

**Audited  
Financial Report  
Fiscal Year Ending  
September 30, 2006**

**Issued by  
Fred Sandoval,  
City Manager  
and  
Ruben C. Luna,  
Finance Director**

City Of Pharr, Texas  
Annual Financial Report  
For The Year Ended September 30, 2006

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**CITY OF PHARR, TEXAS**  
*LIST OF PRINCIPAL OFFICIALS*  
*SEPTEMBER 30, 2006*

Elected Officials

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<u>Name</u>	<u>Office</u>
ILeo Palacios, Jr.	Mayor
Adan Farias	Mayor Pro-Tem
Francis Quintanilla	Alternate Mayor Pro-Tem
Arturo J. Cortez	Commissioner
Raul Martinez	Commissioner
Raul Gonzalez	Commissioner
Ricardo Medina	Commissioner

Appointed Officials

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<u>Name</u>	<u>Position</u>
Fred Sandoval	City Manager
Ruben Luna	Finance Director

*Financial Section*



**Oscar R. Gonzalez**

*Certified Public Accountant*

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*Email: org110n@aol.com*

## **Independent Auditor's Report on Financial Statements**

Members of the City Council  
City Of Pharr, Texas  
201 West Park Avenue  
Pharr, Texas 78577

Members of the Members of the City Council:

I have audited the accompanying financial statements of the governmental activities\*, the business-type activities, each major fund, and the aggregate remaining fund information of City Of Pharr, Texas as of and for the year ended September 30, 2006, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of City Of Pharr, Texas's management. My responsibility is to express opinions on these financial statements based on my audit.

I conducted my 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 I 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. I believe that my audit provides a reasonable basis for my opinions.

In my 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 City Of Pharr, Texas as of September 30, 2006, 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.

In accordance with *Government Auditing Standards*, I have also issued my report dated May 1, 2007, on my consideration of City Of Pharr, Texas's internal control over financial reporting and on my tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of my testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. 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 my audit.

The Management's Discussion and Analysis and the budgetary information identified as Required Supplementary Information 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. I 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, I did not audit the information and express no opinion on it.

My audit was performed for the purpose of forming opinions on the financial statements which collectively comprise the City Of Pharr, Texas's basic financial statements. The accompanying schedule of expenditures of

federal awards required by U. S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations* and the combining financial statements and supporting schedules listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. This information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in my opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

\* Except that the Utility Fund was audited separately by Reyna and Garza PLLC, Certified Public Accountants and issued a nonqualified opinion.

  
Oscar R. Gonzalez CPA

May 1, 2007

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*Management's Discussion and Analysis*

## MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of City Of Pharr, Texas's annual financial report presents our discussion and analysis of the City's financial performance during the fiscal year ended September 30, 2006. Please read it in conjunction with the City's financial statements, which follow this section.

### FINANCIAL HIGHLIGHTS

- The City's total combined net assets were \$95,366,020 at September 30, 2006.
- During the year, the City's expenses were \$34,141,159 and \$37,668,008 were generated in taxes and other revenues for governmental activities. For business-type activities the city's expenses were \$11,786,345 and city's revenues were \$17,987,791.
- The general fund reported a fund balance this year of \$7,600,364.

### OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of three parts—*management's discussion and analysis* (this section), the *basic financial statements*, and *required supplementary information*. The basic financial statements include two kinds of statements that present different views of the City:

- The first two statements are *government-wide financial statements* that provide both *long-term* and *short-term* information about the City's overall financial status.
- The remaining statements are *fund financial statements* that focus on *individual parts* of the government, reporting the City's operations in more detail than the government-wide statements.
- *The governmental funds* statements tell how *general government services* were financed in the *short term* as well as what remains for future spending.
- *Proprietary fund* statements offer *short- and long-term* financial information about the activities the government operates *like businesses*.
- *Fiduciary fund* statements provide information about the financial relationships in which the City acts solely as a *trustee or agent* for the benefit of others, to whom the resources in question belong.

Figure A-1F, Required Components of the City's Annual Financial Report

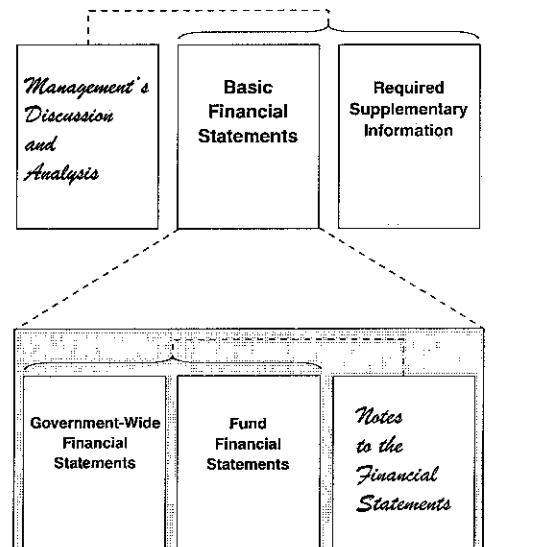


Figure A-2. Major Features of the District's Government-wide and Fund Financial Statements

Type of Statements	Fund Statements			
	Government-wide	Governmental Funds	Proprietary Funds	Fiduciary Funds
<i>Scope</i>	Entire Agency's government (except fiduciary funds) and the Agency's component units	The activities of the district that are not proprietary or fiduciary	Activities the district operates similar to private businesses: self insurance	Instances in which the district is the trustee or agent for someone else's resources
<i>Required financial statements</i>	<ul style="list-style-type: none"> <li>• Statement of net assets</li> <li>• Statement of activities</li> </ul>	<ul style="list-style-type: none"> <li>• Balance sheet</li> <li>• Statement of revenues, expenditures &amp; changes in fund balances</li> </ul>	<ul style="list-style-type: none"> <li>• Statement of net assets</li> <li>• Statement of revenues, expenses and changes in fund net assets</li> <li>• Statement of cash flows</li> </ul>	<ul style="list-style-type: none"> <li>• Statement of fiduciary net assets</li> <li>• Statement of changes in fiduciary net assets</li> </ul>
<i>Accounting basis and measurement focus</i>	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus	Accrual accounting and economic resources focus
<i>Type of asset/liability information</i>	All assets and liabilities, both financial and capital, short-term and long-term	Only assets expected to be used up and liabilities that come due during the year or soon thereafter, no capital assets included	All assets and liabilities, both financial and capital, and short-term and long-term	All assets and liabilities, both short-term and long-term; the Agency's funds do not currently contain capital assets, although they can
<i>Type of inflow/outflow information</i>	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year, expenditures when goods or services have been received and payment is due during the year or	All revenues and expenses during year, regardless of when cash is received or paid	All revenues and expenses during year, regardless of when cash is received or paid

The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data. The statements are followed by a section of *required supplementary information* that further explains and supports the information in the financial statements. Figure A-1 shows how the required parts of this annual report are arranged and related to one another.

Figure A-2 summarizes the major features of the City's financial statements, including the portion of

the City government they cover and the types of information they contain. The remainder of this overview section of management's discussion and analysis explains the structure and contents of each of the statements.

### **Government-wide Statements**

The government-wide statements report information about the City as a whole using accounting methods similar to those used by private-sector companies. The statement of net assets includes all of the government's assets and liabilities. All of the current year's revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

The two government-wide statements report the City's net assets and how they have changed. Net assets — the difference between the City's assets and liabilities—is one way to measure the City's financial health or *position*.

- Over time, increases or decreases in the City's net assets are an indicator of whether its financial health is improving or deteriorating, respectively.
- To assess the overall health of the City, one needs to consider additional nonfinancial factors such as changes in the City's tax base

The government-wide financial statements of the City include the *Governmental activities*. Most of the City's basic services are included here, such as general government, public safety, highways and streets, sanitation, economic development, culture and recreation, and interest on long-term debt. Property taxes and grants finance most of these activities.

### **Fund Financial Statements**

The fund financial statements provide more detailed information about the City's most significant *funds*—not the City as a whole. Funds are accounting devices that the City uses to keep track of specific sources of funding and spending for particular purposes.

- Some funds are required by State law and by bond covenants.
- The City Council establishes other funds to control and manage money for particular purposes or to show that it is properly using certain taxes and grants.

The City has the following kinds of funds:

- *Governmental funds*—Most of the City's basic services are included in governmental funds, which focus on (1) how *cash and other financial assets* that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental fund statements provide a detailed *short-term* view that helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs. Because this information does not encompass the additional long-term focus of the government-wide statements, we provide additional information at the bottom of the governmental funds statement, or on the subsequent page, that explain the relationship (or differences) between them.
- *Proprietary funds*—Services for which the City charges customers a fee are generally reported in proprietary funds. Proprietary funds, like the government-wide statements, provide both long-term and short-term financial information.

## **FINANCIAL ANALYSIS OF THE CITY AS A WHOLE**

Net assets. The City's combined net assets were \$95,366,021 at September 30, 2006; increase of \$18,077,681 see Table A-1.

Table A-1  
City's Net Assets

	Governmental Activities		Business-Type Activities		Total		Increase (Decrease)
	2006	2005	2006	2005	2006	2005	
Current and Other assets	\$ 18,888,129	\$ 11,845,867	\$ 12,514,215	\$ 9,004,494	\$ 31,402,344	\$ 20,850,361	\$ 10,551,983
Capital assets	61,248,397	55,796,958	62,215,267	60,167,595	123,463,664	115,964,553	7,499,111
Total assets	80,136,526	67,642,825	74,729,482	69,172,089	154,866,008	136,814,914	18,051,094
Long-term liabilities	32,399,366	29,078,663	21,069,954	20,130,043	53,469,320	49,208,706	4,260,614
Other liabilities	3,808,961	6,244,077	1,972,774	4,073,791	5,781,735	10,317,868	(4,536,133)
Total liabilities	36,208,327	35,322,740	23,042,728	24,203,834	59,251,055	59,526,574	(275,519)
<b>NET ASSETS</b>							
Invested in Capital Assets, Net of Related Debt	28,849,031	26,339,002	38,335,975	38,635,551	67,185,006	64,974,553	2,210,453
Restricted For:	6,763,230	1,998,395	1,950,099	2,942,893	8,713,329	4,941,288	3,772,041
Unrestricted	8,067,004	3,982,688	11,400,682	3,389,811	19,467,686	7,372,499	12,095,187
Total net assets	\$ 43,679,265	\$ 32,320,085	\$ 51,686,756	\$ 44,968,255	\$ 95,366,021	\$ 77,288,340	\$ 18,077,681

**Changes in net assets.** The City's total revenues were \$55,655,800. A significant portion, 43%, of the City's revenue comes from taxes. (See Figure A) 3% comes from grants, while only 42% relates to charges for services, 12% percent from licenses & permits, fines, interest and other.

