements, and construction of a municipal park. The financing source for these renovations/additions will be General Fund monies and developer fee contributions. The City also has contractual commitments of approximately \$1,259,186 related to the construction of transmission water line improvements and a waste collection system. The financing source for this construction will be the Texas Water Development Board's grants and loans.

(Continued)

CITY OF PHARR, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2005

Note 3 Detailed Notes on All Funds, (Cont.)

D. Interfund balances and transfers

Interfund balances at September 30, 2005 consisted of the following amounts:

Due to/from other funds:

Due to General Fund From:

General Fund (Major Fund #1)	\$	110,692
PEDC Special Revenue Governmental Fund (Major Fund #2)		122,649
Nonmajor Governmental Funds		1,673,310
Utility Enterprise Fund (Major Fund #3)		33,566
Toll Bridge Enterprise Fund (Major Fund #4)		316,303
Golf Course Enterprise Fund (Major Fund #5)		16,431
Internal Service Fund		17,739
Total Due to General Fund (Major Fund #1) From Other Funds	\$	2,290,690

Due to PEDC Special Revenue Governmental Fund (Major Fund #2) From:

General Fund (Major Fund #1)	\$	575,940
Toll Bridge Fund (Major Fund #4)		85,228
Total Due to Major Fund #2 From Other Funds	\$	661,168

Due to Nonmajor Governmental Funds From:

General Fund (Major Fund #1)	\$	18,102
PEDC Special Revenue Governmental Fund (Major Fund #2)		557,451
Nonmajor Governmental Funds		3,286,429
Utility Enterprise Fund (Major Fund #3)		10,279
Total Due to Nonmajor Governmental Funds From Other Funds	\$	3,872,261

Due to Utility Enterprise Fund (Major Fund #3) From:

General Fund (Major Fund #1)	\$	1,444,684
Toll Bridge Enterprise Fund (Major Fund #4)		-
Golf Course Enterprise Fund (Major Fund #5)		4,588
Internal Service Funds		47,580
Total Due to Major Fund #3 From Other Funds	\$	1,496,852

Due to Toll Bridge Enterprise Fund (Major Fund #4) From:

General Fund (Major Fund #1)	\$	-
Golf Course Enterprise Fund (Major Fund #5)		1,660
Internal Service Funds		43,384
Total Due to Major Fund #4 From Other Funds	\$	45,044

Due to Golf Course Enterprise Fund (Major Fund #5) From:

General Fund (Major Fund #1)	\$	67,755
Toll Bridge Enterprise Fund (Major Fund #4)		-
Internal Service Funds		-
Total Due to Major Fund #5 From Other Funds	\$	67,755

Due to Internal Service Funds from:

General Fund (Major Fund #1)	\$	538,806
PEDC (Major Fund #2)		10,000
Utility Enterprise Fund (Major Fund #3)		59,954
Toll Bridge Enterprise Fund (Major Fund #4)		103
Golf Course Enterprise Fund (Major Fund #5)		20,591
Internal Service Funds		7,631
Total Due to Internal Service Funds From Other Funds	\$	637,085

The due to/from other funds primarily represent temporary short term borrowing for working capital, which are intended to be satisfied soon after year end.

(Continued)

CITY OF PHARR, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2005

Note 3 **Detailed Notes on All Funds, (Cont.)**

Advances to/from other funds:

Advance to Golf Course Enterprise Fund (Major Fund #5) from:	
General Fund (Major Fund #1)	\$ 2,715,597
Nonmajor Governmental Funds	-
Total Advances to Major Fund #5 From Other Funds	\$ 2,715,597

The General fund advance to the Golf Course Fund was to provide working capital for operations at the golf course. It is expected to be paid with user fees and sales at the golf course.

Interfund transfers for the year ended September 30, 2005, consisted of the following individual amounts:

Transfers to/from Other Funds:

Transfers to General Fund (Major Fund #1) from:	
Utility Enterprise Fund (Major Fund #3)	\$ 135,000
Toll Bridge Enterprise Fund (Major Fund #4)	5,700,000
Total Transferred to General Fund (Major Fund #1) From Other Funds	\$ 5,835,000

Transfers to Nonmajor Governmental Fund from:

General Fund (Major Fund #1)	\$ 3,653,228
PEDC Special Revenue Governmental Fund (Major Fund #2)	508,382
Toll Bridge Enterprise Fund (Major Fund #4)	500,000
Total Transferred to Nonmajor Funds From Other Funds	\$ 4,661,610

Transfers to PEDC Special Revenue Governmental Fund (Major Fund #2) from:

General Fund (Major Fund #1)	\$ 125,488
Toll Bridge Fund (Major Fund #4)	98,562
Total Transferred to Major Fund #2 From Other Funds	\$ 224,050

Transfers to Toll Bridge Enterprise Fund (Major Fund #4) from:

General Fund (Major Fund #1)	\$ -
Nonmajor Governmental Funds	72,081
Total Transferred to Major Fund #4 From Other Funds	\$ 72,081

During the fiscal year, the Bridge Fund transferred \$ 5,700,000, which represents the City's share of surplus net revenues from operations at the international toll bridge, to the General Fund. The Bridge Fund also transferred \$ 500,000 to the Debt Service Fund, a nonmajor fund, for its portion of debt recorded in the long-term debt account group. The PEDC Special Revenue Fund also transferred \$ 508,382 to the Debt Service Fund for its portion of long-term debt. The Utility Fund transferred \$ 135,000 to the General Fund for its portion of overhead costs. The General Fund transferred \$ 3,653,228 to nonmajor governmental funds to assist in funding some capital improvement projects. The General Fund and Bridge Fund transferred \$ 125,488 and \$ 98,562, respectively, to the PEDC Special Revenue Fund for their portion of construction cost at the industrial park. The Hotel/Motel Fund transferred \$ 72,081 to the Bridge Fund for its portion of long-term debt recorded in the Bridge Fund.

(Continued)

CITY OF PHARR, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2005

Note 3 Detailed Notes on All Funds, (Cont.)

E. Operating Leases

The City leases equipment under various operating lease agreements. Most of the leases are cancelable and extended on a monthly basis. Minimum commitments for the next five years are immaterial.

F. Long-term debt

Long-term debt and obligations at September 30, 2005 are comprised of the following issues:

Governmental Activities:

Bonds:

Primary Government:

\$11,780,000 Combination Tax and Limited Pledge Revenue Certificates of Obligation, Series 1998; due in annual installments ranging from \$530,000 to \$585,000 through August 15, 2008; interest at 4.80% to 4.90%.	\$ 1,675,000
\$2,165,000 Combination Tax and Limited Pledge Revenue Certificates of Obligation, Series 1999; due in annual installments ranging from \$90,000 to \$105,000 through August 15, 2010; interest at 5.53%.	495,000
\$12,035,000 Combination Tax and Limited Pledge Revenue Certificates of Obligation, Series 2001; due in annual installments ranging from \$395,000 to \$605,000 through August 15, 2015; interest at 4.50% to 5.0%.	4,915,000
\$16,110,000 General Obligation Refunding Bonds, Series 2005B; due in annual installments ranging from \$85,000 to \$1,850,000 through August 15, 2021, interest at 3.00% to 5.00%.	16,110,000
Subtotal – bonds	23,195,000

Capital Leases:

Primary Government:

\$32,000 lease; due in monthly installments of \$608, including interest, through June 10, 2007; interest at 5.26%.	12,166
\$30,000 lease; due in monthly installments of \$570, including interest, through June 10, 2007; interest at 5.26%.	11,406

(Continued)

CITY OF PHARR, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2005

Note 3 Detailed Notes on All Funds, (Cont.)

\$163,514 lease; due in monthly installments of \$4,850, including interest, through April 16, 2006; interest at 4.55%.	\$ 33,435
\$154,300 lease; due in monthly installments of \$2,895, including interest, through May 22, 2007; interest at 4.75%.	55,552
\$290,192 lease; due in monthly installments of \$6,778, including interest, through January 24, 2009; interest at 3.07%.	165,748
\$34,574 lease; due in monthly installments of \$1,028, including interest, through December 21, 2007; interest at 4.70%.	26,278
\$422,952 lease; due in monthly installments of \$140,749, including interest, through February 25, 2008; interest at 3.70%.	392,952
Subtotal – leases	697,537

Notes Payable:

Primary Government:

<p style="margin-left: 40px;"><i>\$ 2,125,000</i></p> <p>\$2,125,000 note payable to the U.S. Department of Housing and Urban Development; due in annual installment of variable amounts, including interest, through August 1, 2011; interest at 6.43%</p>	1,410,000
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Component Unit:

<p>\$650,000 note payable to Texas Economic Bank; dated July 14, 1995, interest per annum at the Wall Street Journal Prime Rate (6.75% at September 30, 2005); payable in monthly installments of \$5,798, including interest; maturity date of July 14, 2010; collateralized by first lien on economic development sales and use tax receipts.</p>	326,286
<p>\$200,000 note payable to Will U. and Dorothy Wallace; dated June 6, 1997; interest at the rate of 8.25% per annum; payable in monthly installments of \$2,443, including interest; maturity date of September 1, 2007; collateralized by real estate in Pharr, Texas.</p>	53,887
<p>\$2,942,996 note payable to Lone Star National Bank; dated August 3, 2001; interest at the rate per annum of 85% of the Wall Street Journal Prime Rate (5.737% at September 30, 2005); payable in monthly installments of \$27,700, including interest; maturity date of August 3, 2016; collateralized by real estate in Pharr, Texas.</p>	1,965,139

(Continued)

CITY OF PHARR, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2005

Note 3 Detailed Notes on All Funds, (Cont.)

\$465,000 note payable to Lone Star National Bank; dated April 12, 2002; interest rate per annum at the Wall Street Journal Prime Rate (6.75% at September 30, 2005); payable in monthly installments of \$3,925, including interest; maturity date of April 12, 2007; collateralized by real estate in Pharr, Texas. \$ 357,019

\$200,000 note payable to First National Bank; dated September 16, 2002; interest at the rate of 1% per annum above the Wall Street Journal Prime Rate (7.75% at September 30, 2005); payable in monthly installments of \$2,204, including interest; maturity date of September 16, 2012; collateralized by real estate in Pharr, Texas. 145,473

\$580,000 note payable to First National Bank; dated October 9, 2002; interest at the rate of 1% per annum above the Wall Street Journal Prime Rate (7.75% at September 30, 2005); payable in monthly installments of \$6,391, including interest; maturity date of October 9, 2012; collateralized by real estate in Pharr, Texas. 425,889

Subtotal – Notes Payable 4,683,693

Total Governmental Activities 28,576,230

Business-type Activities:

Revenue Bonds:

\$720,000 Waterworks and Sewer System Junior Lien Revenue Bonds, Series 1987; due in annual installments of \$65,000 through September 1, 2007; interest at 0.00%. 130,000

\$3,260,000 Waterworks and Sewer System Junior Lien Revenue Bonds, Series 1988; due in annual installments ranging from \$185,000 to \$190,000 through September 1, 2013; interest at 0.00%. 1,490,000

\$2,570,000 Waterworks and Sewer System Revenue Bonds, Series 1996; due in annual installments ranging from \$120,000 to \$205,000 through September 1, 2016; interest at 5.2% to 5.75%. 1,725,000

\$978,000 Waterworks and Sewer System Revenue Bonds, Series 1996-A; due in annual installments ranging from \$40,000 to \$78,000 through September 30, 2017; interest at 6.14% to 6.74%. 703,000

\$4,380,000 Waterworks and Sewer System Current Refunding Bonds, Series 1997; due in one annual installment of \$120,000 on September 1, 2006; interest at 4.65%. 120,000

(Continued)

CITY OF PHARR, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2005

Note 3 **Detailed Notes on All Funds, (Cont.)**

\$630,000 Waterworks and Sewer System Revenue Bonds, Series 1997-B; due in annual installments ranging from \$25,000 to \$55,000 through September 1, 2017; interest at 5.87% to 6.52%.	\$ 465,000
\$4,230,000 Waterworks and Sewer System Revenue Bonds, Series 1997-C; due in annual installments ranging from \$210,000 to \$400,000 through September 1, 2017; interest at 3.75% to 4.35%.	3,735,000
\$1,651,000 Waterworks and Sewer System Revenue Bonds, Series 1998; due in annual installments ranging from \$67,000 to \$133,000 through September 1, 2018; interest at 6.00%.	1,256,000
\$2,160,000 Waterworks and Sewer System Revenue Bonds, Series 1998-A; due in annual installments ranging from \$65,000 to \$180,000 through September 1, 2023; interest at 6.00%.	2,065,000
\$9,755,000 Combination Tax and International Bridge Revenue Refunding Bonds, Series 2005A; due in annual installments ranging from \$465,000 to \$740,000 through August 15, 2022, interest at 3.00% to 4.5%.	<u>9,755,000</u>
Subtotal – Bonds	<u>21,444,000</u>
Capital Leases:	
\$51,771 lease; due in monthly installments of \$1,534, including interest, through September 1, 2006; interest at 4.25%.	19,459
\$19,672 lease; due in monthly installments of \$583, including interest, through April 16, 2006; interest at 4.55%.	4,023
\$109,581 lease; due in monthly installments of \$2,560, including interest, through January 24, 2009; interest at 3.07%.	<u>62,589</u>
Subtotal – leases	<u>86,071</u>
Total Business Type Activities	<u>21,530,071</u>
Total Long-term liabilities	<u>\$ 50,106,301</u>

(Continued)

CITY OF PHARR, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2005

Note 3 Detailed Notes on All Funds, (Cont.)

As of September 30, 2005, the City is in compliance with all bond covenants on outstanding general obligation and revenue bonded debt.

The annual requirements to amortize all debt outstanding as of September 30, 2005, excluding obligations associated with compensated absences and post-retirement benefits, are as follows:

	Governmental Activities		Business-Type Activities		Government-Wide	
	Principal	Interest	Principal	Interest	Principal	Interest
2006	\$ 2,037,837	\$ 2,049,681	\$ 1,453,150	\$ 901,463	\$ 3,490,987	\$ 2,951,144
2007	2,366,104	1,943,758	1,350,122	854,201	3,716,226	2,797,959
2008	2,037,487	1,842,767	1,321,788	810,897	3,359,275	2,653,664
2009	1,967,843	1,347,043	1,369,012	764,152	3,336,855	2,111,195
2010	2,047,951	1,261,732	1,414,000	713,905	3,461,951	1,975,637
2011 - 2015	8,409,010	4,810,215	7,406,000	2,685,238	15,815,010	7,495,453
2016 - 2020	8,175,000	1,334,625	5,261,000	1,079,834	13,436,000	2,414,459
2021 - 2025	1,535,000	63,319	1,955,000	150,717	3,490,000	214,036
	<u>\$28,576,232</u>	<u>\$14,653,140</u>	<u>\$21,530,072</u>	<u>\$ 7,960,407</u>	<u>\$50,106,304</u>	<u>\$22,613,547</u>

Advance Refunding

On August 15, 2005, the City issued \$ 16,110,000 of General Obligation Bonds to advance refund \$ 7,775,000 of outstanding Certificates of Obligation, Series 1998 (maturing August 15, 2009 through August 2018); \$1,240,000 of outstanding Certificates of Obligation, Series 1999 (maturing August 15, 2011 through August 15, 2019); and \$ 6,300,000 of outstanding Certificates of Obligation, Series 2001 (maturing August 15, 2016 through August 15, 2021). The net proceeds of \$16,059,609 (after payment of \$256,707 in underwriting fees and other issuance costs), plus an additional \$75,000 from prior sinking fund monies, were used to purchase U.S. government securities. Those securities were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the noted 1998, 1999 and 2001 Series bonds. As a result, the 1998, 1999, and 2001 Series bonds referred to above are considered to be defeased and the liability for those bonds have been removed from the government-wide statement of net assets. The advance refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt of \$819,609. This amount is being netted against the new debt and amortized over the remaining life of the refunded debt, which is shorter than the life of the new debt issued. The City completed the advance refunding to reduce its overall debt service requirement and to obtain an economic gain (difference between the present values of the old debt and new debt service payments) of \$ 884,002.