**Governmental Activities**

Table A-2  
Change's in City's Net Assets

	Governmental Activities		Business-Type Activities		Total		Increase (Decrease)
	2006	2005	2006	2005	2006	2005	
<b>Revenues</b>							
<b>Program Revenues:</b>							
Charges for services	4,001,335	6,066,964	19,240,239	16,065,232	23,241,574	22,132,196	1,109,378
Operating grants and contributions	1,648,397	1,752,819	-	-	1,648,397	1,752,819	(104,422)
Capital grants and contributions	1,094,051	-	-	-	1,094,051	-	1,094,051
<b>General Revenues:</b>							
Taxes	24,364,142	22,040,301	-	-	24,364,142	22,040,301	2,323,841
<b>Grants and Contributions</b>							
Not Restricted	-	644,591	-	-	-	644,591	(644,591)
Investment Earnings	419,245	306,545	-	609,171	419,245	915,716	(496,471)
Miscellaneous	3,853,254	2,011,895	1,035,137	10,001	4,888,391	2,021,896	2,866,495
<b>Total Revenues</b>	<b>35,380,424</b>	<b>32,823,115</b>	<b>20,275,376</b>	<b>16,684,404</b>	<b>55,655,800</b>	<b>49,507,519</b>	<b>6,148,281</b>
<b>Expenses</b>							
General Government	9,946,829	5,462,481	-	-	9,946,829	5,462,481	4,484,348
Public Safety	14,571,685	14,068,556	-	-	14,571,685	14,068,556	503,129
Streets and Highways	2,232,926	2,276,258	-	-	2,232,926	2,276,258	(43,332)
Sanitation	3,227,150	3,519,289	-	-	3,227,150	3,519,289	(292,139)
Culture and Recreation	1,043,624	3,641,742	-	-	1,043,624	3,641,742	(2,598,118)
Economic Development and assistance	1,753,780	1,804,651	-	-	1,753,780	1,804,651	(50,871)
Interest on Long-term Debt	1,365,165	1,478,170	-	-	1,365,165	1,478,170	(113,005)
Water and Sewer	-	-	7,575,897	6,885,456	7,575,897	6,885,456	690,441
Toll bridge operations	-	-	3,156,774	3,830,037	3,156,774	3,830,037	(673,263)
Golf course operations	-	-	1,053,674	987,571	1,053,674	987,571	66,103
<b>Total Expenses</b>	<b>34,141,159</b>	<b>32,251,147</b>	<b>11,786,345</b>	<b>11,703,064</b>	<b>45,927,504</b>	<b>43,954,211</b>	<b>1,973,293</b>
<b>Increase or (Decrease)</b>							
in net assets before transfer	1,239,265	571,968	8,489,031	4,981,340	9,728,296	5,553,308	4,174,988
Transfers	2,287,584	6,361,480	(2,287,585)	(6,361,480)	(1)	-	(1)
<b>Increase in net assets</b>	<b>3,526,849</b>	<b>6,933,448</b>	<b>6,201,446</b>	<b>(1,380,140)</b>	<b>9,728,295</b>	<b>5,553,308</b>	<b>4,174,987</b>
Net Assets, October 1, Restated	39,866,821	32,320,085	45,143,054	45,808,830	85,009,875	78,128,915	6,880,960
Prior Period Adjustment	285,595	613,288	342,256	289,565	627,851	902,853	(275,002)
<b>Net Assets, September 30,</b>	<b>\$ 43,679,265</b>	<b>\$ 39,866,821</b>	<b>\$ 51,686,756</b>	<b>\$ 44,718,255</b>	<b>\$ 95,366,021</b>	<b>\$ 84,585,076</b>	<b>\$ 10,780,945</b>

Figure A

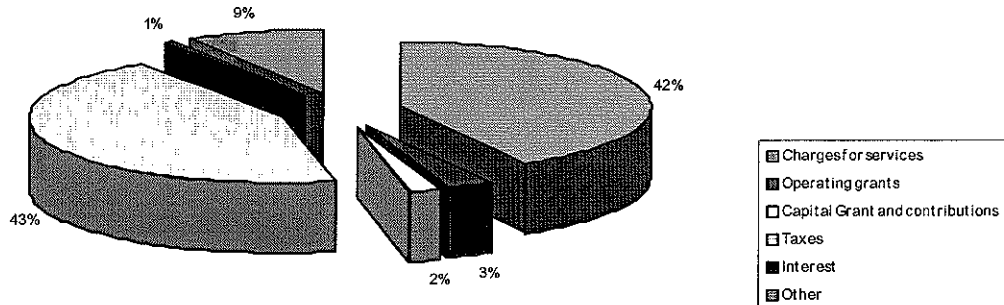


Table A-2 presents the cost of each of the City's largest functions as well as each function's net cost (total cost less fees generated by the activities and intergovernmental aid). The net cost reflects what was funded by state revenues as well as local tax dollars.

- The cost of all *governmental* activities this year was \$45,927,504.
- However, the amount that our taxpayers paid for these activities through property taxes was only \$10,474,618.
- By grants and contributions \$2,742,448.

### Business-type Activities

Revenues of the City's business-type activities were \$ 20,275,376 and expenses were \$13,062,829, which resulted in a change of net assets of \$6,201,446.

## FINANCIAL ANALYSIS OF THE CITY'S FUNDS

### General Fund Budgetary Highlights

Over the course of the year, the City revised its budget one time. Even with this adjustment, actual expenditures were \$510,857 under final budget amounts.

On the other hand, resources available were \$ 1,384,080 over the final budgeted amount.

## CAPITAL ASSETS AND DEBT ADMINISTRATION

### Capital Assets

At the end of 2006, the City had invested \$123,463,663 in a broad range of capital assets, including land, equipment,

Table A-3  
City's Capital Assets

	Governmental Activities		Business-Type Activities		Total		Increase (Decrease)
	2006	2005	2006	2005	2006	2005	
Land	\$ 4,992,875	\$ 3,943,981	\$ 2,250,107	\$ 2,250,107	\$ 7,242,982	\$ 6,194,088	\$ 1,048,894
Construction in Progress	2,484,960	7,314,756	8,980,001	6,009,396	\$ 11,464,961	\$ 13,324,152	\$ (1,859,191)
Buildings and improvements	31,155,709	29,422,387	28,935,466	28,900,197	\$ 60,091,175	\$ 58,322,584	\$ 1,768,591
Infrastructure	51,669,988	43,287,160	37,371,537	36,581,430	\$ 89,041,525	\$ 79,868,590	\$ 9,172,935
Equipment	5,937,819	4,196,993	11,417,538	11,053,101	\$ 17,355,357	\$ 15,250,094	\$ 2,105,263
Total at historical cost	91,248,476	84,221,296	86,704,542	82,544,124	177,953,018	166,765,420	11,187,598
Total accumulated depreciation	(34,992,955)	(32,228,807)	(26,739,382)	(24,626,636)	(61,732,337)	(56,855,443)	(4,876,894)
Net capital assets	56,255,521	51,992,489	59,965,160	57,917,488	116,220,681	109,909,977	6,310,704
Total net capital assets	\$ 61,248,396	\$ 55,936,470	\$ 62,215,267	\$ 60,167,595	\$ 123,463,663	\$ 116,104,065	\$ 7,359,598

buildings, and vehicles. (See Table A-4.)

The City's fiscal year 2006 capital budget projects spending \$7,359,598, principally for the acquisition of land for the construction of new City's administration offices, business center, library, renovation of existing administrative facilities, a downtown park renovation, landscaping, a fire department substation, land for park and pay cost of issuance related thereto.

## Long Term Debt

At year-end the City had \$53,469,323 in bonds, leases and compensated absences outstanding as shown in Table A-5. More detailed information about the City's debt is presented in the notes to the financial statements.

Table A-5  
City's Long Term Debt

	Governmental Activities		Business-Type Activities		Total		Increase (Decrease)
	2006	2005	2006	2005	2006	2005	
Bond payable	\$ 22,095,000	\$ 23,195,000	\$ 20,042,000	\$ 21,444,000	\$ 42,137,000	\$ 44,639,000	\$ (2,502,000)
Notes Payables	5,565,280	4,683,694	-	-	\$ 5,565,280	\$ 4,683,694	\$ 881,586
Leases Payable	1,565,594	697,538	232,748	86,072	\$ 1,798,342	\$ 783,610	\$ 1,014,732
Compensated Absences	3,173,494	3,014,116	795,207	707,685	\$ 3,968,701	\$ 3,721,801	\$ 246,900
Total	<u>\$ 32,399,368</u>	<u>\$ 31,590,348</u>	<u>\$ 21,069,955</u>	<u>\$ 22,237,757</u>	<u>\$ 53,469,323</u>	<u>\$ 50,106,304</u>	<u>\$ (358,782)</u>

## Bond Ratings

The City's bonds presently carry "AAA" ratings with underlying ratings as follows: Fitch Investor Series AAA.

## ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

- Appraised value used for the 2006-2007-budget preparation is up \$174.2 or 11.95% from the prior year.
- The fiscal year 2006-2007 General Fund operating budget was prepared using \$1,467,982 as the estimated unreserved fund balance at September 30, 2006. The actual unreserved fund balance for the General Fund was \$195,401.

## 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 demonstrate 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 South Cage Blvd. City of Pharr, Texas 78577.

*Basic Financial Statements*



## CITY OF PHARR, TEXAS

## STATEMENT OF NET ASSETS

SEPTEMBER 30, 2006

	Governmental Activities	Business-type Activities	Total
<b>ASSETS:</b>			
<i>Cash and investments</i>	\$ 6,785,088	\$ 6,566,968	\$ 13,352,056
<i>Property taxes</i>	1,725,119	-	1,725,119
<i>Accounts</i>	4,373,342	3,080,633	7,453,975
<i>Other</i>	658,237	26,572	684,809
<i>Internal Balances</i>	3,752,633	(3,752,634)	(1)
<i>Inventories</i>	155,277	81,535	236,812
<i>Prepaid items</i>	11,470	175,617	187,087
<i>Deferred charges</i>	780,106	1,680,050	2,460,156
<i>Note receivable-revolving loans</i>	598,986	-	598,986
<i>Capitalized Interest</i>	47,872	274,868	322,740
<b>Restricted assets:</b>			
<i>Cash and time investments</i>	-	4,380,606	4,380,606
<b>Capital Assets ( net, of accumulated depreciation)</b>			
<i>Land</i>	4,992,877	2,250,107	7,242,984
<i>Buildings</i>	19,176,348	19,440,711	38,617,059
<i>Bridges</i>	414,539	-	414,539
<i>Improvements other than buildings</i>	4,143,192	772,922	4,916,114
<i>Machinery &amp; Equipment</i>	3,597,318	4,668,043	8,265,361
<i>Infrastructure</i>	26,439,163	26,103,483	52,542,646
<i>Construction in Progress</i>	2,484,960	8,980,001	11,464,961
<b>Total Assets</b>	<b>80,136,527</b>	<b>74,729,482</b>	<b>154,866,009</b>
<b>LIABILITIES:</b>			
<i>Accounts Payable</i>	3,338,045	138,192	3,476,237
<i>Other Current Liabilities</i>	37,241	121,730	158,971
<i>Other Accrued Liabilities</i>	280,808	154,875	435,683
<i>Customer Deposits</i>	-	1,531,031	1,531,031
<i>Deferred Revenue - Other</i>	152,867	26,945	179,812
<b>Noncurrent Liabilities -</b>			
<i>Due within one year</i>	2,236,885	1,455,511	3,692,396
<i>Due in more than one year</i>	30,162,481	19,614,443	49,776,924
<b>Total Liabilities</b>	<b>36,208,327</b>	<b>23,042,727</b>	<b>59,251,054</b>
<b>NET ASSETS</b>			
<i>Invested in Capital Assets, Net of Related Debt</i>	28,849,031	38,335,975	67,185,006
<b>Restricted For:</b>			
<i>Federal and State Programs</i>	2,475,979	-	2,475,979
<i>Debt Service</i>	1,973,541	1,419,482	3,393,023
<i>Capital Projects</i>	(1,312,497)	530,617	(781,880)
<i>Economic Develeopment</i>	3,626,207	-	3,626,207
<i>Unrestricted</i>	8,067,004	11,400,682	19,467,686
<b>Total Net Assets</b>	<b>\$ 43,679,265</b>	<b>\$ 51,686,756</b>	<b>\$ 95,366,021</b>

The accompanying notes are an integral part of this statement.

**CITY OF PHARR, TEXAS**

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED SEPTEMBER 30, 2006

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
<b>PRIMARY GOVERNMENT:</b>				
Governmental Activities:				
City Manager	\$ 2,483,156	\$ 48,228	\$ 314,456	\$ 531,791
Finance	747,898	30,884	1,706	16,196
Police Department	8,790,401	357,726	19,764	187,596
P.D.-Traffic Safety	1,869,284	33,829	1,869	17,741
Municipal Court	428,007	17,674	976	9,269
Fire Department	3,912,000	161,542	8,925	84,715
Street Maintenance	2,232,926	85,045	4,699	44,599
Sanitation	3,227,150	3,005,691	6,892	65,421
Municipal Library	976,971	40,343	2,229	21,156
Parks & Recreation	66,653	--	--	--
Building Maintenance	2,209,070	91,221	5,040	47,838
Community Development	372,549	--	595,026	--
Planning & Code Enforcement	919,324	37,962	2,097	19,908
CDBG	70,108	--	111,975	--
Non-Departmental	2,562,264	91,190	572,743	47,821
City Service Center	128,592	--	--	--
Economic Development	1,753,780	--	--	--
General Administration	25,861	--	--	--
Debt service	1,220,846	--	--	--
Debt service	144,319	--	--	--
Total Governmental Activities	<u>34,141,159</u>	<u>4,001,335</u>	<u>1,648,397</u>	<u>1,094,051</u>
Business-type Activities:				
Utility	7,575,897	11,200,326	--	--
Toll Bridge	3,156,774	7,713,639	--	--
Tierra Del Dol Golf Course	1,053,674	350,310	--	--
Total Business-type Activities	<u>11,786,345</u>	<u>19,264,275</u>	<u>--</u>	<u>--</u>
Total Primary Government	<u>\$ 45,927,504</u>	<u>\$ 23,265,610</u>	<u>\$ 1,648,397</u>	<u>\$ 1,094,051</u>

General Revenues:

Property Taxes

Sales Taxes

Other Taxes

Licenses & permits

Intergovernmental

Fines

Interest

Other

Transfers

Total General Revenues

Change in Net Assets

Net Assets - Beginning

Prior Period Adjustment

Contributed Capital

Net Assets - Ending

The accompanying notes are an integral part of this statement.

Net (Expense) Revenue and Changes in Net Assets

Governmental Activities	Business-type Activities	Total
\$ (1,588,681)		\$ (1,588,681)
(699,112)		(699,112)
(8,225,315)		(8,225,315)
(1,815,845)		(1,815,845)
(400,088)		(400,088)
(3,656,818)		(3,656,818)
(2,098,583)		(2,098,583)
(149,146)		(149,146)
(913,243)		(913,243)
(66,653)		(66,653)
(2,064,971)		(2,064,971)
222,477		222,477
(859,357)		(859,357)
41,867		41,867
(1,850,510)		(1,850,510)
(128,592)		(128,592)
(1,753,780)		(1,753,780)
(25,861)		(25,861)
(1,220,846)		(1,220,846)
(144,319)		(144,319)
<u>(27,397,376)</u>		<u>(27,397,376)</u>
--	\$ 3,624,429	3,624,429
--	4,556,865	4,556,865
--	(703,364)	(703,364)
--	<u>7,477,930</u>	<u>7,477,930</u>
<u>(27,397,376)</u>	<u>7,477,930</u>	<u>(19,919,446)</u>
10,474,618	--	10,474,618
11,346,050	--	11,346,050
2,543,478	--	2,543,478
898,463	--	898,463
365,175	--	365,175
968,071	--	968,071
419,245	--	419,245
1,621,545	1,011,101	2,632,646
2,287,584	(2,287,585)	(1)
<u>30,924,225</u>	<u>(1,276,484)</u>	<u>29,647,741</u>
<u>3,526,849</u>	<u>6,201,446</u>	<u>9,728,295</u>
39,866,821	44,968,257	84,835,078
285,595	342,256	627,851
--	174,797	174,797
<u>\$ 43,679,265</u>	<u>\$ 51,686,756</u>	<u>\$ 95,366,021</u>

**CITY OF PHARR, TEXAS**

BALANCE SHEET - GOVERNMENTAL FUNDS

SEPTEMBER 30, 2006

	General Fund	Capital Projects Fund
<b>ASSETS AND OTHER DEBITS</b>		
Assets:		
<i>Cash and investments</i>	\$ 364,756	\$ 835,361
<i>Property taxes</i>	1,377,280	--
<i>Accounts</i>	4,373,342	--
<i>Other</i>	476,689	--
<i>Due from other funds</i>	10,477,081	1,324,405
<i>Inventories</i>	151,397	--
<i>Prepaid items</i>	11,470	--
<i>Note receivable-revolving loans</i>	180,398	--
Restricted assets:		
<i>Deferred charges</i>	--	--
<b>Total Assets and Other Debits</b>	<b>\$ 17,412,413</b>	<b>\$ 2,159,766</b>
<b>LIABILITIES, EQUITY AND OTHER CREDITS</b>		
Liabilities:		
<i>Accounts payable</i>	\$ 2,601,852	\$ --
<i>Accrued expenses</i>	275,538	--
<i>Due to other funds</i>	4,536,372	4,750,017
<i>Other</i>	33	--
Payable from restricted assets:		
<i>Escrow development liability</i>	220,381	--
<i>Deferred revenue-taxes</i>	2,153,070	--
<i>Deferred revenue-other</i>	(4,743)	--
<i>Other liabilities</i>	29,546	--
<b>Total Liabilities and other credits</b>	<b>9,812,049</b>	<b>4,750,017</b>
Equity and other credits:		
Retained earnings:		
Fund balances:		
<i>Reserved</i>	7,404,963	--
<i>Unreserved</i>	195,401	(2,590,251)
<b>Total equity and other credits</b>	<b>7,600,364</b>	<b>(2,590,251)</b>
<b>Total Liabilities, Equity &amp; Other Credits</b>	<b>\$ 17,412,413</b>	<b>\$ 2,159,766</b>

The accompanying notes are an integral part of this statement.

<u>Economic Development Corporation</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
\$ 3,201,987	\$ 2,492,751	\$ 6,894,855
--	347,839	1,725,119
--	--	4,373,342
--	108,598	585,287
535,411	418,270	12,755,167
--	--	151,397
--	--	11,470
337,502	81,086	598,986
--	1,477	1,477
<u>\$ 4,074,900</u>	<u>\$ 3,450,021</u>	<u>\$ 27,097,100</u>
\$ 197,823	\$ --	\$ 2,799,675
--	3,151	278,689
66,601	110,724	9,463,714
--	--	33
--	--	220,381
--	347,839	2,500,909
--	157,610	152,867
7,695	--	37,241
<u>272,119</u>	<u>619,324</u>	<u>15,453,509</u>
3,802,781	1,644,220	12,851,964
--	1,186,477	(1,208,373)
<u>3,802,781</u>	<u>2,830,697</u>	<u>11,643,591</u>
<u>\$ 4,074,900</u>	<u>\$ 3,450,021</u>	<u>\$ 27,097,100</u>

**CITY OF PHARR, TEXAS**

RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET  
 TO THE STATEMENT OF NET ASSETS  
 SEPTEMBER 30, 2006

Total fund balances - governmental funds balance sheet	\$ 11,643,591
Amounts reported for governmental activities in the statement of net assets ("SNA") are different because:	
Capital assets used in governmental activities are not reported in the funds.	60,397,093
Property taxes receivable unavailable to pay for current period expenditures are deferred in the funds.	2,500,910
The assets and liabilities of internal service funds are included in governmental activities in the SNA.	619,745
Payables for bond principal which are not due in the current period are not reported in the funds.	(23,959,235)
Payables for capital leases which are not due in the current period are not reported in the funds.	(60,695)
Payables for notes which are not due in the current period are not reported in the funds.	(5,188,104)
Payables for compensated absences which are not due in the current period are not reported in the funds.	(3,173,494)
Other long-term assets are not available to pay for current-period expenditures and are deferred in the funds.	899,451
Rounding difference	2
Net assets of governmental activities - statement of net assets	<u>\$ 43,679,264</u>

The accompanying notes are an integral part of this statement.