(Continued)

CITY OF PHARR, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2005

Note 3 **Detailed Notes on All Funds, (Cont.)**

On August 15, 2005, the City also issued \$9,755,000 of Combination Tax and International Bridge Revenue Refunding Bonds to advance refund \$225,000 of the International Toll Bridge Combination Tax and Revenue Certificates of Obligation, Series 1994 and \$17,380,00 of the General Obligation and Revenue Refunding Bonds, Series 2003. The net proceeds of \$9,641,763 (after payment of \$147,604 in underwriting fees and other costs), plus an additional amount of \$8,034,595 from prior sinking fund monies, were used to purchase U.S. government securities. Those securities were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the 1994 and 2003 Series bonds. As a result, the 1994 and 2003 Series bonds are considered defeased and the liability for the bonds has been removed from the government-wide statement of net assets and the proprietary funds statement of net assets. The advance refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt of \$ 1,605,833. This amount is being netted against the new debt and amortized over the remaining life of the refunded debt, which is shorter than the life of the new debt issued. The City completed this advance refunding in order to eliminate the requirement for a debt service reserve fund for such debt. The transaction also resulted in an economic gain of \$ 7,477,071.

Prior- Years Defeasance of Debt

In fiscal year 2003, the City defeased \$530,000 of the City's Combination Tax and Limited Pledge Certificates of Obligation, Series 1991 (maturing August 15, 2004 to August 15, 2012); \$13,750,000 of the International Toll Bridge Combination Tax and Revenue Certificates of Obligation, Series 1993 (maturing August 15, 2005 to August 15, 2014); and \$2,820,000 of the International Toll Bridge Combination Tax and Revenue Certificates of Obligation, Series 1994 (maturing August 15, 2007 to August 15, 2015) by placing certain proceeds of new bonds (Series 2003) in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the City's government-wide statement of net assets. At September 30, 2005, the outstanding balances on the following bonds are considered defeased.

Series 1991	\$ 440,000
Series 1993	\$ 12,675,000
Series 1994	\$ 2,820,000

(Continued)

CITY OF PHARR, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2005

Note 3 Detailed Notes on All Funds, (Cont.)

Changes in Long-term Debt

The following is a summary of changes in Long-Term Debt of the City for the year ended September 30, 2005:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental activities:					
Bonds payable:					
Certificates of Obligation	\$ 23,330,000	\$ -	\$ 16,245,000	\$ 7,085,000	\$ 1,015,000
General Obligation	-	16,110,000	-	16,110,000	85,000
Total bonds payable	23,330,000	16,110,000	16,245,000	23,195,000	1,100,000
Notes payable	5,277,649	-	593,955	4,683,694	643,484
Capital leases	471,014	457,526	231,002	697,538	294,354
Compensated absences	3,110,195	-	96,079	3,014,116	-
Governmental activities					
Long-term liabilities	<u>\$ 32,188,858</u>	<u>\$ 16,567,526</u>	<u>\$ 17,166,036</u>	<u>\$ 31,590,348</u>	<u>\$ 2,037,838</u>
Business-type activities:					
Bonds payable:					
Revenue bonds	\$ 31,707,000	\$ 9,755,000	\$ 20,018,000	\$ 21,444,000	\$ 1,402,000
Less deferred amounts:					
Issuance/premium/discount	(1,842,549)	-	(23,861)	(1,818,688)	-
Loss on refunding	-	-	-	-	-
Total bonds payable	29,864,451	9,755,000	19,994,139	19,625,312	1,402,000
Notes payable	2,020	-	2,020	-	-
Capital leases	305,479	17,944	237,351	86,072	86,072
Compensated absences	772,594	-	64,909	707,685	-
Business-type activities					
Long-term liabilities	<u>\$ 30,944,544</u>	<u>\$ 9,772,944</u>	<u>\$ 20,298,419</u>	<u>\$ 20,419,069</u>	<u>\$ 1,488,072</u>

Internal service funds predominately serve the governmental funds. Accordingly, long-term liabilities for them are included as part of the above totals for the governmental activities. At year end, \$23,846 of compensated absences of internal service funds was included in the above amounts.

Note 4 Other Information

A. Risk management

General:

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; and natural disasters for which the City carries commercial insurance. The City purchases replacement value commercial property insurance with a \$1,000 deductible. Such insurance is consistent with the prior year, and no losses were sustained in excess of the coverage over the past three fiscal years.

(Continued)

CITY OF PHARR, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2005

Note 4 Other Information, (Cont.)

Self-Insured Worker's Compensation:

On October 1, 2002, the City established its self-funding Worker's Compensation Program. Prior to October 1, 2004, expenditures/expenses related to worker's compensation were accounted for in the City's applicable governmental and enterprise funds. The related accrued liability at year's end was accounted for in the City's General Long-Term Debt Account Group. Starting in fiscal year 2005, this program is accounted for in the City's Worker's Compensation Fund, an Internal Service Fund.

In fiscal year 2005, the City maintained a self-insured retention of \$500,000 per occurrence and no aggregate retention. The City currently purchases excess coverage to statutory limits and aggregate excess insurance from Midwest Employers Casualty Company, a commercial insurer licensed or eligible to do business in Texas in accordance with the Texas Insurance Code. Claims administration was provided by Texas Municipal League for the period from October 1, 2002 to September 30, 2003 and for the period from October 1, 2004 to September 30, 2005. Claim administration was provided by ICON Benefit Administrators for the period from October 1, 2003 to September 30, 2004.

The accrued liability for Workers' Compensation self-insurance of \$537,319 includes incurred by not reported claims at September 30, 2005. This liability is based on the requirements of GASB Statement No. 10, which requires that a liability for claims be reported if information prior to the issuance of the financial statements indicates that it is probable that a liability has been incurred as of the date of the financial statements, and the amount of loss can be reasonably estimated. Because actual claim liabilities depend on such complex factors as inflation, changes in legal doctrines, and damage awards, the process used in computing the liability does not result necessarily in an exact amount.

The following is a summary of the changes in the balances of claims liability amounts for workers' compensation for the years ended September 30, 2005 and September 30, 2004:

	2005	2004
Liability, beginning of period	\$ 269,409	\$ 293,684
Current year's claims	500,000	670,770
Changes in the estimate for claims of prior period(s)	31,239	-
Payments on claims	(263,329)	(695,045)
Liability, end of period	\$ 537,319	\$ 269,409

(Continued)

CITY OF PHARR, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2005

Note 4 Other Information, (Cont.)

B. Contingent liabilities

1. Litigation

Various lawsuits are pending against the City involving general liability, civil rights actions and various contractual matters. In the opinion of City management, the potential claims against the City not covered by insurance resulting from such litigation will not materially affect the financial position of the City.

2. Federally Assisted Program

The City participates in a number of federally assisted grant programs. Although the City's grant programs have been audited in accordance with the provisions of the Single Audit Act Amendments of 1996 and OMB Circular A-133 through September 30, 2005, these programs are still subject to financial and compliance audits. The amount, if any, of expenditures which may be disallowed by the grantor agencies cannot be determined at this time, although the City expects such amounts, if any, to be immaterial.

C. Employee retirement systems and pension plan

Plan Description:

The City (Primary Government), including PEDC, provides pension benefits for all of its full-time employees through a non-traditional, joint contributory, hybrid defined benefit plan in the state-wide Texas Municipal Retirement System (TMRS), one of 801 administered by TMRS, an agent multiple-employer public employee retirement system.

Benefits depend upon the sum of the employee's contributions to the plan, with interest, and the City-financed monetary credits, with interest. At the date the plan began, the City granted monetary credits for service rendered before the plan began of a theoretical amount at least equal to two times what would have been contributed by the employee, with interest, prior to establishment of the plan. Monetary credits for service since the plan began are a percent (100%, 150%, or 200%) of the employee's accumulated contributions. In addition, the City can grant, as often as annually, another type of monetary credit referred to as an updated service credit which is a theoretical amount which, when added to the employee's accumulated contributions and the monetary credits for service since the plan began,

(Continued)

CITY OF PHARR, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2005

Note 4 Other Information, (Cont.)

would be the total monetary credits and employee contributions accumulated with interest if the current employee contribution rate and City matching percent had always been in existence and if the employee's salary had always been the average of his salary in the last three years that are one year before the effective date. At retirement, the benefit is calculated as if the sum of the employee's accumulated contributions with interest and the employer-financed monetary credits with interest were used to purchase an annuity.

The plan provisions are adopted by the governing body of the City, within the options available in the state statutes governing TMRS and within the actuarial constraints also in the statutes. Plan provisions for the City were as follows (as of 04/01/05):

Deposit Rate:	7%
Matching Ratio (City to Employees):	2 to 1
A member is vested after	5 years

Members can retire at certain ages, based on the years of service with the City. The Service Retirement Eligibilities for the City (expressed as years of service/age) are: 5 years/age 60, 20 years/any age

Contributions:

Under the state law governing TMRS, the actuary annually determines the City contribution rate. This rate consists of the normal cost contribution rate and the prior service cost contribution rate, both of which are calculated to be a level percent of payroll from year to year. The normal cost contribution rate finances the currently accruing monetary credits due to the City matching percent, which are the obligation of the City as of an employee's retirement date, not at the time the employee's contributions are made. The normal cost contribution rate is the actuarially determined percent of payroll necessary to satisfy the obligation of the City to each employee at the time his/her retirement becomes effective. The prior service contribution rate amortizes the unfunded (overfunded) actuarial liability (asset) over the remainder of the plan's 25-year amortization period. The unit credit actuarial cost method is used for determining the City contribution rate. Both the employees and the City make contributions monthly. Since the City needs to know its contribution rate in advance for budgetary purposes, there is a one-year delay between the actuarial valuation that serves as the basis for the rate and the calendar year when the rate goes into effect (i.e., December 31, 2004 valuation is effective for rates beginning January 2006).

(Continued)

CITY OF PHARR, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2005

Note 4 Other Information, (Cont.)

City of Pharr, Texas

Schedule of Actuarial Liabilities and Funding Progress

Actuarial Valuation Date	12/31/2004	12/31/2003	12/31/2002
Actuarial Value of Assets	\$ 19,137,445	\$ 16,442,520	\$ 15,009,474
Actuarial Accrued Liability	\$ 28,761,758	\$ 22,291,066	\$ 17,730,042
Percentage Funded	66.5%	73.8%	84.7%
Unfunded (Over-funded) Actuarial Accrued Liability (UAAL)	\$ 9,624,313	\$ 5,848,546	\$ 2,720,568
Annual Covered Payroll	\$ 12,982,218	\$ 10,798,448	\$ 10,237,997
UAAL as a Percentage of Covered Payroll	74.1%	54.2%	26.6%
Net Pension Obligation (NPO) at the Beginning of Period	\$ -	\$ -	\$ -
Annual Pension Cost:			
Annual required contribution (ARC)	1,783,620	1,141,247	841,554
Contributions Made	1,783,620	1,141,247	841,554
NPO at the end of the period	\$ -	\$ -	\$ -

General System-wide Actuarial Assumptions

Actuarial Cost Method -	Unit Credit	Unit Credit	Unit Credit
Amortization Method -	Level Percent of	Level Percent of	Level Percent of
	Payroll	Payroll	Payroll
Remaining Amortization Period -	25 Years – Open	25 Years – Open	25 Years – Open
	Period	Period	Period
Asset Valuation Method -	Amortized Cost	Amortized Cost	Amortized Cost
	(to accurately	(to accurately	(to accurately
	reflect the	reflect the	reflect the
	Requirements of	Requirements of	Requirements of
	GASB	GASB	GASB
	Stmnt. No.25,	Stmnt. No.25,	Stmnt. No.25,
	Paragraphs	Paragraphs	paragraphs
	36e and 138)	36e and 138)	36e and 138)
Investment Rate of Return -	7%	7%	8%
Projected Salary Increase -	None	None	None
Includes Inflation At -	3.5	3.5	None
Cost-of-living Adjustments -	None	None	None

The City is one of 801 municipalities having the benefit plan administered by TMRS. Each of the 801 municipalities have an annual, individual actuarial valuation performed. All assumptions for the 12-31-04 valuations are contained in the 2004 TMRS Comprehensive Annual Financial Report, a copy of which may be obtained by writing to P.O. Box 149153, Austin, Texas 78714-9153.

(Continued)

CITY OF PHARR, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2005

Note 4 Other Information, (Cont.)

D. Pharr Firemen's Relief and Retirement Fund

The Pharr Firemen's Relief and Retirement Fund is a supplemental pension fund for the benefit of the City's volunteer firemen. In fiscal year 2005, the City contributed \$ 35,000 to this fund.

E. Other Post-employment benefits

The City provides post-employment health care benefits for all retirees and their dependents. The City pays 100% of the retired employee and 50% of the dependent's, if applicable, coverage premium for the duration of the eligible retired employee's life. As of year's end, there were 36 employees who had retired; 10 with single coverage and 26 with family coverage. The City finances the plan on a pay-as-you-go basis. For the year ended September 30, 2005, the City paid \$ 190,970 for these benefits.

F. Change in Accounting Principle

Prior to October 1, 2004, expenditures/expenses related to the City's self-funding Worker's Compensation Program were accounted for in the City's General Fund and applicable Proprietary Funds. The related accrued liability at year's end was accounted for in the City's General Long-Term Debt Account Group. Starting in fiscal year 2005, the City accounted for this program in its Worker's Compensation Fund, an Internal Service Fund. At September 30, 2005, the accrued liability for worker's compensation, which is based on the requirements of GASB Statement No. 10, is accounted for in this fund. The effect of this change on the fund financial statements was that the General Fund's fund balance was decreased by \$468,036. The net asset balances of the Utility Fund, Toll Bridge Fund, Golf Course Fund, and City Garage Fund were decreased by \$ 58,954, \$ 11,414, \$ 15,773, and \$ 4,902, respectively. The Worker's Compensation Fund's net asset balance was increased by \$ 90,452.

G. Subsequent Event

As part of the City's general election held on May 13, 2006, a majority of the voters of the City voted in favor of a proposition that gave the City's Police Officers the right to the collective bargaining process.

H. Segment Information

The City maintains three Enterprise Funds. The Utility Fund is used to account for the operation of providing water and sewer services to the residents of the City. The Toll Bridge Fund and Golf Course Fund are used to account for the operations of the City's international toll bridge and golf course, respectively. Summary financial information for these funds is presented below.

(Continued)

CITY OF PHARR, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2005

Note 4 Other Information, (Cont.)