# CITY OF PHARR, TEXAS

## STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS FOR THE YEAR ENDED SEPTEMBER 30, 2006

	General Fund	Capital Projects Fund
	<u>          </u>	<u>          </u>
Revenue:		
Property Taxes	\$ 9,143,673	\$ --
Sales Taxes	8,509,536	--
Other Taxes	1,964,705	--
Licenses and permits	1,468,291	--
Intergovernmental	(5,033)	506,500
Charges for services	3,463,451	--
Other charges	473,790	--
Fines and forfeitures	968,071	--
Interest	153,306	34,879
Other	842,945	5,000
Total revenues	<u>26,982,733</u>	<u>546,379</u>
Expenditures:		
Current:		
General government	7,961,281	4,681,574
Public safety	14,870,889	--
Highways and streets	2,542,037	--
Sanitation	3,021,043	--
Culture and recreation	976,971	--
Economic development and assistance	--	--
Debt service	--	--
Total expenditures	<u>29,372,221</u>	<u>4,681,574</u>
Excess (deficiency) of revenues (under) expenditures	(2,389,488)	(4,135,195)
Other financing sources (uses):		
Operating transfers in	2,614,866	457,870
Operating transfers out	--	(672,542)
Proceeds from Sale of Land	--	--
Loan proceeds	--	--
Lease proceeds	1,660,078	--
Total other financing sources (uses)	<u>4,274,944</u>	<u>(214,672)</u>
Excess of revenues and other financing sources over (under) expenditures and other financing uses	1,885,456	(4,349,867)
Fund balances/equity, October 1	5,832,125	1,759,616
Prior period adjustment (Note L)	(117,217)	--
Fund balances/equity, September 30	<u>\$ 7,600,364</u>	<u>\$ (2,590,251)</u>

(See Note M)

Economic Development Corporation	Other Governmental Funds	Total Governmental Funds
\$ --	\$ 1,317,120	\$ 10,460,793
2,836,513	--	11,346,049
--	578,773	2,543,478
--	--	1,468,291
--	676,966	1,178,433
--	--	3,463,451
349,921	--	823,711
--	--	968,071
15,152	215,908	419,245
1,855	1,275,933	2,125,733
<u>3,203,441</u>	<u>4,064,702</u>	<u>34,797,255</u>
--	1,574,395	14,217,250
--	520,432	15,391,321
--	--	2,542,037
--	--	3,021,043
--	--	976,971
3,120,252	--	3,120,252
677,335	2,125,856	2,803,191
<u>3,797,587</u>	<u>4,220,683</u>	<u>42,072,065</u>
(594,146)	(155,981)	(7,274,810)
--	971,000	4,043,736
(546,000)	(537,610)	(1,756,152)
978,881	--	978,881
1,460,000	--	1,460,000
--	--	1,660,078
<u>1,892,881</u>	<u>433,390</u>	<u>6,386,543</u>
1,298,735	277,409	(888,267)
1,759,494	2,947,341	12,298,576
744,552	(394,053)	233,282
<u>\$ 3,802,781</u>	<u>\$ 2,830,697</u>	<u>\$ 11,643,591</u>



**CITY OF PHARR, TEXAS**

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,  
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS  
TO THE STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED SEPTEMBER 30, 2006

Net change in fund balances - total governmental funds	\$ (888,267)
Amounts reported for governmental activities in the statement of activities ("SOA") are different because:	
Capital outlays are not reported as expenses in the SOA.	8,462,075
The depreciation of capital assets used in governmental activities is not reported in the funds.	(2,679,071)
All proceeds from the sale of capital assets are reported in the funds but not in the SOA.	(409,534)
Certain property tax revenues are deferred in the funds. This is the change in these amounts this year.	13,821
Repayment of bond principal is an expenditure in the funds but is not an expense in the SOA.	2,484,975
Bond issuance costs and similar items are amortized in the SOA but not in the funds	(43,500)
The net revenue (expense) of internal service funds is reported with governmental activities.	(134,195)
Proceeds of notes do not provide revenue in the SOA, but are reported as current resources in the funds.	(1,460,000)
Proceeds of leases do not provide revenue in the SOA, but are reported as current resources in the funds.	<u>(1,660,078)</u>
Change in net assets of governmental activities - statement of activities	<u>\$ 3,686,227</u>

The accompanying notes are an integral part of this statement.

**CITY OF PHARR, TEXAS**

STATEMENT OF NET ASSETS

PROPRIETARY FUNDS

SEPTEMBER 30, 2006

	Enterprise Fund	Enterprise Fund
	Utility Fund	Toll Bridge Fund
<b>ASSETS</b>		
Assets:		
Cash and time deposits	\$ 6,835,262	\$ 4,700
Receivables ( net of allowances for uncollectibles):		
Accounts	2,958,266	122,367
Other	-	13,781
Due from other funds	2,656,030	60,367
Inventories	50,269	--
Prepaid items	23,217	150,000
Capitalized Interest	--	274,868
Restricted assets:		
Cash and time investments	1,500,818	2,879,788
Deferred charges	19,608	1,660,442
Capital Assets ( net of accumulated depreciation):		
Land	431,120	819,645
Buildings	17,166,018	2,108,215
Improvements other than Buildings	33,653	2,742
Machinery and Equipment	3,632,428	685,948
Infrastructure	14,150,899	11,835,019
Construction in Progress	7,414,515	300,170
Total Assets	<u>\$ 56,872,103</u>	<u>\$ 20,918,052</u>
<b>LIABILITIES</b>		
Liabilities:		
Accounts payable	\$ 137,666	\$ --
Compensated absences payable	555,992	155,863
Due to other funds	2,232,306	154,940
Other liabilities	119,831	--
Accrued expenses payable	88,938	58,591
Payable from restricted assets:		
Current portion of revenue bonds payable	851,000	480,000
Current portion of leases payable	51,717	--
Deferred revenue-other	104	32,115
Revenue bonds payable, net of current portion	9,901,000	8,810,000
Leases and notes payable, net of current portion	79,903	--
Customer meter deposits	1,531,031	--
Total Liabilities	<u>15,549,488</u>	<u>9,691,509</u>
<b>NET ASSETS:</b>		
Investment in Capital Assets, Net of Related Debt	31,945,013	6,390,962
Contributed Capital	--	--
Restricted for Debt Service	1,411,545	7,937
Restricted for Capital Projects	530,617	--
Restricted for Other Funds	--	668,324
Restricted Net Assets	--	--
Unrestricted Net Assets	7,435,440	4,159,320
Total Net Assets	<u>\$ 41,322,615</u>	<u>\$ 11,226,543</u>

The accompanying notes are an integral part of this statement.

Enterprise Fund <u>Tierra Del Sol Golf Course Fund</u>	<u>Total Enterprise Funds</u>	<u>Internal Service Funds</u>
\$ (272,994)	\$ 6,566,968	\$ (109,768)
--	3,080,633	--
12,791	26,572	--
70,899	2,787,296	785,231
31,266	81,535	3,880
2,400	175,617	--
--	274,868	--
--	4,380,606	--
--	1,680,050	--
999,342	2,250,107	--
166,478	19,440,711	542,233
736,527	772,922	140,630
349,667	4,668,043	168,440
117,565	26,103,483	--
1,265,316	8,980,001	--
<u>\$ 3,479,257</u>	<u>\$ 81,269,412</u>	<u>\$ 1,530,646</u>
\$ --	\$ 137,666	\$ 538,372
83,352	795,207	28,521
4,152,684	6,539,930	324,052
1,899	121,730	--
7,347	154,876	2,118
--	1,331,000	--
--	51,717	--
(5,274)	26,945	--
--	18,711,000	--
101,127	181,030	17,838
--	1,531,031	--
<u>4,341,135</u>	<u>29,582,132</u>	<u>910,901</u>
--	38,335,975	704,874
2,197,404	2,197,404	--
--	1,419,482	--
--	530,617	--
--	668,324	--
(2,885,826)	(2,885,826)	22,485
(173,980)	11,420,780	(107,614)
<u>\$ (862,402)</u>	<u>\$ 51,686,756</u>	<u>\$ 619,745</u>

**CITY OF PHARR, TEXAS**

STATEMENT OF REVENUES, EXPENSES, AND CHANGES  
 IN FUND NET ASSETS - PROPRIETARY FUNDS  
 FOR THE YEAR ENDED SEPTEMBER 30, 2006

	Enterprise Fund	Enterprise Fund
	Utility Fund	Toll Bridge Fund
OPERATING REVENUES:		
<i>Charges for services</i>	\$ 11,176,289	\$ 7,698,109
<i>Other revenue</i>	24,037	83,403
<b>Total Operating Revenues</b>	<u>11,200,326</u>	<u>7,781,512</u>
OPERATING EXPENSES:		
<i>Personal services</i>	2,183,856	938,453
<i>Operation and maintenance</i>	3,925,266	996,678
<i>Depreciation and amortization</i>	1,347,107	704,239
<b>Total Operating Expenses</b>	<u>7,456,229</u>	<u>2,639,370</u>
 Operating Income (Loss)	 <u>3,744,097</u>	 <u>5,142,142</u>
NON-OPERATING REVENUES (EXPENSES):		
<i>Interest revenue</i>	391,125	121,835
<i>Other (expenses)</i>	(119,668)	(517,404)
<i>Other income</i>	2,871	73,466
<b>Total Non-operating Revenues (Expenses)</b>	<u>274,328</u>	<u>(322,103)</u>
Net Income (Loss) before Operating Transfers	<u>4,018,425</u>	<u>4,820,039</u>
TRANSFERS:		
<i>Interfund operating transfers in</i>	672,542	72,716
<i>Interfund operating transfers out</i>	(162,750)	(2,870,093)
Net income	<u>4,528,217</u>	<u>2,022,662</u>
Retained earnings, October 1	36,278,060	9,203,881
Prior period adjustment (Note L)	341,539	--
Contributed Capital	174,797	--
<b>Retained earnings, September 30</b>	<b>\$ 41,322,613</b>	<b>\$ 11,226,543</b>