1. Condensed Statement of Net Assets

	<u>Utility Fund</u>	<u>Toll Bridge Fund</u>	<u>Golf Course Fund</u>	<u>Total Enterprise Funds</u>
Assets:				
Current assets	\$ 2,790,484	\$ 2,289,689	\$ 68,155	\$ 5,148,328
Due from other funds	1,496,852	45,044	67,755	1,609,651
Restricted assets	4,339,746	1,171,068	-	5,510,814
Capital assets	<u>41,824,229</u>	<u>16,145,962</u>	<u>2,197,404</u>	<u>60,167,595</u>
Total assets	<u>50,451,311</u>	<u>19,651,763</u>	<u>2,333,314</u>	<u>72,436,388</u>
Liabilities:				
Current liabilities	855,013	246,964	88,133	1,190,110
Due to other funds	103,800	401,635	43,270	548,705
Advances from other funds	-	-	2,715,597	2,715,597
Current liabilities payable from restricted assets	2,426,112	509,283	-	2,935,395
Noncurrent liabilities	<u>10,788,326</u>	<u>9,290,000</u>	<u>-</u>	<u>20,078,326</u>
Total liabilities	<u>14,173,251</u>	<u>10,447,882</u>	<u>2,847,000</u>	<u>27,468,133</u>
Net assets:				
Investment in capital assets, net of related debt	30,047,185	6,390,962	2,197,404	38,635,551
Restricted	2,281,108	661,785	-	2,942,893
Unrestricted	<u>3,949,767</u>	<u>2,151,134</u>	<u>(2,711,090)</u>	<u>3,389,811</u>
Ending net assets	<u>\$ 36,278,060</u>	<u>& 9,203,881</u>	<u>\$(513,686)</u>	<u>\$ 44,968,255</u>

(Continued)

CITY OF PHARR, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2005

Note 4 **Other Information, (Cont.)**

2. Condensed Statement of Revenues, Expenses, and Changes in Net Assets

	<u>Utility Fund</u>	<u>Toll Bridge Fund</u>	<u>Golf Course Fund</u>	<u>Total Enterprise Funds</u>
Charges for Water Services	\$ 4,815,520	\$ -	\$ -	\$ 4,815,520
Charges for Sewage Service	2,829,341	-	-	2,829,341
Charges for Service-Toll Bridge	-	7,611,692	-	7,611,692
Charges for Service-Golf Course	-	-	808,679	808,679
Depreciation expense	(1,325,789)	(654,045)	(75,455)	(2,055,289)
Other operating expenses	(4,881,376)	(2,391,542)	(874,565)	(8,147,483)
Nonoperating revenue (expenses):				
Investment earnings	184,357	420,620	4,194	609,171
Other revenues	10,001	-	-	10,001
Interest expenses	(603,576)	(626,493)	-	(1,230,069)
Other expenses	(74,715)	(157,957)	(37,551)	(270,223)
Capital grant	250,000	-	-	250,000
Transfers in	-	72,081	-	72,081
Transfers out	(135,000)	(6,298,561)	-	(6,433,561)
Changes in net assets	1,068,763	(2,024,205)	(174,698)	(1,130,140)
Beginning net assets	35,070,462	11,239,500	(501,132)	45,808,830
Prior period adjustments	138,835	(11,414)	162,144	289,565
Ending net assets	<u>\$ 36,278,060</u>	<u>\$ 9,203,881</u>	<u>\$(513,686)</u>	<u>\$ 44,968,255</u>

(Continued)

CITY OF PHARR, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2005

Note 4 Other Information, (Cont.)

3. Condensed Statement of Cash Flow

	<u>Utility Fund</u>	<u>Toll Bridge Fund</u>	<u>Golf Course Fund</u>	<u>Total Enterprise Fund</u>
Net cash provided (used) by:				
Operating activities	\$ 2,725,013	\$ 5,705,374	\$ (28,253)	\$ 8,402,134
Noncapital financing activities	(124,999)	(6,226,480)	18,469	(6,333,010)
Capital and related financing activities	(3,346,645)	(9,921,689)	(13,053)	(13,281,387)
Investing activities	184,357	420,620	4,194	609,171
Net increase (decrease)	(562,274)	(10,022,175)	(18,643)	(10,603,092)
Beginning cash and cash equivalents	6,346,568	11,674,061	33,823	18,054,452
Ending cash and cash equivalents	<u>\$ 5,784,294</u>	<u>\$ 1,651,886</u>	<u>\$ 15,180</u>	<u>\$ 7,451,360</u>

I. Prior Period Adjustments

The City adjusted fund balances/net assets in the following funds due to the following reasons:

<u>Governmental Funds</u>	<u>General Fund</u>	<u>PEDC Special Revenue</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental</u>
To increase prior years' revenues	\$ 146,555	\$ -	\$ 568,250	\$ 714,805
To increase prior years' expenditures	(507,347)	-	-	(507,347)
To decrease prior year's expenditures	-	-	-	-
	<u>\$ (360,792)</u>	<u>\$ -</u>	<u>\$ 568,250</u>	<u>\$ 207,458</u>

(Continued)

CITY OF PHARR, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2005

Note 4 Other Information, (Cont.)

<u>Proprietary Funds</u>	<u>Utility</u>	<u>Toll Bridge</u>	<u>Golf Course</u>	<u>Internal Service</u>	<u>Total Proprietary</u>
To increase prior year revenues	\$ 197,031	\$ -	\$ -	\$ -	\$ 197,031
To increase prior year's expenses	(58,196)	(11,414)	(15,773)	(4,902)	(90,285)
To decrease prior years' expenses	-	-	177,917	90,452	268,369
	<u>\$ 138,835</u>	<u>\$ (11,414)</u>	<u>\$ 162,144</u>	<u>\$ 85,550</u>	<u>\$ 375,115</u>

<u>Government-wide</u>	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
To increase prior year's revenues	\$ 919,624	\$ 197,031	\$ 1,116,655
To increase prior year's expenses	(512,249)	(85,383)	(597,632)
To decrease prior year's expenses	90,452	177,917	268,369
To adjust fixed assets, net of related debt at beginning of year	115,461	-	115,461
	<u>\$ 613,288</u>	<u>\$ 289,565</u>	<u>\$ 902,853</u>

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CITY OF PHARR, TEXAS
 STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
 BUDGET AND ACTUAL – GENERAL FUND
 FOR THE YEAR ENDED SEPTEMBER 30, 2005

EXHIBIT E-1

	Budgeted Amounts		Actual Amounts (GAAP Basis)	Variance With Final Budget Positive or (Negative)
	Original	Final		
REVENUES:				
Taxes:				
Property Taxes	\$ 7,964,299	\$ 8,039,299	\$ 7,965,289	\$ (74,010)
General Sales and Use Taxes	7,250,000	7,385,000	7,531,971	146,971
Franchise Tax	1,505,000	1,580,000	1,512,522	(67,478)
Other Taxes	145,000	155,000	179,358	24,358
Penalty and Interest on Taxes	375,000	465,000	462,514	(2,486)
Licenses and Permits	582,500	644,500	680,857	36,357
Intergovernmental Revenue and Grants	307,500	532,000	604,903	72,903
Charges for Services	3,564,500	3,909,500	3,971,441	61,941
Fines	725,000	862,000	1,414,666	552,666
Investment Earnings	35,000	55,000	69,773	14,773
Rents and Royalties	42,000	42,000	42,002	2
Contributions & Donations from Private Sources	-	-	115	115
Other Revenue	209,000	261,000	823,386	562,386
Total Revenues	<u>22,704,799</u>	<u>23,930,299</u>	<u>25,258,797</u>	<u>1,328,498</u>
EXPENDITURES:				
Current:				
General Government:				
Legislative	67,000	67,000	70,513	(3,513)
Judicial	345,885	377,885	377,590	295
Executive	1,038,575	1,252,925	1,138,983	113,942
Elections	22,000	22,000	19,273	2,727
Financial Administration	874,420	932,805	896,839	35,966
Planning and Code Enforcement	780,700	780,700	758,644	22,056
Other General Government Functions	1,486,824	1,786,824	1,395,975	390,849
Public Safety:				
Police	7,679,241	7,896,741	8,014,988	(118,247)
Fire Protection	3,587,423	3,766,650	3,923,687	(157,037)
Traffic Safety	642,085	762,600	829,989	(67,389)
Highways and Streets:	1,626,610	1,750,545	1,972,093	(221,548)
Sanitation:	2,955,000	3,205,000	3,228,983	(23,983)
Culture and Recreation:				
Parks	1,579,128	1,847,370	1,929,133	(81,763)
Libraries	983,825	986,325	993,094	(6,769)
Conservation and Development:				
Economic Development and Assistance	30,400	30,400	77,140	(46,740)
Total Expenditures	<u>23,699,116</u>	<u>25,465,770</u>	<u>25,626,924</u>	<u>(161,154)</u>
Excess (Deficiency) of Revenues Over (Under)				
Expenditures	(994,317)	(1,535,471)	(368,127)	1,167,344
OTHER FINANCING SOURCES USES:				
Proceeds from Capital Leases	-	-	34,574	34,574
Transfers In	985,000	1,515,000	5,835,000	4,320,000
Transfers Out (Use)	(58,335)	(58,335)	(3,778,717)	(3,720,382)
Total Other Financing Sources (Uses)	<u>926,665</u>	<u>1,456,665</u>	<u>2,090,857</u>	<u>634,192</u>
Net Changes in Fund Balance	(67,652)	(78,806)	1,722,730	1,801,536
Fund Balance – October 1 (Beginning)	4,470,187	4,470,187	4,470,187	-
Prior Period Adjustments	(360,792)	(360,792)	(360,792)	-
Fund Balance – September 1 (Ending)	<u>\$ 4,041,743</u>	<u>\$ 4,030,589</u>	<u>\$ 5,832,125</u>	<u>\$ 1,801,536</u>

The accompanying notes are an integral part of this statement.

MEMORANDUM FOR THE DIRECTOR, FBI
SUBJECT: [Illegible]

[Extremely faint and illegible text, likely a memorandum or report. The content is mostly unreadable due to low contrast and blurring.]

CITY OF PHARR, TEXAS
 STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
 BUDGET AND ACTUAL – PEDC SPECIAL REVENUE FUND
 FOR THE YEAR ENDED SEPTEMBER 30, 2005

EXHIBIT E-2

	Budgeted Amounts		Actual Amounts (GAAP Basis)	Variance With Final Budget Positive or (Negative)
	Original	Final		
REVENUES:				
Taxes:				
General Sales and Use Taxes	\$ 2,300,000	\$ 2,300,000	\$ 2,510,657	\$ 210,657
Intergovernmental Revenue and Grants	-	-	-	-
Investment Earnings	34,980	34,980	60,073	25,093
Rents and Royalties	454,200	454,200	280,459	(173,741)
Other Revenue	-	-	-	-
Total Revenues	<u>2,789,180</u>	<u>2,789,180</u>	<u>2,851,189</u>	<u>62,009</u>
EXPENDITURES:				
Current:				
Economic Development and Assistance	1,444,700	1,444,700	1,477,046	(32,346)
Debt Service:				
Principal – bonds/capital leases/loans	398,958	398,958	398,955	3
Interest - bonds/capital leases/loans	183,258	183,258	186,128	(2,870)
Capital Outlay:				
Capital Outlay - Construction	-	-	137,019	(137,019)
Total Expenditures	<u>2,026,916</u>	<u>2,026,916</u>	<u>2,199,148</u>	<u>(172,232)</u>
Excess of Revenues Over Expenditures	<u>762,264</u>	<u>762,264</u>	<u>652,041</u>	<u>(110,223)</u>
OTHER FINANCING SOURCES USES:				
Sale of Land and Personal Property	300,000	300,000	856,768	556,768
Transfers In	-	-	224,050	224,050
Transfers Out (Use)	(546,000)	(546,000)	(508,382)	37,618
Total Other Financing Sources (Uses)	<u>(246,000)</u>	<u>(246,000)</u>	<u>572,436</u>	<u>818,436</u>
Changes in Fund Balance	516,264	516,264	1,224,477	708,213
Fund Balance – October 1 (Beginning)	535,017	535,017	535,017	-
Fund Balance – September 1 (Ending)	<u>\$ 1,051,281</u>	<u>\$ 1,051,281</u>	<u>1,759,494</u>	<u>\$ 708,213</u>

The accompanying notes are an integral part of this statement.

CITY OF PHARR, TEXAS
 COMBINING BALANCE SHEET
 NONMAJOR GOVERNMENTAL FUNDS
 SEPTEMBER 30, 2005

	Assets Sharing Fund	CDBG Fund	Law Enforcement Fund	Hotel Motel Fund
ASSETS				
Cash and Cash Equivalents	\$ 350,626	\$ 115,440	\$ 102,393	\$ 573,341
Taxes Receivable	-	-	-	-
Allowance for Uncollectible Taxes (credit)	-	-	-	-
Receivables (net of allowance for uncollectibles)	-	70,266	-	147,434
Intergovernmental Receivables	-	-	-	-
Due from Other Funds	28,584	-	7,845	-
Total Assets	<u>\$ 379,210</u>	<u>\$ 185,706</u>	<u>\$ 110,238</u>	<u>\$ 720,775</u>
LIABILITIES AND FUND BALANCES				
Accounts Payable	\$ -	\$ 6,998	\$ -	\$ -
Due to Other Funds	-	19,358	-	17,181
Deferred Revenues	-	137,594	-	-
Other Current Liabilities	-	15,000	-	-
Total Liabilities	<u>-</u>	<u>178,950</u>	<u>-</u>	<u>17,181</u>
Fund Balances:				
Reserved For:				
Debt Service	-	-	-	-
Capital Project	-	-	-	-
Unreserved and Undesignated:				
Reported in the Special Revenue Fund	<u>379,210</u>	<u>6,756</u>	<u>110,238</u>	<u>703,594</u>
Total Fund Balances	<u>379,210</u>	<u>6,756</u>	<u>110,238</u>	<u>703,594</u>
Total Liabilities and Fund Balances	<u>\$ 379,210</u>	<u>\$ 185,706</u>	<u>\$ 110,238</u>	<u>\$ 720,775</u>

The accompanying notes are an integral part of this statement.

EXHIBIT F-1

Parkland Dedication Fee Fund	Total Nonmajor Special Revenue Funds	Debt Service Fund	Capital Projects Fund	CIP Cap. Projects Fund	Total Nonmajor Capital Projects Funds	Total Nonmajor Governmental Funds
\$ 437,344	\$ 1,579,144	\$ 548,716	\$ 814,038	\$ -	\$ 814,038	\$ 2,941,898
-	-	389,644	-	-	-	389,644
-	-	(41,991)	-	-	-	(41,991)
	217,700	-	-	-	-	217,700
225,997	225,997	-	-	-	-	225,997
-	36,429	585,832	-	3,250,000	3,250,000	3,872,261
<u>\$ 663,341</u>	<u>\$ 2,059,270</u>	<u>\$ 1,482,201</u>	<u>\$ 814,038</u>	<u>\$ 3,250,000</u>	<u>\$ 4,064,038</u>	<u>\$ 7,605,509</u>
\$ 30,906	\$ 37,904	\$ -	\$ 337,092	\$ 350,000	\$ 687,092	\$ 724,996
19,441	55,980	-	1,617,330	-	1,617,330	1,673,310
-	137,594	347,653	-	-	-	485,247
-	15,000	-	-	-	-	15,000
<u>50,347</u>	<u>246,478</u>	<u>347,653</u>	<u>1,954,422</u>	<u>350,000</u>	<u>2,304,422</u>	<u>2,898,553</u>
-	-	1,134,548	-	-	-	1,134,548
-	-	-	(1,140,384)	2,900,000	1,759,616	1,759,616
<u>612,994</u>	<u>1,812,792</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,812,792</u>
<u>612,994</u>	<u>1,812,792</u>	<u>1,134,548</u>	<u>(1,140,384)</u>	<u>2,900,000</u>	<u>1,759,616</u>	<u>4,706,956</u>
<u>\$ 663,341</u>	<u>\$ 2,059,270</u>	<u>\$ 1,482,201</u>	<u>\$ 814,038</u>	<u>\$ 3,250,000</u>	<u>\$ 4,064,038</u>	<u>\$ 7,605,509</u>

CITY OF PHARR, TEXAS
 COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN
 FUND BALANCES – NONMAJOR GOVERNMENTAL FUNDS
 FOR THE YEAR ENDED SEPTEMBER 30, 2005

	Assets Sharing Fund	CDBG Fund	Law Enforcement Fund	Hotel Motel Fund
REVENUES:				
Taxes:				
Property Taxes	\$ -	\$ -	\$ -	\$ -
Other Taxes	-	-	-	591,087
Penalty and Interest Taxes	-	-	-	-
Intergovernmental Revenue and Grants	425,627	1,039,951	-	-
Investment Earnings	4,749	2,438	1,413	13,928
Contributions & Donations from Private Sources	-	-	-	-
Other Revenue	5,338	6,466	-	-
Total Assets	435,714	1,048,855	1,413	605,015
EXPENDITURES				
Current:				
General Government	-	-	-	351,426
Public Safety	566,954	76,615	40,149	-
Highways and Streets	-	150,016	-	-
Culture and Recreation	-	-	-	-
Economic Development	-	554,920	-	-
Debt Service:				
Principal – bonds/capital leases/loans	30,000	195,000	-	-
Interest – bonds/capital leases/loans	-	88,184	-	-
Issuance Costs	-	-	-	-
Capital Outlay:				
Construction	-	-	-	-
Total Expenditures	596,954	1,064,735	40,149	351,426
Excess (Deficiency) of Revenues Over (Under)				
Expenditures	(161,240)	(15,880)	(38,736)	253,589
OTHER FINANCING SOURCES (USES)				
Capital-related Debt Issued (Regular Bonds)	-	-	-	-
Proceeds from Capital Leases	422,952	-	-	-
Transfers In	-	-	-	389,924
Premium or Discount on Issuance of Bonds	-	-	-	-
Transfer Out (Use)	-	-	-	(72,081)
Other (Uses)	-	-	-	-
Total Other Financing Sources (Uses)	422,952	-	-	317,843
Net Change in Fund Balance	261,712	(15,880)	(38,736)	571,432
Fund Balance – October 1 (Beginning)	117,498	22,636	148,974	-
Prior Period Adjustments	-	-	-	132,162
Fund Balance – September 30 (Ending)	\$ 379,210	\$ 6,756	\$ 110,238	\$ 703,594

The accompanying notes are an integral part of this statement.