Enterprise Fund <u>Tierra Del Sol Golf Course Fund</u>	Total Enterprise Funds	Internal Service Funds
\$ 350,311	\$ 19,224,709	\$ 933,357
2,574	110,014	-
<u>352,885</u>	<u>19,334,723</u>	<u>933,357</u>
488,504	3,610,813	183,040
486,373	5,408,317	853,194
78,797	2,130,143	85,078
<u>1,053,674</u>	<u>11,149,273</u>	<u>1,121,312</u>
(700,789)	8,185,450	(187,955)
351,356	864,316	194
--	(637,072)	--
--	76,337	53,566
<u>351,356</u>	<u>303,581</u>	<u>53,760</u>
<u>(349,433)</u>	<u>8,489,031</u>	<u>(134,195)</u>
--	745,258	--
--	(3,032,843)	--
<u>(349,433)</u>	<u>6,201,446</u>	<u>(134,195)</u>
(513,686)	44,968,255	753,940
717	342,256	--
--	174,797	--
<u>\$ (862,402)</u>	<u>\$ 51,686,754</u>	<u>\$ 619,745</u>

**CITY OF PHARR, TEXAS**

STATEMENT OF CASH FLOWS

PROPRIETARY FUNDS

FOR THE YEAR ENDED SEPTEMBER 30, 2006

	Enterprise Funds		
	Utility Fund	Toll Bridge Fund	Golf Course Fund
<b>Cash Flows from Operating Activities:</b>			
<i>Cash Received from Customers</i>	\$ 11,200,326	\$ 7,658,398	\$ 354,129
<i>Cash Payments to Employees for Services</i>	(2,276,295)	(951,055)	(466,042)
<i>Cash Payments to Other Suppliers for Goods and Services</i>	(1,591,407)	(1,146,678)	(503,846)
<i>Cash Payments for Grants to Other Organizations</i>	—	—	—
<i>Other Operating Cash Receipts (Payments)</i>	(2,579,647)	—	717
Net Cash Provided (Used) by Operating Activities	<u>4,752,977</u>	<u>5,560,665</u>	<u>(615,042)</u>
<b>Cash Flows from Non-capital Financing Activities:</b>			
<i>Proceeds (Payments) from (for) Borrowings</i>	--	--	101,127
<i>Other Non-Operating Income</i>	--	73,466	--
<i>Transfers From (To) Primary Government</i>	--	--	--
<i>Transfers From (To) Other Funds</i>	(162,750)	(3,059,394)	1,391,199
Net Cash Provided (Used) by Non-capital Financing Activities	<u>(162,750)</u>	<u>(2,985,928)</u>	<u>1,492,326</u>
<b>Cash Flows from Capital and Related Financing Activities:</b>			
<i>Principal and Interest Paid</i>	--	(982,405)	--
<i>Acquisition or Construction of Capital Assets</i>	(2,343,959)	(300,170)	(1,516,289)
<i>Proceeds from Sale of Capital Assets</i>	—	--	--
<i>Contributed Capital</i>	847,339	--	--
Net Cash Provided (Used) for Capital & Related Financing Activities	<u>(1,496,620)</u>	<u>(1,282,575)</u>	<u>(1,516,289)</u>
<b>Cash Flows from Investing Activities:</b>			
<i>Purchase of Investment Securities</i>	(893,423)	--	--
<i>Cost of Issuance</i>	--	(181,395)	--
<i>Interest and Dividends on Investments</i>	351,602	121,835	351,356
Net Cash Provided (Used) for Investing Activities	<u>(541,821)</u>	<u>(59,560)</u>	<u>351,356</u>
Net Increase (Decrease) in Cash and Cash Equivalents	2,551,786	1,232,602	(288,174)
Cash and Cash Equivalents at Beginning of Year	5,784,294	1,651,886	15,180
Cash and Cash Equivalents at End of Year	<u>\$ 8,336,080</u>	<u>\$ 2,884,488</u>	<u>\$ (272,994)</u>
<b>Reconciliation of Operating Income to Net Cash Provided by Operating Activities:</b>			
Operating Income (Loss)	\$ 4,018,426	\$ 5,142,142	\$ (700,789)
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities			
<i>Depreciation</i>	1,339,554	704,329	78,797
<b>Change in Assets and Liabilities:</b>			
<i>Decrease (Increase) in Receivables</i>	(1,726,267)	(91,038)	6,518
<i>Decrease (Increase) in Inventories</i>	8,740	--	2,400
<i>Decrease (Increase) in Prepaid Expenses</i>	12,102	(150,000)	(2,400)
<i>Increase (Decrease) in Accounts Payable</i>	(10,591)	--	(17,473)
<i>Increase (Decrease) in Payroll Deductions</i>	--	--	15,414
<i>Increase (Decrease) in Accrued Wages Payable</i>	89,395	--	7,048
<i>Increase (Decrease) in Interfund Payables</i>	969,329	--	--
<i>Increase (Decrease) in Accrued Expenses</i>	52,289	(12,602)	--
<i>Increase (Decrease) in Unearned Revenue</i>	--	(32,076)	(5,274)
<i>Prior Period Adjustment</i>	341,539	--	717
Net Cash Provided (Used) by Operating Activities	<u>\$ 5,094,516</u>	<u>\$ 5,560,755</u>	<u>\$ (615,042)</u>

The accompanying notes are an integral part of this statement.

EXHIBIT A-9

<u>Totals</u>		<u>Internal Service Funds</u>	
\$	19,212,853	\$	933,357
	(3,693,392)		(178,237)
	(3,241,931)		(852,631)
	--		--
	(2,578,930)		--
	<u>9,698,600</u>		<u>(97,511)</u>
	101,127		17,838
	73,466		53,567
	--		--
	(1,830,945)		59,574
	<u>(1,656,352)</u>		<u>130,979</u>
	(982,405)		--
	(4,160,418)		--
	--		(23,532)
	847,339		--
	<u>(4,295,484)</u>		<u>(23,532)</u>
	(893,423)		--
	(181,395)		--
	824,793		194
	<u>(250,025)</u>		<u>194</u>
	3,496,214		10,130
	7,451,360		(119,898)
\$	<u>10,947,574</u>	\$	<u>(109,768)</u>
\$	8,459,779	\$	(187,955)
	2,122,680		85,078
	(1,810,787)		--
	11,140		--
	(140,298)		--
	(28,064)		563
	15,414		--
	96,443		--
	969,329		--
	39,687		4,803
	(37,350)		--
	342,256		--
\$	<u>10,040,229</u>	\$	<u>(97,511)</u>

**CITY OF PHARR, TEXAS**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2006**

A. Summary of Significant Accounting Policies

The combined financial statements of City Of Pharr, Texas (the "City") have been prepared in conformity with accounting principles applicable to governmental units which are generally accepted in the United States of America. The Governmental Accounting Standards Board ("GASB") is the accepted standard setting body for establishing governmental accounting and financial reporting principles.

1. Reporting Entity

The City's basic financial statements include the accounts of all its operations. The City evaluated whether any other entity should be included in these financial statements. The criteria for including organizations as component units within the City's reporting entity, as set forth in GASB Statement No. 14, "The Financial Reporting Entity," include whether:

- the organization is legally separate (can sue and be sued in its name)
- the City holds the corporate powers of the organization
- the City appoints a voting majority of the organization's board
- the City is able to impose its will on the organization
- the organization has the potential to impose a financial benefit/burden on the City
- there is fiscal dependency by the organization on the City
- the exclusion of the organization would result in misleading or incomplete financial statements

Based on these criteria, the City has no component units. Additionally, the City is not a component unit of any other reporting entity as defined by the GASB Statement.

2. Basis of Presentation, Basis of Accounting

a. Basis of Presentation

Government-wide Statements: The statement of net assets and the statement of activities include the financial activities of the overall government. Eliminations been made to minimize the double-counting of internal activities. These statements distinguish between the governmental and business-type activities of the City. Governmental activities generally are financed through taxes, intergovernmental revenues, and other nonexchange transactions. Business-type activities are financed in whole or in part by fees charged to external parties.

The statement of activities presents a comparison between direct expenses and program revenues for the different business-type activities of the City and for each function of the City's governmental activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. The City does not allocate indirect expenses in the statement of activities. Program revenues include (a) fees, fines, and charges paid by the recipients of goods or services offered by the programs and (b) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues.

Fund Financial Statements: The fund financial statements provide information about the City's funds, with separate statements presented for each fund category. The emphasis of fund financial statements is on major governmental and enterprise funds, each displayed in a separate column. All remaining governmental and enterprise funds are aggregated and reported as nonmajor funds.

Proprietary fund operating revenues, such as charges for services, result from exchange transactions associated with the principal activity of the fund. Exchange transactions are those in which each party receives and gives up essentially equal values. Nonoperating revenues, such as subsidies and investment earnings, result from nonexchange transactions or ancillary activities.

The City reports the following major governmental funds:



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General Fund. This 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 City reports the following major enterprise funds:

In addition, the City reports the following fund types:

Internal Service Funds: These funds are used to account for revenues and expenses related to services provided to parties inside the City. These funds facilitate distribution of support costs to the users of support services on a cost-reimbursement basis. Because the principal users of the internal services are the City's governmental activities, this fund type is included in the "Governmental Activities" column of the government-wide financial statements.

b. Measurement Focus, Basis of Accounting

Government-wide and Proprietary Fund Financial Statements: These financial statements are reported using the economic resources measurement focus. The government-wide and proprietary fund financial statements are reported using the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place. Nonexchange transactions, in which the City gives (or receives) value without directly receiving (or giving) equal value in exchange, include property taxes, grants, entitlements, and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied.

Governmental Fund Financial Statements: Governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. The City does not consider revenues collected after its year-end to be available in the current period. Revenues from local sources consist primarily of property taxes. Property tax revenues and revenues received from the State are recognized under the susceptible-to-accrual concept. Miscellaneous revenues are recorded as revenue when received in cash because they are generally not measurable until actually received. Investment earnings are recorded as earned, since they are both measurable and available. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, claims and judgments, and compensated absences, which are recognized as expenditures to the extent they have matured. General capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

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

Under GASB Statement No. 20, "Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting," all proprietary funds will continue to follow Financial Accounting Standards Board ("FASB") standards issued on or before November 30, 1989. However, from that date forward, proprietary funds will have the option of either 1) choosing not to apply future FASB standards (including amendments of earlier pronouncements), or 2) continuing to follow new FASB pronouncements unless they conflict with GASB guidance. The City has chosen to apply future FASB standards.

3. Financial Statement Amounts

a. Cash and Cash Equivalents

For purposes of the statement of cash flows, highly liquid investments are considered to be cash equivalents if they have a maturity of three months or less when purchased.

b. Property Taxes

Property taxes are levied by October 1 on the assessed value listed as of the prior January 1 for all real and

**CITY OF PHARR, TEXAS**  
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business personal property 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 1 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.