Parkland Dedication Fee Fund	Total Nonmajor Special Revenue Funds	Debt Service Fund	Capital Projects Fund	CIP Cap. Projects Fund	Total Nonmajor Capital Projects Funds	Total Nonmajor Governmental Funds
\$ -	\$ -	\$ 1,098,978	\$ -	\$ -	\$ -	\$ 1,098,978
-	591,087	-	-	-	-	591,087
-	-	77,169	-	-	-	77,169
225,997	1,691,575	-	-	-	-	1,691,575
16,810	39,338	97,561	39,800	-	39,800	176,699
322,014	322,014	-	-	-	-	322,014
-	11,804	-	-	-	-	11,804
<u>564,821</u>	<u>2,655,818</u>	<u>1,273,708</u>	<u>39,800</u>	<u>-</u>	<u>39,800</u>	<u>3,969,326</u>
-	351,426	-	6,640	-	6,640	358,066
-	683,718	-	-	-	-	683,718
-	150,016	-	-	-	-	150,016
401,219	401,219	-	-	-	-	401,219
-	554,920	-	-	-	-	554,920
-	225,000	930,000	-	-	-	1,155,000
-	88,184	1,190,858	13,000	-	13,000	1,292,042
-	-	179,423	-	-	-	179,423
-	-	-	1,481,242	350,000	1,831,242	1,831,242
<u>401,219</u>	<u>2,454,483</u>	<u>2,300,281</u>	<u>1,500,882</u>	<u>350,000</u>	<u>1,850,882</u>	<u>6,605,646</u>
<u>163,602</u>	<u>201,335</u>	<u>(1,026,573)</u>	<u>(1,461,082)</u>	<u>(350,000)</u>	<u>(1,811,082)</u>	<u>(2,636,320)</u>
-	-	16,110,000	-	-	-	16,110,000
-	422,952	-	-	-	-	422,952
13,304	403,228	1,008,382	-	3,250,000	3,250,000	4,661,610
-	-	129,031	-	-	-	129,031
-	(72,081)	-	-	-	-	(72,081)
-	-	(16,134,609)	-	-	-	(16,134,609)
<u>13,304</u>	<u>754,099</u>	<u>1,112,804</u>	<u>-</u>	<u>3,250,000</u>	<u>3,250,000</u>	<u>5,116,903</u>
176,906	955,434	86,231	(1,461,082)	2,900,000	1,438,918	2,480,583
-	289,108	1,048,317	320,698	-	320,698	1,658,123
436,088	568,250	-	-	-	-	568,250
<u>\$ 612,994</u>	<u>\$ 1,812,792</u>	<u>\$ 1,134,548</u>	<u>\$ (1,140,384)</u>	<u>\$ 2,900,000</u>	<u>\$ 1,759,616</u>	<u>\$ 4,706,956</u>

CITY OF PHARR, TEXAS
 COMBINING STATEMENT OF NET ASSETS
 INTERNAL SERVICE FUNDS
 SEPTEMBER 30, 2005

EXHIBIT G-1

	City Garage Fund	Worker's Compensation Fund	Total Internal Service Funds
ASSETS			
Current Assets:			
Cash and Cash Equivalents	\$ (119,520)	\$ (378)	\$ (119,898)
Due from Other Funds	27,916	609,169	637,085
Inventories	3,880	-	3,880
Total Current Assets	<u>(87,724)</u>	<u>608,791</u>	<u>521,067</u>
Noncurrent Assets:			
Capital Assets:			
Buildings	694,000	-	694,000
Accumulated Depreciation -- Buildings	(137,300)	-	(137,300)
Improvements other than Buildings	307,880	-	307,880
Accumulated Depreciation -- Other Improvements	(155,566)	-	(155,566)
Machinery & Equipment	870,130	-	870,130
Accumulated Depreciation -- Machinery & Equipment	(666,294)	-	(666,294)
Total Noncurrent Assets	<u>912,850</u>	<u>-</u>	<u>912,850</u>
Total Assets	<u>825,126</u>	<u>608,791</u>	<u>1,433,917</u>
LIABILITIES			
Current Liabilities:			
Accounts Payable	490	537,319	537,809
Wages and Salaries Payable	1,990	-	1,990
Compensated Absences Payable	23,846	-	23,846
Due to Other Funds	72,949	43,384	116,333
Total Liabilities	<u>99,275</u>	<u>580,703</u>	<u>679,978</u>
NET ASSETS			
Invested in Capital Assets, Net of Debt	912,850	-	912,850
Restricted for Worker's Comp. Claims	-	28,088	28,088
Unrestricted Net Assets	(186,999)	-	(186,999)
Total Net Assets	<u>\$ 725,851</u>	<u>\$ 28,088</u>	<u>\$ 753,939</u>

The accompanying notes are an integral part of this statement.

CITY OF PHARR, TEXAS EXHIBIT G-2
 COMBINING STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS
 INTERNAL SERVICE FUNDS
 FOR THE YEAR ENDED SEPTEMBER 30, 2005

	City Garage Fund	Worker's Compensation Fund	Total Internal Service Funds
OPERATING REVENUES:			
Charges for Services - City Garage	\$ 783,833	-	783,833
Charges for Services - Worker's Comp. Claims	-	548,821	548,821
Total Operating Revenues	<u>783,833</u>	<u>548,821</u>	<u>1,332,654</u>
OPERATING EXPENSES:			
Personnel Services – Salaries and Wages	93,957	-	93,957
Personnel Services – Employee Benefits	48,704	594,659	643,363
Purchased Professional & Technical Services	-	16,529	16,529
Purchased Property Services	204,668	-	204,668
Other Operating Expenses	5,606	-	5,606
Supplies	448,172	-	448,172
Depreciation	97,368	-	97,368
Total Operating Expenses	<u>898,475</u>	<u>611,188</u>	<u>1,509,663</u>
Operating Income (Loss)	<u>(114,642)</u>	<u>(62,367)</u>	<u>(177,009)</u>
NON-OPERATING REVENUES (EXPENSES):			
Investment Earnings	184	3	187
Total Non-operating Revenue (Expenses)	<u>184</u>	<u>3</u>	<u>187</u>
Change in Net Assets	<u>(114,458)</u>	<u>(62,364)</u>	<u>(176,822)</u>
Total Net Assets – October 1 (Beginning)	<u>845,211</u>	<u>-</u>	<u>845,211</u>
Prior Period Adjustments	<u>(4,902)</u>	<u>90,452</u>	<u>85,550</u>
Total Net Assets – September 30 (Ending)	<u>\$ 725,851</u>	<u>\$ 28,088</u>	<u>\$ 753,939</u>

The accompanying notes are an integral part of this statement.

CITY OF PHARR, TEXAS
 COMBINING STATEMENT OF CASH FLOWS
 INTERNAL SERVICE FUNDS
 FOR THE YEAR ENDED SEPTEMBER 30, 2005

EXHIBIT G-3

	Governmental Activities --		
	City Garage Fund	Worker's Compensation Fund	Total Internal Service Funds
<u>Cash Flows from Operating Activities:</u>			
Cash Received from Users	\$ -	\$ -	\$ -
Cash Received from Interfund Service Provided	816,278	(60,348)	755,930
Cash Payments to Employees for Services	(116,801)	-	(116,801)
Cash Payments to Suppliers	(847,739)	(30,485)	(878,224)
Net Cash Provided by (Used for) Operating Activities	<u>(148,262)</u>	<u>(90,833)</u>	<u>(239,095)</u>
<u>Cash Flows from Non-Capital Financing Activities:</u>			
Proceeds From Others	(4,902)	90,452	85,550
Operating Transfers In	-	-	-
Operating Transfer Out	-	-	-
Net Cash Provided by (Used for) Non-Capital Financing Activities	<u>(4,902)</u>	<u>90,452</u>	<u>85,550</u>
<u>Cash Flows from Capital & Related Financing Activities:</u>			
Proceeds from capital leases	-	-	-
Principal and Interest Paid	-	-	-
Acquisition or Construction of Capital Assets	-	-	-
Capital Contributions	-	-	-
Net Cash Provided by (Used for) Capital & Related Financing Activities	<u>-</u>	<u>-</u>	<u>-</u>
<u>Cash Flows from Investing Activities:</u>			
Interest on Investments	184	3	187
Net Increase (Decrease) in Cash and Cash Equivalents	(152,980)	(378)	(153,358)
Cash and Cash Equivalents at the Beginning of the Year:	33,460	-	33,460
Cash and Cash Equivalents at the End of the Year:	<u>\$ (119,520)</u>	<u>\$ (378)</u>	<u>\$ (119,898)</u>

The accompanying notes are an integral part of this statement.

(Continued)

CITY OF PHARR, TEXAS
 COMBINING STATEMENT OF CASH FLOWS
 INTERNAL SERVICE FUNDS
 FOR THE YEAR ENDED SEPTEMBER 30, 2005

EXHIBIT G-3, (Cont.)

	Governmental Activities –		
	City Garage Fund	Worker's Compensation Fund	Total Internal Service Funds
Reconciliation of Operating Income (Loss) to Net Cash			
Provided By (Used For) Operating Activities:			
Operating Income (Loss):	\$ (114,642)	\$ (62,367)	\$ (177,009)
Adjustments to Reconcile Operating Income to Net Cash			
Provided by (Used for) Operating Activities:			
Depreciation	97,368	-	97,368
Effect of Increases and Decreases in Current Assets and Liabilities:			
Decrease (increase) in Receivables	-	-	-
Decrease (increase) in Interfund Receivables	25,631	(609,169)	(583,538)
Decrease (increase) in Inventories & Prepaid Items	6,814	-	6,814
Increase (decrease) in Accounts Payable	(44,817)	537,319	492,502
Increase (decrease) in Wages & Compensated Absences	(22,844)	-	(22,844)
Increase (decrease) in Interfund Payable	(95,772)	43,384	(52,388)
Increase (decrease) in Intergovernmental Payable	-	-	-
Increase (decrease) in Other Current Liabilities	-	-	-
Increase (decrease) in Water Meter Deposits	-	-	-
Net Cash Provided by (Used For)			
Operating Activities	<u>\$ (148,262)</u>	<u>\$ (90,833)</u>	<u>\$ (239,095)</u>

The accompanying notes are an integral part of this statement.

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**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE AND ON
INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

The Honorable Mayor and Other
Members of the Board of Commissioners
City of Pharr, Texas

Members of the Board:

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Pharr, Texas (the City), as of and for the year ended September 30, 2005, which collectively comprise the City's basic financial statements and have issued our report thereon dated June 5, 2006. 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.

Compliance

As part of obtaining reasonable assurance about whether the City's basic financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. 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 an instance of noncompliance that is required to be reported under *Government Auditing Standards*, and which is described in the accompanying schedule of finding and questioned costs as items # 05-14. We also noted certain immaterial instances of noncompliance that we have reported to the management of the City in a separate letter dated June 5, 2006.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the basic financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to

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The Honorable Mayor and Other
Members of the Board of Commissioners
June 5, 2006
Page Two

be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the City's ability to record, process, summarize, and report financial data consistent with assertions of management in the financial statements. Reportable conditions are described in the accompanying schedule of findings and questioned costs as items #05-1, #05-2, #05-3, #05-4, #05-5, #05-6, #05-7, #05-8, #05-9, #05-10, #05-11, #05-12, #05-13, #05-17, #05-18, #05-19, #05-20, #05-21, #05-22, and #05-23.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the basic financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, with consider items #05-1, #05-2, #05-3, #05-4, #05-5, #05-9, #05-10, #05-12, #05-13, #05-17, #05-18, #05-19, #05-20, #05-21, and #05-22 to be material weaknesses. We also noted other matters involving the internal control over financial reporting that we have reported to the management of the City in a separate letter dated June 5, 2006.

This report is intended solely for the information and use of the Board of Commissioners and management of the City, others within the organization, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.



Juan Nuñez
Certified Public Accountant

June 5, 2006

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**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS
APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

The Honorable Mayor and Other
Members of the Board of Commissioners
City of Pharr, Texas

Members of the Board:

Compliance

We have audited the compliance of the City of Pharr, Texas (the City) with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133* that are applicable to each of its major federal programs for the year ended September 30, 2005. The City's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the City's management. Our responsibility is to express an opinion on the City's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures, as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the City's compliance with those requirements.

In our opinion, the City complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended September 30, 2005. However, the results of our auditing procedures disclosed two instances of noncompliance with those requirements that are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as items #05-15 and #05-16.

The Honorable Mayor and Other
Members of the Board of Commissioners
June 5, 2006
Page Two

Internal Control Over Compliance

The management of the City is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the City's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on the internal control over compliance in accordance with OMB Circular A-133.

We noted certain matters involving the internal control over compliance and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in our judgment, could adversely affect the City's ability to administer a major federal program in accordance with applicable requirements of laws, regulations, contracts, and grants. Reportable conditions are described in the accompanying schedule of findings and questioned costs as items #05-1, #05-2, #05-3 #05-4, #05-5, #05-10, and #05-13.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts, and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we consider items #05-1, #05-2, #05-3 #05-4, #05-5, #05-10, and #05-13 to be material weaknesses.

This report is intended solely for the information and use of the Board of Commissioners and management of the City, others within the organization, federal and federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.



Juan Nuñez
Certified Public Accountant

June 5, 2006

CITY OF PHARR, TEXAS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED SEPTEMBER 30, 2005

Section I – Summary of Auditor's Results	Description
Financial Statements	
Type of auditor's report issued:	Unqualified
Internal control over financial reporting: <ul style="list-style-type: none"> • Material weakness(es) identified? • Reportable condition(s) identified not considered to be material weaknesses? 	Yes Yes
Noncompliance material to financial statements noted?	No
Federal Awards	
Internal Control over major programs: <ul style="list-style-type: none"> • Material weakness(es) identified? • Reportable condition(s) identified not considered to be material weaknesses? 	Yes No
Type of auditor's report issued on compliance for major programs:	Unqualified
Any audit findings disclosed that are required to be reported in accordance with Circular A-133, Section.510(a)?	No
Dollar threshold used to distinguish between Type A and Type B programs:	\$300,000
Auditee qualified as low risk Auditee?	No, the City was not classified as a low-risk auditee in the context of OMB Circular A-133.
Identification of Major Federal Programs:	U.S. Department of Housing and Urban Development Direct: Community Development Block Grant CFDA 14.218

CITY OF PHARR, TEXAS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED SEPTEMBER 30, 2005

Section II – Financial Statement/Federal Awards Findings and Questioned Costs	Description
<p>05-1 Accounting Policies and Procedures Manual- Primary Government</p>	<p>Criteria: Good internal controls require that the City have a written accounting policies and procedures manual for the proper handling and recording of financial transactions by the Finance Department.</p> <p>Statement of Condition: The City does not have a written policies and procedures manual.</p> <p>Cause of Condition: The City has not given priority to establishing such a document.</p> <p>Effect of Condition: There is no proper guidance for applicable City personnel to follow in accounting for financial transactions.</p> <p>Recommendation: The City should hire a consultant to help it establish a written policies and procedures manual for its Finance Department. Once the manual is approved by the Board, the City should adhere to such policies and procedures.</p> <p>Auditee's Response: The Auditee concurs. The City will hire a consultant to help it establish a written accounting policies and procedures manual.</p> <p>Questioned Cost: \$ -0-</p>
<p>05-2 Purchasing – Primary Government</p>	<p>A. Purchasing Manual</p> <p>Criteria: Good internal controls require that the City have a written purchasing manual to ensure compliance with state, federal, and legal requirements.</p> <p>Statement of Condition: The City currently has a manual that is outdated.</p> <p>Cause of Condition: The City has not given priority to updating or renewing its purchasing manual.</p> <p>Effect of Condition: The City does not have the proper guidance to ensure compliance with state, federal, and legal requirements in the procurement process.</p> <p>Recommendation: The City should hire a consultant to help it establish a current written purchasing manual. The manual should then be reviewed by legal counsel. Once it is approved by legal counsel, the Board should approve it. The City should adhere to the policies and procedures in its purchasing manual.</p> <p>Auditee's Response: The Auditee concurs. The accounting policies and procedures manual that the City plans to develop will include a purchasing manual.</p> <p>Questioned Cost: \$ -0-</p>

CITY OF PHARR, TEXAS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED SEPTEMBER 30, 2005

Section II – Financial Statement/Federal Awards Findings and Questioned Costs	Description
<p>05-2 Purchasing – Primary Government (Cont.)</p>	<p>B. Purchase Orders</p> <p>Criteria: Good internal controls require that the City properly prepare purchase orders for all applicable purchases of goods or services before the purchases are made.</p> <p>Statement of Condition: Currently, the City prepares purchase orders for certain purchases of goods. It does not prepare purchase orders for purchases of services, construction contracts, or commitments via interlocal agreements. In many instances, the purchase order (P.O.) is prepared after the fact (i.e., the P.O. is dated the same as or after the date of the invoice).</p> <p>Cause of Condition: The City does not have a current purchasing manual, which provides proper guidance to applicable personnel.</p> <p>Effect of Condition: The City made some purchases of goods and services that were not properly authorized. Also, the City does not readily know what all of its commitments are on any given day.</p> <p>Recommendation: The City should establish and approve a current written purchasing manual. The purchasing manual should require that the City properly prepare purchase orders for all applicable purchases of goods or services, including construction contracts and applicable interlocal agreements, before the purchases are made. The City should adhere to the policies and procedures in its purchasing manual.</p> <p>Auditee's Response: The Auditee concurs.</p> <p>Questioned Cost: \$ -0-</p> <p>C. Contracts</p> <p>Criteria: Good internal controls require that the City have a written agreement or contract for all construction performed and paid using City funds.</p> <p>Statement of Condition: The City and a local developer entered into an oral agreement where the parties agreed to share in the cost associated with two City street drainage improvement projects. The developer solicited bids from interested contractors and the low bidder was selected. The construction contract was between the developer and the construction contractor.</p> <p>Cause of Condition: The City was unaware of the need to have a written agreement or contract for this type of project.</p> <p>Effect of Condition: The City did not have written documentation to support the terms of the agreement.</p> <p>Recommendation: The City should ensure that it has written contracts or agreements for all construction performed and paid using City funds.</p> <p>Auditee's Response: The Auditee concurs.</p> <p>Questioned Cost: \$ -0-</p>

CITY OF PHARR, TEXAS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED SEPTEMBER 30, 2005

Section II – Financial Statement/Federal Awards Findings and Questioned Costs	Description
<p>05-2 Purchasing – Primary Government, (Cont.)</p>	<p>D. Purchasing Department</p> <p>Criteria: Good internal controls require that the City have a centralized purchasing department, which is in charge of purchasing all goods and services for the City.</p> <p>Statement of Condition: Currently, the City has a purchasing clerk under the Finance Director. The purchasing clerk is responsible for assigning P.O. numbers to P.O.s for purchases requested by the department heads or their assistants. The department heads or their assistants make the actual purchases.</p> <p>Cause of Condition: The City does not have a current purchasing manual, which provides proper guidance to applicable personnel.</p> <p>Effect of Condition: The City made some purchases of goods or services that were not properly authorized.</p> <p>Recommendation: The City should establish a centralized purchasing department with a purchasing agent. This department does not have to be under the Finance Director. It can be a separate department under the City Manager.</p> <p>Auditee's Response: The Auditee concurs.</p> <p>Questioned Cost: \$ -0-</p>
<p>05-3 Finance Department – Primary Government</p>	<p>A. Job Descriptions</p> <p>Criteria: Good internal controls require that the City have written job descriptions for all employee positions in the Finance Department.</p> <p>Statement of Condition: Although the City drafted some written job description for employees in the Finance Department in fiscal year 2005, they were too general. They were based on what is currently being performed instead of what should be performed by individuals in those positions.</p> <p>Cause of Condition: The City has not given priority to properly defining the roles or duties of its employees.</p> <p>Effect of Condition: Employees are unsure about their duties and responsibilities.</p> <p>Recommendation: The City should hire a consultant to help it establish job descriptions for all employee positions of the City. The job descriptions should clearly identify the duties and responsibilities of each job position. The City should then formally approve the job descriptions.</p> <p>Auditee's Response: The Auditee concurs.</p> <p>Questioned Cost: \$ -0-</p>

CITY OF PHARR, TEXAS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED SEPTEMBER 30, 2005

Section II – Financial Statement/Federal Awards Findings and Questioned Costs	Description
<p>05-3 Finance Department- Primary Government, (Cont.)</p>	<p>B. Training, Supervision, and Review</p> <p>Criteria: Good internal controls require that the City properly train and supervise employees in the performance of their assigned functions. Someone in a supervisory capacity is also required to review the employees' work.</p> <p>Statement of Condition: Based on the results of our audit, certain staff under the Finance Director were not properly trained and supervised to perform their assigned functions. There was no documentation to support that the employees' work was reviewed.</p> <p>Cause of Condition: The City is unaware of the required duties and responsibilities of the Finance Director's position.</p> <p>Effect of Condition: After year-end, the Finance Department made too many post-closing adjustments to reclassify transactions and correct errors. This should have been done prior to the Finance Department closing its general ledgers.</p> <p>Recommendation: The City should establish and approve a job description for the position of Finance Director. The City should evaluate whether the current Finance Director meets the qualifications of this position. The City should also ensure that most, if not all, adjustments are posted to the general ledgers before the general ledgers are closed and provided to the auditor.</p> <p>Auditee's Response: The Auditee concurs.</p> <p>Questioned Cost: \$ -0-</p> <p>C. Professional Development</p> <p>Criteria: Good internal controls require that the City have a program in place for the professional development of its accounting staff.</p> <p>Statement of Condition: The City does not have a formal program in place for the professional development of its accounting staff.</p> <p>Cause of Condition: The City has not give priority to establishing a program for the professional development of its accounting staff.</p> <p>Effect of Condition: The Finance Director and certain members of the accounting staff do not have an adequate awareness and understanding of current developments on technical literature to properly perform their assigned functions.</p> <p>Recommendation: The City should establish and approve a policy that requires all professional personnel of the Finance Department to obtain forty hours of continuing professional education per year; that all professional staff will maintain an adequate awareness and understanding of current developments in technical literature; and that all professional staff will assist in the training and development of staff under their supervision.</p> <p>Auditee's Response: The Auditee concurs. The Finance Director will ensure that all professional personal of the Finance Department obtain the required number of CPE hours.</p> <p>Questioned Cost: \$ -0-</p>

CITY OF PHARR, TEXAS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED SEPTEMBER 30, 2005

Section II – Financial Statement/Federal Awards Findings and Questioned Costs	Description
<p>05-4 Fixed Assets – Primary Government</p>	<p>A. Capitalization Policies and Procedures</p> <p>Criteria: Good internal controls require that the City have written policies and procedures for the capitalization of fixed assets purchased, constructed, or received as donations and also for the depreciation of depreciable assets.</p> <p>Statement of Condition: The City does not have written policies and procedures for the proper capitalization of fixed assets purchased, constructed, or received as donations, and also for the depreciation of depreciable assets.</p> <p>Cause of Condition: The City's Finance Department has not given priority to the establishment of proper policies and procedures for the proper capitalization and depreciation of fixed assets.</p> <p>Effect of Condition: The City did not properly account for its fixed assets as of and for the year ended September 30, 2005.</p> <p>Recommendation: The City should establish and approve its policies and procedures for the proper capitalization and depreciation of fixed assets. The policies and procedures should also address the requirements of OMB Circular A-102.</p> <p>Auditee's Response: The Auditee concurs.</p> <p>Questioned Cost: \$ -0-</p> <p>B. Capitalization of Fixed Assets</p> <p>Criteria: Good internal controls require that the City capitalize fixed assets, which were purchased, constructed, or received as donations, on a timely basis.</p> <p>Statement of Condition: The City did not capitalize fixed assets purchased or constructed during the year on a timely basis.</p> <p>Cause of Condition: The City's Finance Department has not given priority to the proper capitalization of fixed assets.</p> <p>Effect of Condition: The City did not readily know what fixed assets were purchased or constructed during the year.</p> <p>Recommendation: The City should hire an accountant or fixed assets clerk to properly account for and record fixed assets purchased or constructed during the year on a timely basis.</p> <p>Auditee's Response: The Auditee concurs. The City will ensure that applicable personnel are properly trained and will comply with the new policies and procedures for the proper capitalization of fixed assets on a timely basis.</p> <p>Questioned Cost: \$ -0-</p>

CITY OF PHARR, TEXAS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED SEPTEMBER 30, 2005

Section II – Financial Statement/Federal Awards Findings and Questioned Costs	Description
<p>05-4 Fixed Assets – Primary Government, (Cont.)</p>	<p>C. <u>Subsidiary Ledger</u></p> <p>Criteria: Good internal controls require that the City maintain a subsidiary ledger for fixed assets that reflect the fixed assets that the City owns and has on hand.</p> <p>Statement of Condition: The City's fixed assets subsidiary ledger is incomplete and has not been adjusted to reflect the fixed assets that the City owns and has on hand.</p> <p>Cause of Condition: The City's Finance Department has not given priority to the proper maintenance of its fixed assets subsidiary ledger.</p> <p>Effect of Condition: The City did not properly account for its fixed assets during the year ended September 30, 2005.</p> <p>Recommendation: The City should perform a complete physical inventory of its fixed assets. The City should update its fixed assets subsidiary ledger based on the physical inventory of fixed assets.</p> <p>Auditee's Response: The Auditee concurs. The City will perform a complete physical inventory of its fixed assets and adjust its fixed assets subsidiary ledger based on the physical inventory.</p> <p>Questioned Cost: \$ -0-</p> <p>D. <u>Depreciation Schedules</u></p> <p>Criteria: Good internal controls require that the City maintain depreciation schedules for all of its depreciable fixed assets.</p> <p>Statement of Condition: The City does not have formal depreciation schedules for its depreciable fixed assets. It is currently using schedules that were provided to the City by the company that helped the City implement GASB Statement No. 34 three years ago.</p> <p>Cause of Condition: The City's Finance Department has not given priority to establishing proper depreciation schedules for the City's depreciable fixed assets.</p> <p>Effect of Condition: The City did not properly account for depreciation expense in fiscal year 2005.</p> <p>Recommendation: The City should use the computer software program, which is included in the City's new accounting software, for the depreciation of its fixed assets.</p> <p>Auditee's Response: The Auditee concurs.</p> <p>Questioned Cost: \$ -0-</p>

CITY OF PHARR, TEXAS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED SEPTEMBER 30, 2005

Section II – Financial Statement/Federal Awards Findings and Questioned Costs	Description
<p>05-5 Bank Reconciliations - Primary Government</p>	<p>A. <u>Preparation of Bank Reconciliations</u></p> <p>Criteria: Good internal controls require that the City prepare monthly bank reconciliations for all of its bank accounts on a timely basis. The City is also required to reconcile the book balances per bank reconciliations to book balances per general ledgers. If needed, the City is required to adjust the general ledger in order for the balances to agree with book balances per bank reconciliations.</p> <p>Statement of Condition: Although the City prepared monthly bank reconciliations for all of its bank accounts, it did not prepare them on a timely basis. Also, it did not reconcile the book balances per bank reconciliations to book balances per general ledgers on a timely basis. Many of the fiscal year 2005 monthly bank reconciliations for various bank accounts were corrected after year's end.</p> <p>Cause of Condition: Applicable City staff was not properly trained to perform this function.</p> <p>Effect of Condition: Many bank balances per general ledgers were not correct during the year.</p> <p>Recommendation: The City should ensure that all applicable personnel are properly trained to perform the bank reconciliation function. Bank reconciliations for all bank accounts should be prepared monthly on a timely basis. The preparer should initial and date the bank reconciliations.</p> <p>Auditee's Response: The Auditee concurs.</p> <p>Questioned Cost: \$ -0-</p> <p>B. <u>Review of Bank Reconciliations</u></p> <p>Criteria: Good internal controls require that the City have someone in a supervisory capacity review the monthly bank reconciliations prepared by someone else.</p> <p>Statement of Condition: There was no documentation to substantiate that supervisory reviews of bank reconciliations were performed.</p> <p>Cause of Condition: Applicable City Staff was not properly trained to perform this function.</p> <p>Effect of Condition: Many bank balances per general ledgers were not correct during the year.</p> <p>Recommendation: Monthly bank reconciliations should be reviewed on a timely basis by someone in a supervisory capacity. The reviewer should document his/her review by initialing and dating the bank reconciliations.</p> <p>Auditee's Response: The Auditee concurs.</p> <p>Questioned Cost: \$ -0-</p>

CITY OF PHARR, TEXAS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED SEPTEMBER 30, 2005

Section II – Financial Statement/Federal Awards Findings and Questioned Costs	Description
<p>05-6 Collateralization of Deposits and Investments - Primary Government</p>	<p>Criteria: Good internal controls require that the City ascertain whether the City's deposits and investments are adequately collateralized as required by state statutes.</p> <p>Statement of Condition: There was no documentation to substantiate that internal reviews of collateralization were performed timely as the year progressed to ensure that the depository institutions had maintained adequate collateralization on the City's deposits and investments as of and for the year ended September 30, 2005. Documentation provided was prepared after year's end.</p> <p>Cause of Condition: The City's Finance Department has not given priority to the proper review of collateralization on the City's deposits and investments.</p> <p>Effect of Condition: The City did not readily know whether all applicable depository institutions maintained adequate collateralization on the City's deposits and investments during fiscal year 2005.</p> <p>Recommendation: Pledged securities reports from all banks should be requested on a monthly basis. These reports should be internally reviewed and such reviews should be properly documented. The City should ensure that depository banks promptly provide to the City copies of safekeeping or trust receipts covering all such collateral held for the banks, including substitute collateral.</p> <p>Auditee's Response: The Auditee concurs. Deposit collateralization will be closely monitored and reviewed on a timely basis. Such review will be properly documented. Also, the City will ensure that depository banks provide to the City copies of safekeeping or trust receipts covering all collateral held for the banks, including substitute collateral.</p> <p>Questioned Cost: \$ -0-</p>