Allowances for uncollectible tax receivables within the General and Debt Service Funds are based upon 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.

c. **Inventories and Prepaid Items**

Inventories on the balance sheet are stated at weighted average cost. Inventory items are recorded as expenditures when they are consumed.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items.

d. **Capital Assets**

Purchased or constructed capital assets are reported at cost or estimated historical cost. Donated fixed assets are recorded at their estimated fair value at the date of the donation. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized. A capitalization threshold of \$5,000 is used.

Capital assets are being depreciated using the straight-line method over the following estimated useful lives:

Asset Class	Estimated Useful Lives
Infrastructure	30
Buildings	50
Building Improvements	20
Vehicles	2-15
Office Equipment	3-15
Computer Equipment	3-15

e. **Receivable and Payable Balances**

The City believes that sufficient detail of receivable and payable balances is provided in the financial statements to avoid the obscuring of significant components by aggregation. Therefore, no disclosure is provided which disaggregates those balances.

There are no significant receivables which are not scheduled for collection within one year of year end.

g. **Interfund Activity**

Interfund activity results from loans, services provided, reimbursements or transfers between funds. Loans are reported as interfund receivables and payables as appropriate and are subject to elimination upon consolidation. Services provided, deemed to be at market or near market rates, are treated as revenues and expenditures or expenses. Reimbursements occur when one fund incurs a cost, charges the appropriate benefiting fund and reduces its related cost as a reimbursement. All other interfund transactions are treated as transfers. Transfers In and Transfers Out are netted and presented as a single "Transfers" line on the government-wide statement of activities. Similarly, interfund receivables and payables are netted and presented as a single "Internal Balances" line of the government-wide statement of net assets.

h. **Use of Estimates**

The preparation of financial statements in conformity with GAAP requires the use of management's estimates.

**CITY OF PHARR, TEXAS**  
**NOTES TO THE FINANCIAL STATEMENTS**  
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B. Compliance and Accountability

1. Finance-Related Legal and Contractual Provisions

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

<u>Violation</u>	<u>Action Taken</u>
None reported	Not applicable

2. Deficit Fund Balance or Fund Net Assets of Individual Funds

Following are funds having deficit fund balances or fund net assets at year end, if any, along with remarks which address such deficits:

<u>Fund Name</u>	<u>Deficit Amount</u>	<u>Remarks</u>
Capital Projects	\$ (2,590,251)	General Fund has a designated fund balance for deficit. See Note M.
Tierra Del Sol Golf Course	(862,402)	General Fund has a designated fund balance for deficit.

C. Deposits and Investments

The City's funds are required to be deposited and invested under the terms of a depository contract. The depository bank deposits for safekeeping and trust with the City's agent bank approved pledged securities in an amount sufficient to protect City funds on a day-to-day basis during the period of the contract. The pledge of approved securities is waived only to the extent of the depository bank's dollar amount of Federal Deposit Insurance Corporation ("FDIC") insurance.

Cash Deposits:

At September 30, 2006, the carrying amount of the City's deposits (cash, certificates of deposit, and interest-bearing savings accounts included in temporary investments) was \$17,732,660 and the bank balance was \$16,687,223. The City's cash deposits at September 30, 2006 and during the year ended September 30, 2006, were entirely covered by FDIC insurance or by pledged collateral held by the City's agent bank in the City's name.

In addition, the following is disclosed regarding coverage of combined balances on the date of highest deposit:

- a. Depository: First National Bank
- b. The market value of securities pledged as of the date of the highest combined balance on deposit was \$23,790,275.
- c. The highest combined balances of cash, savings and time deposit accounts amounted to \$20,610,426 and occurred during the month of June, 2006.
- d. Total amount of FDIC coverage at the time of the largest combined balance was \$200,000.

Investments:

The City is required by Government Code Chapter 2256, The Public Funds Investment Act, to adopt, implement, and publicize an investment policy. That policy must be written; primarily emphasize safety of principal and liquidity; address investment diversification, yield, and maturity and the quality and capability of investment management; and include a list of the types of authorized investments in which the investing entity's funds may be invested; and the maximum allowable stated maturity of any individual investment owned by the entity.

The Public Funds Investment Act ("Act") requires an annual audit of investment practices. Audit procedures in this area conducted as a part of the audit of the general purpose financial statements disclosed that in the areas of investment practices, management reports and establishment of appropriate policies, the City adhered to the requirements of the Act. Additionally, investment practices of the City were in accordance with local policies.

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The Act determines the types of investments which are allowable for the City. These include, with certain restrictions, (1) obligations of the U.S. Treasury, certain U.S. agencies, and the State of Texas, (2) certificates of deposit, (3) certain municipal securities, (4) money market savings accounts, (5) repurchase agreements, (6) bankers acceptances, (7) mutual funds, (8) investment pools, (9) guaranteed investment contracts, and (10) common trust funds.

The City's investments at September 30, 2006 are shown below.

<u>Investment or Investment Type</u>	<u>Maturity</u>	<u>Fair Value</u>
Lone Star National Bank	Less than one year	\$ 669,328
First National Bank Money Market Accounts	Less than one year	17,063,334
Total Investments		<u>\$ 17,732,662</u>

During the year, the City invested in the following type of investment which was not held at year end:

Repurchase Agreements

Analysis of Specific Deposit and Investment Risks:

GASB Statement No. 40 requires a determination as to whether the City was exposed to the following specific investment risks at year end and if so, the reporting of certain related disclosures:

a. Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The ratings of securities by nationally recognized rating agencies are designed to give an indication of credit risk. At year end, the City was not significantly exposed to credit risk.

b. Custodial Credit Risk

Deposits are exposed to custodial credit risk if they are not covered by depository insurance and the deposits are uncollateralized, collateralized with securities held by the pledging financial institution, or collateralized with securities held by the pledging financial institution's trust department or agent but not in the City's name.

Investment securities are exposed to custodial credit risk if the securities are uninsured, are not registered in the name of the government, and are held by either the counterparty or the counterparty's trust department or agent but not in the City's name.

At year end, the City was not exposed to custodial credit risk.

c. Concentration of Credit Risk

This risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. At year end, the City was not exposed to concentration of credit risk.

d. Interest Rate Risk

This is the risk that changes in interest rates will adversely affect the fair value of an investment. At year end, the City was not exposed to interest rate risk.

e. Foreign Currency Risk

This is the risk that exchange rates will adversely affect the fair value of an investment. At year end, the City was not exposed to foreign currency risk.

Investment Accounting Policy

The City's general policy is to report money market investments and short-term participating interest-earning investment contracts at amortized cost and to report nonparticipating interest-earning investment contracts using a cost-based measure. However, if the fair value of an investment is significantly affected by the impairment of the credit standing of the issuer or by other factors, it is reported at fair value. All other investments are reported at fair value unless a legal contract exists which guarantees a higher value. The term "short-term" refers to investments which have a remaining term

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the issuer or by other factors, it is reported at fair value. All other investments are reported at fair value unless a legal contract exists which guarantees a higher value. The term "short-term" refers to investments which have a remaining term of one year or less at time of purchase. The term "nonparticipating" means that the investment's value does not vary with market interest rate changes. Nonnegotiable certificates of deposit are examples of nonparticipating interest-earning investment contracts.

**D. Capital Assets**

Capital asset activity for the year ended September 30, 2006, was as follows:

	Beginning Balances	Increases	Decreases	Ending Balances
<b>Governmental activities:</b>				
<i>Capital assets not being depreciated:</i>				
Land	\$ 2,494,339	\$ --	\$ --	\$ 2,494,339
Construction in progress	7,314,756	5,297,084	10,126,880	2,484,960
Component Unit:				
Land	1,449,642	1,458,428	409,534	2,498,536
<b>Total capital assets not being depreciated</b>	<b>11,258,737</b>	<b>6,755,512</b>	<b>10,536,414</b>	<b>7,477,835</b>
<i>Capital assets being depreciated:</i>				
Infrastructure	43,287,160	8,382,828	--	51,669,988
Buildings	23,613,065	--	--	23,613,065
Improvements Other than Buildings	1,657,420	1,673,652	--	3,331,072
Machinery & Equipment	4,138,195	1,740,826	--	5,879,021
Component Unit:				
Buildings	1,742,697	--	--	1,742,697
Improvements Other than Buildings	2,409,205	59,670	--	2,468,875
Machinery & Equipment	58,798	--	--	58,798
<b>Total capital assets being depreciated</b>	<b>76,906,540</b>	<b>11,856,976</b>	<b>--</b>	<b>88,763,516</b>
Less accumulated depreciation for:				
Infrastructure	(23,058,990)	--	(1,757,296)	(24,816,286)
Buildings	(5,401,148)	--	(430,911)	(5,832,059)
Improvements Other than Buildings	(1,185,257)	--	(43,419)	(1,228,676)
Machinery & Equipment	(1,893,625)	--	(388,077)	(2,281,702)
Component Unit:				
Buildings	(289,265)	--	(58,090)	(347,355)
Improvements Other than Buildings	(347,599)	--	(80,480)	(428,079)
Machinery & Equipment	(52,921)	--	(5,877)	(58,798)
Total accumulated depreciation	(32,228,805)	--	(2,764,150)	(34,992,955)
Total capital assets being depreciated, net	44,677,735	11,856,976	(2,764,150)	53,770,561
<b>Governmental activities capital assets, net</b>	<b>\$ 55,936,472</b>	<b>\$ 18,612,488</b>	<b>\$ 7,772,264</b>	<b>\$ 61,248,396</b>
<b>Business-type activities:</b>				
<i>Capital assets not being depreciated:</i>				
Land	\$ 2,250,107	\$ --	\$ --	\$ 2,250,107
Construction in progress	6,009,396	2,970,605	--	8,980,001
<b>Total capital assets not being depreciated</b>	<b>8,259,503</b>	<b>2,970,605</b>	<b>--</b>	<b>11,230,108</b>
<i>Capital assets being depreciated:</i>				
Infrastructure	36,581,430	790,107	--	37,371,537
Buildings	27,928,300	--	--	27,928,300
Improvements Other than Buildings	971,897	35,269	--	1,007,166
Machinery & Equipment	11,053,101	364,437	--	11,417,538
<b>Total capital assets being depreciated</b>	<b>76,534,728</b>	<b>1,189,813</b>	<b>--</b>	<b>77,724,541</b>

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Less accumulated depreciation for:				
Infrastructure	(10,343,570)	—	(924,484)	(11,268,054)
Buildings	(7,858,024)	—	(629,565)	(8,487,588)
Improvements Other than Buildings	(206,583)	—	(27,661)	(234,244)
Machinery & equipment	(6,218,459)	—	(531,036)	(6,749,494)
Total accumulated depreciation	<u>(24,626,636)</u>	<u>—</u>	<u>(2,112,746)</u>	<u>(26,739,380)</u>
Total capital assets being depreciated, net	51,908,092	1,189,813	(2,112,746)	50,985,161
Business-type activities capital assets, net	<u>\$ 60,167,595</u>	<u>\$ 4,160,418</u>	<u>\$ (2,112,746)</u>	<u>\$ 62,215,269</u>

Depreciation was charged to functions as follows:

General Government	\$ 969,955
Public Safety	1,050,054
Highways and Streets	173,427
Sanitation	206,107
Culture and Recreation	66,653
Economic Development and Assistance	212,875
	<u>\$ 2,679,072</u>

**E. Interfund Balances and Activity**

**1. Due To and From Other Funds**

All amounts due are scheduled to be repaid within one year.