CITY OF PHARR, TEXAS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED SEPTEMBER 30, 2005

Section II – Financial Statement/Federal Awards Findings and Questioned Costs	Description
<p>05-7 Golf Course Inventories – Primary Government</p>	<p>Criteria: Good internal controls require that the City conduct periodic physical counts of inventories of goods for sale at its Golf Course Pro Shop. The City is also required to reconcile each inventory taken with the preceding inventory taking into consideration items purchased, items returned to vendors, and items sold.</p> <p>Statement of Condition: The City only conducts annual counts of inventories at the Pro Shop. No reconciliation is performed between the most recent inventory and the preceding inventory.</p> <p>Cause of Condition: The City has not given priority to performing periodic counts of inventories and reconciling such inventories to previous inventories.</p> <p>Effect of Condition: The City has no way of knowing whether theft of inventory items has occurred.</p> <p>Recommendation: The Pro Shop personnel should conduct physical counts of inventory, at least quarterly (if not monthly). Personnel should also reconcile each inventory to the preceding inventory. Any significant variance should be investigated and resolved in a timely manner.</p> <p>Auditee's Response: The Auditee concurs.</p> <p>Questioned Cost: \$ -0-</p>

CITY OF PHARR, TEXAS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED SEPTEMBER 30, 2005

Section II – Financial Statement/Federal Awards Findings and Questioned Costs	Description
<p>05-8 Golf Course Revenues - Primary Government</p>	<p>A. Accounting System</p> <p>Criteria: Good internal controls require that the City have an accounting system with cash registers and software that will provide accurate, properly controlled, and protected information.</p> <p>Statement of Condition: The current Golf Course accounting system is ineffective and unreliable.</p> <p>Cause of Condition: The City has not given priority to the installation of a good accounting system at the Golf Course.</p> <p>Effect of Condition: Without proper review of all applicable documentation attached to the daily collection reports submitted to the Finance Departments, actual cash deposited in the bank could be less than the amount collected and not be detected.</p> <p>Recommendation: The City should replace the current system with cash registers and software that will provide more accurate, properly controlled, and protected information. The accounting system should be networked and compatible with the City's Accounting system. Until the system is replaced, the Finance Department should review submitted daily report information for negative sale transactions and unapproved voided transactions.</p> <p>Auditee's Response: The Auditee concurs.</p> <p>Questioned Cost: \$ -0-</p> <p>B. Policies and Procedures Manual</p> <p>Criteria: Good internal controls require that the City have a written accounting policies and procedures manual for the proper handling and recording of financial transactions of its Golf Course Operations.</p> <p>Statement of Condition: The City does not have a written accounting policies and procedures manual for its Golf Course Operations.</p> <p>Cause of Condition: The City has not given priority to establishing such a document.</p> <p>Effect of Condition: There was no proper guidance for applicable personnel to follow in accounting for financial transactions.</p> <p>Recommendation: The City should include written policies and procedures related to the Golf Course in its City-wide written accounting policies and procedures manual.</p> <p>Auditee's Response: The Auditee concurs.</p> <p>Questioned Cost: \$ -0-</p>



CITY OF PHARR, TEXAS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED SEPTEMBER 30, 2005

Section II – Financial Statement/Federal Awards Findings and Questioned Costs	Description
<p>05-9 Municipal Court – Primary Government</p> 	<p>A. <u>Subsidiary Ledger</u></p> <p>Criteria: Good internal controls require that the City have a subsidiary ledger for citation tickets for which warrants have been issued.</p> <p>Statement of Condition: Although the City currently maintains warrant reports for the above noted tickets, some of the information is maintained in the computer system and some is not. Also, nobody has verified that there is warrant for each citation ticket listed in the warrant report.</p> <p>Cause of Condition: The City has not given priority to the installation of a good accounting system for the Municipal Court.</p> <p>Effect of Condition: The balance of warrant receivable during the year and as of year end might not be correct.</p> <p>Recommendation: The City should replace the current system with a new one that is compatible with City's accounting system. The City should establish a subsidiary ledger for such tickets after it reconciles the information on the warrant reports with the actual warrants on file.</p> <p>Auditee's Response: The Auditee concurs.</p> <p>Questioned Cost: \$ -0-</p> <p>B. <u>Policies and Procedures Manual</u></p> <p>Criteria: Good internal controls require that the City have a written accounting policies and procedures manual for the proper handling and recording of financial transactions of its Municipal Court operations.</p> <p>Statement of Condition: The City does not have a written accounting policies and procedures manual for its municipal operations.</p> <p>Cause of Condition: The City was unaware of the need to have such a document.</p> <p>Effect of Condition: There was no proper guidance for applicable personnel to follow in accounting for financial transactions.</p> <p>Recommendation: The City should include written policies and procedures related to the Municipal Court in its City-wide written accounting policies and procedures manual.</p> <p>Auditee's Response: The Auditee concurs.</p> <p>Questioned Cost: \$ -0-</p>



CITY OF PHARR, TEXAS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED SEPTEMBER 30, 2005

Section II – Financial Statement/Federal Awards Findings and Questioned Costs	Description
<p>05-9 Municipal Court - Primary Government, (Cont.)</p>	<p>C. Training</p> <p>Criteria: Good internal controls require that the City properly train the clerks in the performance of their assigned functions.</p> <p>Statement of Condition: The individual, who is responsible for recording daily collections and preparing applicable reports, was unfamiliar with the types of reports that can be generated by the software currently being used by the Municipal court.</p> <p>Cause of Condition: The City has not given priority to the proper training of all clerks at the Municipal Court.</p> <p>Effect of Condition: Since the individual mentioned above was unfamiliar with the accounting software, she had to summarize certain data manually instead of utilizing the computer. The summarized data might not been correct.</p> <p>Recommendation: All applicable Municipal Court clerks should be properly trained to use the new computers and new accounting software.</p> <p>Auditee's Response: The Auditee concurs.</p> <p>Questioned Cost: \$ -0-</p>
<p>05-10 Grants – Primary Government</p>	<p>A. Administration</p> <p>Criteria: Good internal controls require that the City properly record financial transactions related to federal and state grants in the general ledger on a timely basis.</p> <p>Statement of Condition: During fiscal year 2005, the City did not properly record financial transactions related to these grants in the general ledger on a timely basis.</p> <p>Cause of Condition: The Finance Department has not designated one of its accountants to specifically account for all of the City's federal and state grants. There was a lack of communication between the City departments that were awarded federal and state grants and the Finance Department. In some cases, the Finance Department was not provided with all of the necessary documentation related to these grants to properly account for these grants on a timely basis.</p> <p>Effect of Condition: The City did not properly account for all grant-related financial transactions in the general ledgers on a timely basis. Also, the City did not know whether all applicable financial status reports were filed correctly and timely with applicable grantors.</p> <p>Recommendation: The Finance Department should designate one of its accountants to specifically account for all grants. There should be better communication between the departments that received grants and the accountant assigned to grants. These departments should also provide copies of grant awards, subsequent amendments, and financial status reports to be filed with grantors to the accountant on a timely basis.</p> <p>Auditee's Response: The Auditee concurs.</p> <p>Questioned Cost: \$ -0-</p>

CITY OF PHARR, TEXAS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED SEPTEMBER 30, 2005

Section II – Financial Statement/Federal Awards Findings and Questioned Costs	Description
<p>05-10 Grants - Primary Government, (Cont.)</p>	<p style="text-align: center;"></p> <p>B. <u>Grant Funds</u></p> <p>Criteria: Good internal controls require that the City establish and maintain those funds that are required by law and sound administration to account for grants.</p> <p>Statement of Condition: Except for the CDBG and the Technical Assistance Agreements Grants, all other grants that the City administered in fiscal year 2005 were accounted for in the City's General Fund.</p> <p>Cause of Condition: The Finance Department has not given priority to establishing and maintaining those grant funds that are required by sound administration to account for grants.</p> <p>Effect of Condition: The City did not properly record financial transactions related to these grants in the general ledger on a timely basis.</p> <p>Recommendation: Except for those grants that are required to be accounted in an enterprise fund(s), the City should account for all other grants in special revenue funds.</p> <p>Auditee's Response: The Auditee concurs.</p> <p>Questioned Cost: \$ -0-</p>
<p>05-11 Self-Insured Workers' Compensation Claims – Primary Government</p> <p style="text-align: center;"></p>	<p>Criteria: Good internal controls require that the City properly monitor workers' compensation claims, which are filed with and paid by the third-party administrators.</p> <p>Statement of Condition: The City did not properly monitor claims filed with and paid by the third-party administrators.</p> <p>Cause of Condition: The City placed complete reliance on reports submitted by the third-party administrators.</p> <p>Effect of Condition: Workers' compensation expenditures recognized by the City were not correct in fiscal year 2005.</p> <p>Recommendation: The City should closely monitor such claims filed with and paid by the third-party administrators for propriety.</p> <p>Auditee's Response: The Auditee concurs.</p> <p>Questioned Cost: \$ -0-</p>

CITY OF PHARR, TEXAS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED SEPTEMBER 30, 2005

Section II – Financial Statement/Federal Awards Findings and Questioned Costs	Description
<p>05-12 Toll Bridge – Primary Government</p>  	<p>A. Collections</p> <p>Criteria: Good internal controls require that the City's Finance Department review and verify that information on the Daily Cash/Check Reports and copies of deposit slips submitted to it by the Toll Bridge agrees with the support documentation.</p> <p>Statement of Condition: Since the Finance Department is not provided with copies of the Supervisor's Collection Reports and the individuals Daily Money Reports, it does not review and verify the accuracy of the information provided.</p> <p>Cause of Condition: The City has not given priority to the proper review of daily collections from the Toll Bridge.</p> <p>Effect of Condition: Daily Collections, as submitted, might not have been correct during the year.</p> <p>Recommendation: The day and night supervisors should fax copies of each of their tollbooth collectors' daily money reports, which have been signed by the individual tollbooth collectors and applicable supervisors, to the Finance Department at the end of each shift. On the next business day, the Finance Department should compare and verify that the information on the daily reports, which was faxed by the supervisors, agrees with information submitted by the assistant bridge director. This information should now include a copy of the Supervisor's Collection Report. Any significant variances should be investigated and resolved in a timely manner.</p> <p>Auditee's Response: The Auditee concurs.</p> <p>Questioned Cost: \$ -0-</p> <p>B. Deposits</p> <p>Criteria: Good internal controls require that the Toll Bridge collections are deposited on a daily basis.</p> <p>Statement of Condition: From a population of three hundred sixty-five days, a random sample of twenty-five days was selected for testing. Deposits for fourteen of these days took more than one business day. Also, deposits for collections made on Fridays, Saturdays, and Sundays were usually made on Mondays.</p> <p>Cause of Condition: The City was unaware of the need to deposit collections on a daily basis.</p> <p>Effect of Condition: There was usually too much money on hand especially during the weekends.</p> <p>Recommendation: The City should ensure that deposits for all daily collections are made on a daily basis. If the armor car company is not available to pick up the money on Saturdays and Sundays, a Pharr Police Department officer(s) should pick it up.</p> <p>Auditee's Response: The Auditee concurs.</p> <p>Questioned Cost: \$ -0-</p>

CITY OF PHARR, TEXAS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED SEPTEMBER 30, 2005

Section II – Financial Statement/Federal Awards Findings and Questioned Costs	Description
<p>05-13 Process to correct prior audit Findings – Primary Government</p>	<p>Criteria: Good internal controls require that the City have a process in place to address and correct prior year's audit findings.</p> <p>Statement of Condition: The City does not have a process in place to address and correct prior year's audit findings.</p> <p>Cause of Condition: The Finance Director did not give priority to addressing and correcting prior year's audit findings.</p> <p>Effect of Condition: Since no correcting action was taken, most of last year's audit findings are repeated in the current year's audit report.</p> <p>Recommendation: The City should ensure that there is a process in place to correct current year's audit findings.</p> <p>Auditee's Response: The Auditee concurs.</p> <p>Questioned Cost: \$ -0-</p>
<p>05-14 Public Investment Act – Primary Government - Noncompliance</p>	<p>A. Investment Policy</p> <p>Criteria: Chapter 2256.005 of the Texas Government Code requires that the City' invest its funds under written investment policies approved by the City Commission and to review the City investment policy annually.</p> <p>Statement of Condition: The City has not updated its written investment policy that addresses the requirements of the Public Investment Act (the Act). Although the City reviewed and made a minor change to its investment policy in December 2005, it did not make the required changes to satisfy all requirements of the Act.</p> <p>Cause of Condition: The City did not correctly review its public investment policy.</p> <p>Effect of Condition: The City did not comply with State law regarding this matter.</p> <p>Recommendation: The City should immediately review and approve an investment policy that addresses all requirements of the Act.</p> <p>Auditee's Response: The Auditee concurs.</p> <p>Questioned Cost: \$ -0-</p>

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CITY OF PHARR, TEXAS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED SEPTEMBER 30, 2005

Section II – Financial Statement/Federal Awards Findings and Questioned Costs	Description
<p>05-14 Public Investment Act – Primary Government – Noncompliance, (Cont.)</p>	<p>B. Investment Committee</p> <p>Criteria: The City's current investment policy created an investment committee, which was to include the City Manager, Finance Director, City's External Auditor, and City Attorney. The purpose of the committee was to review annually the City's investment policy and investment strategy. The Investment Committee's approval was also required for the City to obtain fully collateralized repurchased agreements.</p> <p>Statement of Condition: The Investment Committee was never activated.</p> <p>Cause of Condition: The City has not properly reviewed its investment policy to comply with its policy.</p> <p>Effect of Condition: The City did not fully comply with its investment policy.</p> <p>Recommendation: The City should decide whether to require an investment committee as part of its investment policy. Although having an investment committee is an excellent idea, it should exclude the City External Auditor and City Attorney. The City should consider hiring a financial advisor to help the City and City Attorney to draft the City's new investment policy. The financial advisor would also help the City and committee, if one is required, with the City's investments. If the Committee is required, the City Commission should activate it.</p> <p>Auditee's Response: The Auditee concurs.</p> <p>Questioned Cost: \$ -0-</p> <p>C. Investment Training</p> <p>Criteria: Chapter 2256.008 of the Texas Government Code requires that the City's investment officer(s) attend at least one training session from an independent source approved by the City Commission and containing at least 10 hours of instruction relating to the investment officers' responsibilities within 12 months after assuming duties and attend an investment training session not less than once in a two year period and received not less than 10 hours of instruction relating to the investment officer's responsibilities.</p> <p>Statement of Condition: Only one of the City investment officers has attended the required training sessions during the required time frame.</p> <p>Cause of Condition: The City has not adopted an investment policy in compliance with the Act.</p> <p>Effect of Condition: The City did not comply with state law regarding this matter.</p> <p>Recommendation: The City should provide the required training to the employees it designates as the City's investment officers.</p> <p>Auditee's Response: The Auditee concurs.</p> <p>Questioned Cost: \$ -0-</p>

CITY OF PHARR, TEXAS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED SEPTEMBER 30, 2005

Section II – Financial Statement/Federal Awards Findings and Questioned Costs	Description
<p>05-14 Public Investment Act – Primary Government – Noncompliance, (Cont.)</p>	<p>D. <u>Investment Management Reporting</u></p> <p>Criteria: Chapter 2256.023 of the Texas Government Code requires that the City's investment officer, not less than quarterly, prepare and submit to the City Commission detailed written report(s) of all investment transactions for all funds covered.</p> <p>Statement of Condition: The City's investment officer did not prepare all of the required reports in fiscal year 2005.</p> <p>Cause of Condition: The City's Finance Department has not given priority to these reports.</p> <p>Effect of Condition: The City did not comply with state law regarding this matter.</p> <p>Recommendation: The City's investment officer should prepare and submit internal investment management reports, minimally, on a quarterly basis to the City Commission.</p> <p>Auditee's Response: The Auditee concurs.</p> <p>Questioned Cost: \$ -0-</p>
<p>05-15 Cash Management – Primary Government, Noncompliance</p>	<p>Criteria: The U.S. Treasury regulation at 31 CFR part 205 requires grant recipients to follow procedures to minimize the time elapsing between the transfer of funds from the U.S. Treasury and disbursement.</p> <p>Statement of Condition: From a population of forty-one drawdowns, a random sample of seventeen drawdowns was selected for testing. Disbursement of money for eleven out of the seventeen drawdowns tested took more than three business days as required by federal regulations.</p> <p>Cause of Condition: The Finance Department did not properly disburse checks before the applicable deadlines.</p> <p>Effect of Condition: The City did not comply with the U.S. Treasury requirements.</p> <p>Recommendation: The City should evaluate its current policies and procedures, and make the necessary changes to ensure compliance with the U.S. Treasury requirements.</p> <p>Auditee's Response: The Auditee concurs. The City will implement procedures to comply with this requirement.</p>

CITY OF PHARR, TEXAS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED SEPTEMBER 30, 2005

Section II – Financial Statement/Federal Awards Findings and Questioned Costs	Description
<p>05-16 Equipment Management - Primary Government, Noncompliance</p>	<p>Criteria: OMB Circular A-102 requires that grant recipients maintain proper records for equipment purchased with grant monies. It all requires that they adequately safeguard and maintain such equipment.</p> <p>Statement of Condition: The City purchased a thermal imaging camera at a cost of \$ 8,449 for the Fire Department. Although the City adequately safeguards and maintains such equipment, it does not maintain the proper records as required by OMB Circular A-102.</p> <p>Cause of Condition: The Finance Department has not given priority to the proper maintenance of fixed assets records.</p> <p>Effect of Condition: The City did not fully comply with equipment management requirement.</p> <p>Recommendation: The City should establish and approve policies and procedures for the proper capitalization and depreciation of fixed assets. The policies and procedures should also address the requirements of OMB Circular A-102.</p> <p>Auditee's Response: The Auditee concurs.</p> <p>Questioned Cost: \$ -0-</p>
<p>05-17 Accounting Policies and Procedures Manual – Pharr Economic Development Corporation, Inc. (PEDC)</p>	<p>Criteria: Good internal controls require that PEDC have a written accounting policies and procedures manual for the proper handling and recording of financial transactions by the Finance Department.</p> <p>Statement of Condition: PEDC does not have a written policies and procedures manual.</p> <p>Cause of Condition: PEDC has not given priority to establishing such a document.</p> <p>Effect of Condition: There is no proper guidance for applicable PEDC personnel to follow in accounting for financial transactions.</p> <p>Recommendation: PEDC should hire a consultant to help it establish a written policies and procedures manual for its Finance Department. Once the manual is approved by the Board, PEDC should adhere to such policies and procedures.</p> <p>Auditee's Response: The Auditee concurs.</p> <p>Questioned Cost: \$ -0-</p>

CITY OF PHARR, TEXAS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED SEPTEMBER 30, 2005

Section II – Financial Statement/Federal Awards Findings and Questioned Costs	Description
<p>05-18 Purchasing – PEDC</p>	<p>A. <u>Purchasing Manual</u></p> <p>Criteria: Good internal controls require that PEDC have a written purchasing manual to ensure compliance with state, federal, and legal requirements.</p> <p>Statement of Condition: PEDC currently has a manual that is outdated.</p> <p>Cause of Condition: PEDC has not given priority to updating or renewing its purchasing manual.</p> <p>Effect of Condition: PEDC does not have the proper guidance to ensure compliance with state, federal, and legal requirements in the procurement process.</p> <p>Recommendation: PEDC should hire a consultant to help it establish a current written purchasing manual. The manual should then be reviewed by legal counsel. Once it is approved by legal counsel, the Board should approve it. PEDC should adhere to the policies and procedures in its purchasing manual.</p> <p>Auditee's Response: The Auditee concurs.</p> <p>Questioned Cost: \$ -0-</p> <p>B. <u>Purchase Orders</u></p> <p>Criteria: Good internal controls require that PEDC properly prepare purchase orders for all applicable purchases of goods and services before the purchases are made.</p> <p>Statement of Condition: Currently, PEDC does not prepare purchase orders for the purchase of goods or services.</p> <p>Cause of Condition: PEDC does not have a current purchasing manual, which provides proper guidance to applicable personnel.</p> <p>Effect of Condition: PEDC could have made some purchases of goods and services that were not properly authorized.</p> <p>Recommendation: PEDC should establish and approve a current written purchasing manual. The purchasing manual should require that PEDC prepare purchase orders for all applicable purchases of goods or services, including construction contracts and applicable inter local agreements, before the purchases are made. PEDC should adhere to the policies and procedures in its purchasing manual.</p> <p>Auditee's Response: The Auditee concurs.</p> <p>Questioned Cost: \$ -0-</p>

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CITY OF PHARR, TEXAS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED SEPTEMBER 30, 2005

Section II – Financial Statement/Federal Awards Findings and Questioned Costs	Description
<p>05-19 Bank Reconciliation – PEDC</p>	<p>Criteria: Good internal controls require that PEDC prepare monthly bank reconciliations for all of its bank accounts on a timely basis. PEDC is also required to reconcile the book balances per bank reconciliations to book balances per general ledgers. If needed, PEDC is required to adjust the general ledger in order for the balances to agree with book balances per bank reconciliations.</p> <p>Statement of Condition: PEDC did not prepare monthly bank reconciliations for its bank accounts on a timely basis. Only the bank reconciliation at September 30, 2005 for one of its two bank accounts was prepared.</p> <p>Cause of Condition: PEDC did not have a qualified accountant or bookkeeper to perform this function.</p> <p>Effect of Condition: Bank balances per general ledger were not correct during the fiscal year 2005.</p> <p>Recommendation: PEDC should ensure that all applicable personnel are properly trained to perform the bank reconciliation function. The preparer should initial and date the bank reconciliations. Also, bank reconciliations should be reviewed on a monthly basis by someone in a supervisory capacity. The reviewer should document his/her review by initialing and dating the bank reconciliations.</p> <p>Auditee's Response: The Auditee concurs.</p> <p>Questioned Cost: \$ -0-</p>


CITY OF PHARR, TEXAS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED SEPTEMBER 30, 2005

Section II – Financial Statement/Federal Awards Findings and Questioned Costs	Description
<p>05-20 Accountant – PEDC</p>	<p>Criteria: Good internal controls require that PEDC have a qualified accountant or bookkeeper to properly maintain its general ledger and to prepare the necessary financial statements for PEDC.</p> <p>Statement of Condition: PEDC does not have a qualified accountant or bookkeeper to maintain its general ledger and prepare the necessary financial statements.</p> <p>Cause of Condition: PEDC has not given priority to hiring a qualified accountant or bookkeeper.</p> <p>Effect of Condition: After year-end, PEDC made too many post-closing adjustments to reclassify transactions and correct errors. This should have been done prior to PEDC's closing of its general ledger.</p> <p>Recommendation: PEDC should hire a degreed accountant for its accounting department. The position should also require that the individual have at least two-year experience in governmental/nonprofit organization accounting. PEDC should ensure that most, if not all, adjustments are posted to the general ledger before the general ledger is closed and provided to the auditor.</p> <p>Auditee's Response: The Auditee concurs.</p> <p>Questioned Cost: \$ -0-</p>
<p>05-21 Fixed Assets – PEDC</p>	<p>A. Capitalization Policies and Procedures</p> <p>Criteria: Good internal controls require that PEDC have written policies and procedures for the capitalization of fixed assets purchased, constructed, or received as donations and also for the depreciation of depreciable assets.</p> <p>Statement of Condition: PEDC does not have written policies and procedures for the proper capitalization of fixed assets purchased, constructed, or received as donations, and also for the depreciation of depreciable assets.</p> <p>Cause of Condition: PEDC has not given priority to the establishment of proper policies and procedures for the proper capitalization and depreciation of fixed assets.</p> <p>Effect of Condition: PEDC did not properly account for its fixed assets as of and for the year ended September 30, 2005.</p> <p>Recommendation: PEDC should establish and approve its policies and procedures for the proper capitalization and depreciation of fixed assets. The policies and procedures should also address the requirements of OMB Circular A-102.</p> <p>Auditee's Response: The Auditee concurs.</p> <p>Questioned Cost: \$ -0-</p>


CITY OF PHARR, TEXAS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED SEPTEMBER 30, 2005

Section II – Financial Statement/Federal Awards Findings and Questioned Costs	Description
<p>05-21 Fixed Assets – PEDC, (Cont.)</p>	<p>B. Capitalization of Fixed Assets</p> <p>Criteria: Good internal controls require that PEDC capitalize fixed assets, which were purchased, constructed, or received as donations, on a timely basis.</p> <p>Statement of Condition: PEDC did not capitalize fixed assets purchased or constructed during the year on a timely basis.</p> <p>Cause of Condition: PEDC has not given priority to the proper capitalization of fixed assets.</p> <p>Effect of Condition: PEDC did not readily know what fixed assets were purchased or constructed during the year.</p> <p>Recommendation: PEDC should capitalize fixed assets purchased or constructed during the year on a timely basis.</p> <p>Auditee's Response: The Auditee concurs. PEDC will ensure that applicable personnel are properly trained and will comply with the new policies and procedures for the proper capitalization of fixed assets on a timely basis.</p> <p>Questioned Cost: \$ -0-</p> <p>C. Subsidiary Ledger</p> <p>Criteria: Good internal controls require that PEDC maintain a subsidiary ledger for fixed assets that reflect the fixed assets that PEDC owns and has on hand.</p> <p>Statement of Condition: PEDC's fixed assets subsidiary ledger was incomplete and had not been adjusted to reflect the fixed assets that PEDC owns and had on hand.</p> <p>Cause of Condition: PEDC has not given priority to the proper maintenance of its fixed assets subsidiary ledger.</p> <p>Effect of Condition: PEDC did not properly account for its fixed assets during the year ended September 30, 2005.</p> <p>Recommendation: PEDC should perform a complete physical inventory of its fixed assets. PEDC should update its fixed assets subsidiary ledger based on the physical inventory of fixed assets.</p> <p>Auditee's Response: The Auditee concurs. PEDC will perform a complete physical inventory of its fixed assets and adjust its fixed assets subsidiary ledger based on the physical inventory.</p> <p>Questioned Cost: \$ -0-</p>

CITY OF PHARR, TEXAS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED SEPTEMBER 30, 2005

Section II – Financial Statement/Federal Awards Findings and Questioned Costs	Description
<p>05-21 Fixed Assets- PEDC, (Cont.)</p>	<p>D. Depreciation Schedules</p> <p>Criteria: Good internal controls require that PEDC maintain depreciation schedules for all of its depreciable fixed assets.</p> <p>Statement of Condition: PEDC does not have formal depreciation schedules for its depreciable fixed assets.</p> <p>Cause of Condition: PEDC has not given priority to establishing proper depreciation schedules for PEDC's depreciable fixed assets.</p> <p>Effect of Condition: PEDC did not properly account for depreciation expense in fiscal year 2005.</p> <p>Recommendation: PEDC should establish a depreciation schedule for its fixed assets.</p> <p>Auditee's Response: The Auditee concurs.</p> <p>Questioned Cost: \$ -0-</p>
<p>05-22 Support Documentation for monies received – PEDC</p> 	<p>Criteria: Good internal controls require that PEDC maintain support documentation, which is readily available, for monies received.</p> <p>Statement of Condition: PEDC does not maintain proper files for monies received during the year. Support documentation requested was not readily available.</p> <p>Cause of Condition: PEDC does not have a written accounting policies and procedures manual. Also, PEDC does not have a qualified accountant maintaining its books.</p> <p>Effect of Condition: Some receipts of money were not properly recorded in the general ledger in fiscal year.</p> <p>Recommendation: PEDC should establish and approve a written accounting policies and procedures manual. The manual should require that PEDC maintain files with support documentation for monies received by PEDC. Copies should be made of checks received and should be attached to the corresponding deposit slips.</p> <p>Auditee's Response: The Auditee concurs.</p> <p>Questioned Cost: \$ -0-</p>

CITY OF PHARR, TEXAS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED SEPTEMBER 30, 2005

Section II – Financial Statement/Federal Awards Findings and Questioned Costs	Description
<p>05-23 Collateralization of Deposits and Investments – PEDC</p> 	<p>Criteria: Good internal controls require that PEDC ascertain whether PEDC's deposits and investments are adequately collateralized as required by state statutes.</p> <p>Statement of Condition: There was no documentation to substantiate that internal reviews of collateralization were performed timely as the year progressed to ensure that the depository institutions had maintained adequate collateralization on PEDC's deposits and investments as of and for the year ended September 30, 2005.</p> <p>Cause of Condition: PEDC was unaware of the need to perform reviews of collateralization on the PEDC's deposits and investments during the year.</p> <p>Effect of Condition: PEDC did not know whether all applicable depository institutions maintained adequate collateralization on PEDC deposits and investments during fiscal year 2005.</p> <p>Recommendation: Pledged securities reports from all banks should be requested on a monthly basis. These reports should be internally reviewed and such reviews should be properly documented. PEDC should ensure that depository banks promptly provide to PEDC copies of safekeeping or trust receipts covering all such collateral held for the banks, including substitute collateral.</p> <p>Auditee's Response: The Auditee concurs. Deposit collateralization will be closely monitored and reviewed on a timely basis. Such review will be properly documented. Also, PEDC will ensure that depository banks provide to PEDC copies of safekeeping or trust receipts covering all collateral held for the banks, including substitute collateral.</p> <p>Questioned Cost: \$ -0-</p>
<p>Section III – Contact Persons Regarding Findings and Questioned Costs</p>	
<p>Primary Government City of Pharr, Texas</p>	<p>Fred Sandoval, City Manager 108 S. Cage Blvd. Pharr, Texas 78577 (956) 702-5300</p>
<p>Component Unit Pharr Economic Development Corporation, Inc.</p>	<p>Raul Garza, Executive Director 1215 S. Cage Blvd. P.O. Box 1360 Pharr, Texas 78577 (956) 781-7332</p>

CITY OF PHARR, TEXAS
SCHEDULE OF STATUS OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED SEPTEMBER 30, 2005

Internal Control/Compliance	Description
04-1 Accounting Policies and Procedures Manual- Primary Government	<p>The City did not have a written accounting policies and procedures manual for the proper handling and recording of financial transactions by the Finance Department.</p> <p>Corrective Action: See current year's finding #05-1.</p>
04-2 Purchasing – Primary Government	<p>A. <u>Purchasing Manual</u></p> <p>The City did not have a current written purchasing manual to ensure compliance with state, federal and legal requirements.</p> <p>Corrective Action: See current year's finding #05-2A.</p> <p>B. <u>Purchase Orders</u></p> <p>The City prepared purchase orders for certain purchases of goods. In many instances, the purchase order (P.O.) was prepared after the fact (i.e., the P.O. is dated the same as or after the date of the invoice).</p> <p>Corrective Action: See current year's finding #05-2B.</p> <p>C. <u>Unauthorized Purchases</u></p> <p>In fiscal year 2004, the City paid a local vendor for services and products that were authorized by the assistant department head. Purchase orders were not utilized. This vendor had already been charged by the Pharr Police Department for invoicing the City in excess of services and products delivered.</p> <p>Corrective Action: The City reached an agreement with the District Attorney of Hidalgo County Texas and the local vendor. The vendor was sentenced to ten years of probation, paid a \$1,000 fine, and reimbursed the City \$400,000.</p> <p>D. <u>Purchasing Department</u></p> <p>The City did not have a centralized purchasing department, which was in charge of purchasing all goods and services for the City. The City had a purchasing clerk under the Finance Director. The purchasing clerk was responsible for assigning P.O. numbers to P.O.s for purchases of goods requested by the department heads or their assistants. The department heads or their assistants made the actual purchases.</p> <p>Corrective Action: See current year's findings #05-2D.</p>