Interfund payables and receivables for the period ended September 30, 2006, are as follows:

Fund	Receivable	Payable
<b>General Fund:</b>		
General Fund	\$ 219,251	\$ 220,926
Major Enterprise Fund-Utility	2,129,111	2,571,265
Internal Service Fund	224,537	661,034
Major Enterprise Fund-Bridge	142,699	715
Major Enterprise Fund-Golf	2,843,906	70,410
Debt Service Fund	51,691	270,759
Capital Projects	4,750,017	57,524
Trust and Agency Fund	4,191	202,248
PEDC	47,341	535,411
Total General Fund	<u>\$ 10,412,744</u>	<u>\$ 4,590,292</u>
<b>Major Enterprise Fund-Utility:</b>		
General Fund	2,603,080	2,159,148
Major Enterprise Fund-Utility	348	450
Internal Service Fund	47,580	85,103
Trust and Agency Fund	431	(12,396)
Major Enterprise Fund-Golf	4,589	—
Total Major Enterprise Fund-Utilit	<u>2,656,028</u>	<u>2,232,305</u>
<b>Major Enterprise Fund-Bridge:</b>		
General Fund	715	142,699
Major Enterprise Fund-Golf	16,268	—
Internal Service Fund	43,384	812
Trust and Agency Fund	—	11,429
Total Major Enterprise Fund-Brid	<u>60,367</u>	<u>154,940</u>

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Major Enterprise Fund-Golf:		
General Fund	70,410	2,843,906
Major Enterprise Fund-Utility	--	4,589
Trust and Agency Fund	489	388
Internal Service Fund	--	20,652
Major Enterprise Fund-Bridge	--	16,268
Capital Projects	--	1,266,880
Total Major Enterprise Fund-Golf	<u>70,899</u>	<u>4,152,683</u>
Internal Service Fund:		
General Fund	661,033	224,537
Major Enterprise Fund-Utility	85,103	47,580
Major Enterprise Fund-Bridge	812	43,384
Major Enterprise Fund-Golf	20,652	--
Internal Service Fund	7,631	7,631
Trust and Agency Fund	--	920
PEDC	10,000	--
Total Internal Service Fund	<u>785,231</u>	<u>324,052</u>
Debt Service Fund:		
General Fund	<u>270,759</u>	<u>51,691</u>
Total Debt Service Fund	<u>270,759</u>	<u>51,691</u>
Capital Projects Fund:		
General Fund	57,524	4,750,017
Major Enterprise Fund-Golf	<u>1,266,881</u>	<u>--</u>
Total Capital Projects Fund	<u>1,324,405</u>	<u>4,750,017</u>
Trust & Agency Fund:		
General Fund	202,249	4,191
Major Enterprise Fund-Utility	(12,396)	433
Internal Service Fund	920	--
Major Enterprise Fund-Bridge	11,428	488
Major Enterprise Fund-Golf	388	--
PEDC	9,260	--
Total Trust & Agency Fund	<u>211,849</u>	<u>5,112</u>
PEDC		
General Fund	535,411	47,341
Trust and Agency Fund	--	9,260
Internal Service Fund	--	10,000
Total PEDC	<u>535,411</u>	<u>66,601</u>
TOTALS	<u>\$ 16,327,693</u>	<u>\$ 16,327,693</u>

2. Transfers To and From Other Funds

Transfers to and from other funds at September 30, 2006, consisted of the following:

Transfers to General Fund from:

Toll Bridge Fund	\$ 2,445,092
Utility Fund	162,750
Debt Service	7,024
Total	<u>\$ 2,614,866</u>

**CITY OF PHARR, TEXAS**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2006**

Transfers to Utility Fund from:	
Capital projects	\$ 672,542
Total	<u>\$ 672,542</u>
Transfers to Toll Bridge Fund from:	
NonMajor Governmental Funds	\$ 72,716
Total	<u>\$ 72,716</u>
Transfers to Debt Service Fund from:	
Toll Bridge Fund	\$ 425,000
PEDC	546,000
Total	<u>\$ 971,000</u>
Transfers to Capital Projects Fund from:	
NonMajor Governmental Funds	\$ 457,870
Total	<u>\$ 457,870</u>

F. Short-Term Debt Activity

The City accounts for short-term debts for maintenance purposes through the General Fund. The proceeds from loans are shown in the financial statements as Other Resources.

G. Long-Term Obligations

The City has entered into a continuing disclosure undertaking to provide Annual Reports and Material Event Notices to the State Information Depository of Texas, which is the Municipal Advisory Council. This information is required under SEC Rule 15c2-12 to enable investors to analyze the financial condition and operations of the City.

1. Long-Term Obligation Activity

Long-term obligations include debt and other long-term liabilities. Changes in long-term obligations for the year ended September 30, 2006, are as follows:

	Beginning Balance	Increases	Decreases	Ending Balance	Amounts Due Within One Year
<u>Governmental activities:</u>					
Certificates of obligation	\$ 7,085,000	\$ --	\$ 1,015,000	\$ 6,070,000	\$ 1,070,000
General obligation bonds	16,110,000	--	85,000	16,025,000	90,000
Total bonds payable	<u>23,195,000</u>	<u>--</u>	<u>1,100,000</u>	<u>22,095,000</u>	<u>1,160,000</u>
Notes payable	4,683,694	1,460,000	578,414	5,565,280	612,508
Capital leases **	693,789	1,683,610	811,805	1,565,594	464,377
Compensated absences *	3,014,116	159,378	--	3,173,494	--
Total governmental activities	<u>\$ 31,586,599</u>	<u>\$ 3,302,988</u>	<u>\$ 2,490,219</u>	<u>\$ 32,399,368</u>	<u>\$ 2,236,885</u>
<u>Business-type activities:</u>					
Revenue bonds	\$ 21,444,000	\$ --	\$ 1,402,000	20,042,000	1,331,000
Capital leases	86,072	231,636	84,960	232,748	124,511
Compensated absences *	707,685	87,522	--	795,207	--
Total business-type activities	<u>\$ 22,237,757</u>	<u>\$ 319,158</u>	<u>\$ 1,486,960</u>	<u>\$ 21,069,955</u>	<u>\$ 1,455,511</u>

\*\* Beginning balance restated by \$3,749 for prior period adjustment.

\* Other long-term liabilities

The funds typically used to liquidate other long-term liabilities in the past are as follows:



**CITY OF PHARR, TEXAS**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2006**

<u>Liability</u>	<u>Activity Type</u>	<u>Fund</u>
Compensated absences	Governmental	General
Compensated absences	Business-type	Utility

Long-term debt and obligations at September 30, 2006 are comprised of the following issues:

**Governmental Activities:**

**General Obligation Bonds:**

\$11,780,000 Series 1998 Combination Tax and Limited Pledge Revenue Certificates of Obligation; due in annual installments of \$530,000 to \$585,000 through August 15, 2008; interest at 4.80% to 4.90%	\$ 1,145,000
\$2,165,000 Series 1999 Combination Tax and Limited Pledge Revenue Certificates of Obligation; due in annual installments of \$90,000 to \$105,000 through August 15, 2010; interest at 5.53%	405,000
\$12,035,000 Series 2001 Combination Tax and Limited Pledge Revenue Certificates of Obligation; due in annual installments of \$395,000 to \$605,000 through August 15, 2015; interest at 4.50% to 5.25%	4,520,000
\$16,110,000 Series 2005B General Obligation Refunding Bonds; due in annual installments of \$85,000 to \$1,850,000 through August 15, 2021; interest at 3.00% to 5.00%	16,025,000
Subtotal-Bonds	<u>22,095,000</u>

**Capital Leases:**

\$32,000 lease payable; due in monthly installments of \$608, including interest, through June 10, 2007; interest at 5.26%	\$ 5,351
\$30,000 lease payable; due in monthly installments of \$570, including interest, through June 10, 2007; interest at 5.26%	5,017
\$163,514 lease payable; due in monthly installments of \$4,850, including interest, through April 16, 2006; interest at 4.55%	--
\$154,300 lease payable; due in monthly installments of \$2,895, including interest, through June 10, 2007; interest at 4.75%	22,750
\$290,192 lease payable; due in monthly installments of \$6,778, including interest, through January 24, 2009; interest at 3.07%	88,428
\$34,574 lease payable; due in monthly installments of \$1,028, including interest, through December 21, 2007; interest at 4.70%	14,941
\$279,600 lease payable; due in monthly installments of \$3,832, including interest, through June 10, 2013, interest rate varies	270,926
\$422,952 lease payable; through February 25, 2008; interest rate at 3.7%	--
\$1,380,478 lease payable; monthly payments range between \$14,875 and \$30,121; interest rate varies.	1,140,343
\$23,532 lease payable; due in monthly installments of \$683, including interest, through January 15, 2009; interest rate varies.	17,838
Subtotal-Leases	<u>1,565,594</u>

**CITY OF PHARR, TEXAS**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2006**

**General Obligations Notes Payable**

**Primary Government:**

\$2,165,000 note payable to U.S. Department of Housing and Urban Development; due in annual installments of variable amounts, including interest, through August 1, 2011; interest at 6.43% \$ 1,205,000

**Component Unit:**

\$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, 2006); payable in monthly installments of \$6,559, including interest; maturity date of July 14, 2010; collateralized by first lien on Economic Development sales and use tax receipts. \$ 277,677

\$200,000 note payable to Will U. and Dorothy Wallace; dated June 6, 1997; interest 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. 28,051

\$2,942,996 note payable to Lone Star National Bank; dated August 3, 2001; interest per annum at 85% of the Wall Street Journal Prime Rate (7.00% at September 30, 2006); payable in monthly installments of \$27,700, including interest; maturity date of August 3, 2016; collateralized by real estate in Pharr, Texas. 1,751,157