CITY OF PHARR, TEXAS
SCHEDULE OF STATUS OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED SEPTEMBER 30, 2005

Internal Control/Compliance	Description
<p>04-3 Finance Department – Primary Government</p>	<p>A. <u>Job Descriptions</u></p> <p>The City did not have written job descriptions for all employee positions in the Finance Department.</p> <p><u>Corrective Action:</u> See current year's finding #05-3A.</p> <p>B. <u>Training, Supervision, and Review</u></p> <p>Based on the results of our audit, staff under the Finance Director were not properly trained and supervised to perform their assigned functions. There was no documentation to support that the employees' work was reviewed.</p> <p><u>Corrective Action:</u> See current year's finding #05-3B.</p> <p>C. <u>Professional Development</u></p> <p>The City did not have a program in place for the professional development of its accounting staff.</p> <p><u>Corrective Action:</u> See current year's finding #05-3C.</p>
<p>04-4 Fixed Assets – Primary Government</p>	<p>A. <u>Capitalization Policies and Procedures</u></p> <p>The City did not have written policies and procedures for the capitalization of fixed assets purchased, constructed, or received as donation, and also for the depreciation of depreciable assets.</p> <p><u>Corrective Action:</u> See current year's finding #05-4A.</p> <p>B. <u>Capitalization of Fixed Assets</u></p> <p>The City did not capitalize fixed assets, which were purchased, constructed, or received as donations, on a timely basis.</p> <p><u>Corrective Action:</u> See current year's finding #05-4B.</p>

CITY OF PHARR, TEXAS
SCHEDULE OF STATUS OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED SEPTEMBER 30, 2005

Internal Control/Compliance	Description
<p>04-4 Fixed Assets – Primary Government, (Cont.)</p>	<p>C. <u>Subsidiary Ledger</u></p> <p>The City did not maintain a subsidiary ledger for fixed assets that reflect the fixed assets that the City owns and has on hand.</p> <p><u>Corrective Action:</u> See current year's finding #05-4C.</p> <p>D. <u>Depreciation Schedules</u></p> <p>The City did not maintain proper depreciation schedules for all of its depreciable fixed assets. It used schedules that were provided to the City by the company that helps the City implement GASB Statement No. 34 two years ago.</p> <p><u>Corrective Action:</u> See current year's finding #05-4D.</p>
<p>04-5 Bank Reconciliations - Primary Government</p>	<p>A. <u>Preparation of Bank Reconciliations</u></p> <p>Although the City prepared bank reconciliations for all of its bank accounts on a monthly basis, it did not reconcile the book balances per bank reconciliations to book balances per general ledgers.</p> <p><u>Corrective Action:</u> See current year's finding #05-5A.</p> <p>B. <u>Review of Bank Reconciliations:</u></p> <p>There was no documentation to substantiate that supervisory reviews of monthly bank reconciliations, which were prepared by someone else, were performed.</p> <p><u>Corrective Action:</u> See current year's finding #05-5B.</p>

CITY OF PHARR, TEXAS
SCHEDULE OF STATUS OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED SEPTEMBER 30, 2005

Internal Control/Compliance	Description
<p>04-6 Collateralization of Deposits and Investments - Primary Government</p>	<p>There was no documentation to substantiate that internal reviews of collateralization were performed to ensure that the depository institutions had maintained adequate collateralization on the City's deposits and investments as of and for the year ended September 30, 2004.</p> <p>Corrective Action: See current year's finding #05-6.</p>
<p>04-7 Golf Course Inventories -- Primary Government</p>	<p>The City only conducted an annual count of inventories at the Pro Shop at year's end. No reconciliation was performed between the most recent inventory and the preceding inventory.</p> <p>Corrective Action: See current year's finding #05-7.</p>
<p>04-8 Golf Course Revenues - Primary Government</p>	<p>A. <u>Accounting System</u></p> <p>The current Golf Course accounting system was ineffective and unreliable. The cashiers were able to enter negative sales transactions without being detected. There was an excessive number of voided transactions recorded during the year that did not have proper documentation.</p> <p>Corrective Action: See current year's finding #05-8A.</p> <p>B. <u>Policies and Procedures Manual</u></p> <p>The City did not have a written accounting policies and procedures manual for its Golf Course Operations.</p> <p>Corrective Action: See current year's finding #05-8B.</p> <p>C. <u>Training</u></p> <p>Cashiers at the Pro Shop were not properly trained.</p> <p>Corrective Action: Based on our audit, cashiers at the Pro Shop were properly trained.</p>

CITY OF PHARR, TEXAS
SCHEDULE OF STATUS OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED SEPTEMBER 30, 2005

Internal Control/Compliance	Description
<p>04-9 Public Investment Act – Primary Government</p>	<p>A. <u>Investment Policy</u></p> <p>Chapter 2256.005 of the Texas Government Code required that the City invest its funds under written investment policies approved by the City Commission and to annually review the City investment policy. The City had not updated its written investment policy that addressed the requirements of the Public Investment Act (the Act).</p> <p><u>Corrective Action:</u> See current year's finding #05-14A.</p> <p>B. <u>Investment Officer(s)</u></p> <p>Chapter 2256.005 of the Texas Government Code required that the City designate one or more officers or employees of the City as investment officers to be responsible for the investment of its funds consistent with the investment policy adopted by the City. Since the City had designated only one of its employees as investment officer, it did not have someone else available to perform this function in case of an emergency.</p> <p><u>Corrective Action:</u> In fiscal year 2005, the City designated another accountant in the Finance Department as a second investment officer.</p> <p>C. <u>Investment Training</u></p> <p>Chapter 2256.008 of the Texas Government Code required that the City's investment officer(s) attend at least one training session from an independent source approved by the City Commission and containing at least 10 hours of instruction relating to the investment officers responsibilities within 12 months after assuming duties and attend an investment training session not less than once in a two year period and received not less than 10 hours of instruction relating to the investment officer's responsibilities. No City employee had attended the required training sessions during the required time frame.</p> <p><u>Corrective Action:</u> Only the new designated investment officer attended the required training sessions in fiscal year 2005. See current year's finding #05-14C.</p>

CITY OF PHARR, TEXAS
SCHEDULE OF STATUS OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED SEPTEMBER 30, 2005

Internal Control/Compliance	Description
<p>04-9 Public Investment Act – Primary Government, (Cont.)</p>	<p>D. <u>Investment Management Reporting</u></p> <p>Chapter 2256.023 of the Texas Government Code required that the City's investment officer, not less than quarterly, prepare and submit to the City Commission detailed written report(s) of all investment transactions for all funds covered. The City's investment officer did not prepare all of the required reports in fiscal year 2004.</p> <p>Corrective Action: See current year's finding #05-14D.</p>
<p>04-10 Workman Compensation – Primary Government</p>	<p>State law required that the City obtain competitive bids or proposals from parties interested in providing worker's compensation coverage to the City. In fiscal year 2004, the City obtained such bids from various vendors. The bid, as originally submitted by the vendor who was awarded the contract, did not meet bid specifications. This vendor was subsequently allowed to modify his bid to meet the specifications.</p> <p>Corrective Action: In fiscal year 2005, the City complied with the competitive bidding process and requirements in acquiring worker's compensation coverage for fiscal year 2005.</p>
<p>04-11 Audit Report and Data Collection Form – Primary Government</p>	<p>OMB Circular A-133 required the City to submit the reporting package, which included the fiscal year 2003 Audit Report and Data Collection Form, to the Single Audit Clearing House by June 30, 2004.</p> <p>Corrective Action: The City's reporting package for fiscal year 2004 was submitted before June 30, 2005. Also the City's reporting package for fiscal year 2005 will be submitted before June 30, 2006.</p>
<p>04-12 Accounting Policies and Procedures Manual – Pharr Economic Development Corporation, Inc., (PEDC)</p>	<p>PEDC did not have a written accounting policies and procedures manual for the proper handling and recording of financial transactions by the Accounting Department.</p> <p>Corrective Action: See current year's finding #05-17.</p>
<p>04-13 Purchasing Manual – PEDC</p>	<p>PEDC did not have a written purchasing manual to ensure compliance with state, federal, and legal requirements. PEDC currently had a manual that is outdated.</p> <p>Corrective Action: See current year's finding #05-18A.</p>

CITY OF PHARR, TEXAS
SCHEDULE OF STATUS OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED SEPTEMBER 30, 2005

Internal Control/Compliance	Description
04-14 Bank Reconciliation – PEDC	<p>PEDC did not prepare bank reconciliations for its bank accounts on a monthly basis.</p> <p>Corrective Action: See current year's finding #05-19.</p>
04-15 Training, Supervision, and Review - PEDC	<p>Based on the results of our audit, staff in the Accounting Department was not properly trained and supervised to perform her assigned function. There was no documentation to support that the employee's work was reviewed.</p> <p>Corrective Action: See current year's finding #05-20.</p>
04-16 Fixed Assets – PEDC	<p>A. <u>Capitalization Policies and Procedures</u></p> <p>PEDC did not have written policies and procedures for the capitalization of fixed assets purchased, constructed, or received as donation, and also for the depreciation of depreciable assets.</p> <p>Corrective Action: See current year's finding #05-21A.</p> <p>B. <u>Capitalization of Fixed Assets</u></p> <p>PEDC did not capitalize fixed assets purchased or constructed during fiscal year 2004 on a timely basis.</p> <p>Corrective Action: See current year's finding #05-21B.</p> <p>C. <u>Subsidiary Ledger</u></p> <p>PEDC's fixed assets subsidiary ledger was incomplete and had not been adjusted to reflect the fixed assets that PEDC owns and had on hand.</p> <p>Corrective Action: See current year's finding #05-21C.</p> <p>D. <u>Depreciation Schedules</u></p> <p>PEDC did not have proper depreciation schedules for its depreciable fixed assets.</p> <p>Corrective Action: See current year's finding #05-21D.</p>

CITY OF PHARR, TEXAS
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED SEPTEMBER 30, 2005

Exhibit H-1

GRANT NUMBER	FEDERAL GRANTOR/ PASS-THROUGH GRANTOR/STATE GRANTOR/PROGRAM TITLE	FEDERAL CFDA NUMBER	FEDERAL/STATE EXPENDITURES	PASS THROUGH AMOUNT TO SUBRECIPIENTS
<u>FEDERAL AWARDS</u>				
<u>Primary Government:</u>				
<u>U.S. Department of Housing and Urban Development</u>				
<u>Direct Programs</u>				
B-03-MC-48-0507	Community Development Block Grant	14.218	\$ 297,335	\$ -
B-04-MC-48-0507	Community Development Block Grant	14.218	742,049	-
	Total CFDA Number 14.218		1,039,384	-
	Total Direct Programs		1,039,384	-
	Total U.S. Department of Housing and Urban Development		1,039,384	-
 <u>U.S. Department of Justice</u>				
<u>Direct:</u>				
2003UMWX0258	COPS In School	16.710	193,287	-
	Total CFDA Number 16.710		193,287	-
	Total Direct		193,287	-
	Total U.S. Department of Justice		193,287	-
 <u>U.S. Department of Homeland Security</u>				
<u>Passed Through Governor's Division of</u>				
<u>Emergency Management</u>				
2004SHSP-57200	State Homeland Security Grant Program	97.004	109,566	-
	Total CFDA Number 97.004		109,566	-
	Total Passed Through Governor's Division of		109,566	-
	Total U.S. Department of Homeland Security		109,566	-
 <u>U.S. Department of the Treasury</u>				
<u>Direct:</u>				
105SA1599	Operation Task Force	21.00 31 U.S.C. 9703, Treasury Forfeiture Fund Act of 1992	28,117	-
	Total U.S. Department of the Treasury		28,117	-

(Continued)

CITY OF PHARR, TEXAS
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED SEPTEMBER 30, 2005

Exhibit H-1, (Cont.)

GRANT NUMBER	FEDERAL GRANTOR/ PASS-THROUGH GRANTOR/STATE GRANTOR/PROGRAM TITLE	FEDERAL CFDA NUMBER	FEDERAL/STATE EXPENDITURES	PASS THROUGH AMOUNT TO SUBRECIPIENTS
<u>National Highway Traffic Safety Administration, Department of Transportation Passed Through Texas Department of Transportation</u>				
585XXF6037	✓ STEP – Safe and Sober	20.605	\$ 67,438 ✓ \$	-
585XXF6181	✓ STEP – Impaired Driving Mobilization	20.605	11,159 ✓	-
	Total CFDA Number 20.605		78,597	-
585XXF6148	✓ STEP – CIOT	20.604	3,230 ✓	-
585XXF6102	✓ STEP – WAVE	20.604	11,875 ✓	-
	Total CFDA Number 20.604		15,105	-
	Total Passed Through Texas Department of Transportation		93,702	-
	Total National Traffic Safety Administration, Department of Transportation		93,702	-
<u>U.S. Department of the Interior, National Parks Service Passed Through Texas Historical Commission</u>				
TX-04-19345-035	Historical Resources Survey, Phase II	15.904	6,600	-
	Total CFDA Number 15.904		6,600	-
	Total Passed Through Texas Historical Commission		6,600	-
	Total U.S. Department of the Interior, National Parks Service		6,600	-
<u>Environmental Protection Agency Passed Through Border Environment Cooperation Commission (BECC)</u>				
TAA04-014	Technical Assistance Agreement	66.606	250,000	-
	Total CFDA Number 66.606		250,000	-
	Total Passed Through Border Environment Cooperation Commission		250,000	-
	Total Environmental Protection Agency		250,000	-
	Total Primary Government		1,720,656	-
	Component Unit – PEDC:			
	Total Component Unit		-	-
	TOTAL EXPENDITURES OF FEDERAL AWARDS		\$ 1,720,656	\$ -

(Continued)

CITY OF PHARR, TEXAS
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED SEPTEMBER 30, 2005

1. The accompanying Schedule of Expenditures of Federal Awards presents the activity of all Federal Award Programs of the City of Pharr, Texas.
2. The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. The Governmental Fund types are accounted for using a current financial resources measurement focus. With this measurement focus, only current assets and current liabilities and the fund balance are included on the balance sheet. Operating statements of these funds present increases and decreases in net current assets.

The modified accrual basis of accounting is used for the Governmental Fund types and Agency Funds. This basis of accounting recognizes revenues in the accounting period in which they become susceptible to accrual, i.e., both measurable and available, and expenditures in the accounting period in which the fund liability is incurred, if measurable, except for unmatured interest on General Long-Term Debt, which is recognized when due, and certain compensated absences and claims and judgments, which are recognized when the obligations are expected to be liquidated with expendable available financial resources.

Federal grant funds are considered to be earned to the extent of expenditures made under the provisions of the grant, and, accordingly, when such funds are received, they are recorded as deferred revenues until earned.

3. The period of availability for federal grant funds for the purpose of liquidation of outstanding obligations made on or before the ending date of the federal project period extended 30 days beyond the federal project period ending date, in accordance with provisions in Section H, Period of Availability of Federal Funds, Part 3, OMB Circular A-133 *Compliance Supplement*.