\$465,000 note payable to Lone Star National Bank; dated April 12, 2002; interest per annum at the Wall Street Journal Prime Rate (6.75% at September 30, 2006); payable in monthly installments of \$3,925, including interest; maturity date of April 12, 2007; collateralized by real estate in Pharr, Texas. 335,843

\$200,000 note payable to First National Bank; dated September 16, 2002; interest per annum at 1% above the Wall Street Journal Prime Rate (9.25% at September 30, 2006); payable in monthly installments of \$2,332, including interest; maturity date of October 9, 2012; collateralized by real estate in Pharr, Texas. 129,227

\$580,000 note payable to First National Bank; dated October 9, 2002; interest per annum at 1% above the Wall Street Journal Prime Rate (9.25% at September 30, 2006); payable in monthly installments of \$6,828, including interest; maturity date of October 9, 2012; collateralized by real estate in Pharr, Texas. 378,325

\$1,460,000 2-year maturity note to First National Bank, dated April 26, 2006; interest per annum at 1% above Wall Street Journal Prime Rate (9.25% at September 30, 2006); payable in quarterly installments, maturity date of May 2008; collateralized by real estate in Pharr, Texas. 1,460,000

Sub Total-Notes Payable 5,565,280

**TOTAL GOVERNMENTAL ACTIVITIES \$ 29,225,874**

**Enterprise Funds**

**Revenue Bonds:**

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

\$3,260,000 Series 1988 Waterworks and Sewer System Junior Lien Revenue Bonds; due in annual installments of \$185,000 to \$190,000 through September 1, 2013; interest at 0.00% 1,305,000

\$2,570,000 Series 1996 Waterworks and Sewer Lien Revenue Bonds due in annual installments of \$120,000 to \$205,000 through September 1, 2016; interest at 5.2% to 5.75% 1,605,000

**CITY OF PHARR, TEXAS**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2006**

\$978,000 Series 1996-A Waterworks and Sewer System Revenue Bonds due in annual installments of \$40,000 to \$78,000 through September 30, 2017; interest at 6.14% to 6.74%	663,000
\$630,000 Series 1997-B Waterworks and Sewer System Revenue Bonds due in annual installments of \$25,000 to \$55,000 through September 1, 2017; interest at 5.87% to 6.52%.	440,000
\$4,230,000 Series 1997-C Waterworks and Sewer System Revenue Bonds due in annual installments of \$210,000 to \$400,000 through September 1, 2017; interest at 3.75% to 4.35%.	3,485,000
\$1,651,000 Series 1998 Waterworks and Sewer System Revenue Bonds due in annual installments of \$67,000 to \$133,000 through September 1, 2018; interest at 6.00%	1,189,000
\$2,160,000 Series 1998A Waterworks and Sewer System Revenue Bonds due in annual installments of \$65,000 to \$180,000 through September 1, 2023; interest at 6.00%	2,000,000
\$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%.	9,290,000
Subtotal-Bonds	<u>20,042,000</u>
<b>Capital Leases:</b>	
\$51,771 lease payable; due in monthly installments of \$1,534, including interest, through September 1, 2006; interest at 4.25%	\$ 33,392
\$142,000 lease payable, due in monthly installments of \$4,122 including interest, through December 15, 2008, variable interest.	98,228
\$133,408 lease payable, due in monthly installments ranging from \$3,552 to \$3,863, through January 15, 2009, variable interest.	101,127
Subtotal -Leases	<u>232,747</u>
<b>Total Enterprise Long-Term Debt</b>	<u><u>20,274,747</u></u>
<b>TOTAL LONG-TERM LIABILITIES</b>	<u><u>\$ 49,500,621</u></u>

2. Debt Service Requirements

Debt service requirements on long-term debt at September 30, 2006, are as follows:

Year Ending September 30,	Bonds		Leases	
	Principal	Interest	Principal	Interest
2007	\$ 1,160,000	\$ 949,253	\$ 464,377	\$ 54,756
2008	1,210,000	895,464	451,091	35,807
2009	1,265,000	839,069	273,072	19,931
2010	1,320,000	788,163	213,287	11,202
2011	1,365,000	735,031	86,226	4,385
2012-2016	7,740,000	2,791,175	77,541	2,933
2017-2021	8,035,000	970,014	--	--
Totals	<u>\$ 22,095,000</u>	<u>\$ 7,968,169</u>	<u>\$ 1,565,594</u>	<u>\$ 129,014</u>

**CITY OF PHARR, TEXAS**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2006**

Year Ending September 30,	Governmental Activities			
	Notes		Totals	
	Principal	Interest	Principal	Interest
2007	\$ 612,508	\$ 402,598	\$ 2,236,885	\$ 1,406,607
2008	2,082,526	335,395	3,743,617	1,266,666
2009	667,762	183,290	2,205,834	1,042,290
2010	718,529	137,271	2,251,816	936,636
2011	684,461	90,112	2,135,687	829,528
2012-2016	799,494	68,267	8,617,035	2,862,375
2017-2021	--	--	8,035,000	970,014
Totals	\$ 5,565,280	\$ 1,216,933	\$ 29,225,874	\$ 9,314,116

Year Ending September 30,	Business-type Activities		
	Principal	Interest	Total
	2007	\$ 1,455,511	\$ 491,288
2008	1,403,789	460,472	1,864,261
2009	1,379,447	429,057	1,808,504
2010	1,414,000	395,989	1,809,989
2011	1,469,000	360,767	1,829,767
2012-2016	7,486,000	1,184,123	8,670,123
2017-2021	4,577,000	270,669	4,847,669
2022-2026	1,090,000	30,687	1,120,687
Totals	\$ 20,274,747	\$ 3,623,052	\$ 23,897,799

4. Continuing Disclosure

The City has entered into a continuing disclosure undertaking to provide Annual Reports and Material Event Notices to the State Information Depository of Texas, which is the Municipal Advisory Council. This information is required under SEC Rule 15c2-12 to enable investors to analyze the financial condition and operations of the City.

H. Risk Management

The City is exposed to various risks of loss related to torts, theft, damage or destruction of assets, errors and omissions, injuries to employees, and natural disasters. During fiscal year 2006, the City obtained general liability coverage at a cost that is considered to be economically justifiable by joining together with other governmental entities in the State as a member of the Texas Municipal League Intergovernmental Risk Pool ("TML"). TML is a self-funded pool operating as a common risk management and insurance program. The City pays an annual premium to TML for its above insurance coverage. The agreement for the formation of TML provides that TML will be self-sustaining through member premiums and will reinsure through commercial companies for claims in excess of acceptable risk levels; however, each category of coverage has its own level of reinsurance. The City continues to carry commercial insurance for other risks of loss. There were no significant reductions in commercial insurance coverage in the past fiscal year and settled claims resulting from these risks have not exceeded coverage in any of the past three fiscal years.

I. Pension Plan

1. Plan Description

The City's pension plan ("Plan") is a non-traditional, joint contributory, defined benefit plan which provides retirement, disability and death benefits to Plan members and beneficiaries through its affiliation with Texas Municipal Retirement System ("TMRS"), an agent multiple-employer public employee retirement system. TMRS operates under the authority of Texas Government Code, Title 8, Subtitle G. The Texas legislature has the authority to establish or amend benefit provisions and the governing body of the City adopts the plan provisions within the options and constraints established by the legislature. TMRS issues a publicly available financial report that includes financial statements and required supplementary information for TMRS. That report may be obtained by writing to Texas Municipal Retirement System, P.O. Box 149153, Austin, TX 78714-9153 or calling (800) 924-8677. Additional nonauthoritative information is available at the TMRS web site, <http://www.tmrs.org>.

**CITY OF PHARR, TEXAS**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2006**

2. Funding Policy

Plan members are required to contribute 5% of their annual covered salary. The City is required to contribute at an actuarially determined rate; the current rate is 5% of annual covered payroll. The City's contributions to the TMRS for the years ending September 30, 2006, 2005 and 2004 were \$1,931,707, \$1,871,274 and \$1,275,383, respectively, and were equal to the required contributions for each year.

3. Annual Pension Cost

The City's annual pension cost of \$1,931,707 for the Plan was equal to the City's required and actual contributions. Under the state law governing TMRS, the actuary annually determines the City's contribution rate. This rate consists of the normal cost contribution rate and the prior service 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. When the City periodically adopts updated service credits and increases in annuities in effect, the increased unfunded actuarial liability is to be amortized over a new 25-year period. Currently, the unfunded actuarial liability is being amortized over the 25-year period which began January 1997. The unit credit actuarial cost method is used for determining the City's contribution rate. Since the City needs to know its contribution rate in advance to budget for it, there is a one-year delay between the actuarial valuation that is the basis for the rate and the calendar year when the rate goes into effect (i.e., December 31, 1997 valuation is effective for rates beginning January 1999).

Since the TMRS does not value the assets of individual cities, the actuarial assumptions used to set the required contribution rate of the City are based on TMRS as a whole. For the December 31, 1997 valuation date, an 8% investment rate of return was assumed. No assumptions were made for projected salary increases, inflation or cost of living adjustments.

4. Trend Information for the Plan

Fiscal Year Ending	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
September 30, 2004	\$ 1,275,383	100%	\$ -
September 30, 2005	1,871,274	100%	-
September 30, 2006	1,931,707	100%	-

J. Health Care Coverage

During the year ended September 30, 2006, employees of the City were covered by a health insurance plan (the Plan). The City paid premiums of \$277 per month per employee and dependents to the Plan. Employees, at their option, authorized payroll withholdings to pay premiums for dependents. All premiums were paid to a licensed insurer. The Plan was authorized by Article 3.51-2, Texas Insurance Code and was documented by contractual agreement.

The contract between the City and the licensed insurer is renewable July 1, and terms of coverage and premium costs are included in the contractual provisions.

Latest financial statements for the Blue Cross Blue Shield of Texas are available for the year ended June 30, 2006, have been filed with the Texas State Board of Insurance, Austin, Texas, and are public records.

K. Commitments and Contingencies

1. Contingencies

The City participates in grant programs which are governed by various rules and regulations of the grantor

**CITY OF PHARR, TEXAS**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2006**

agencies. Costs charged to the respective grant programs are subject to audit and adjustment by the grantor agencies; therefore, to the extent that the City has not complied with the rules and regulations governing the grants, refunds of any money received may be required and the collectibility of any related receivable may be impaired. In the opinion of the City, there are no significant contingent liabilities relating to compliance with the rules and regulations governing the respective grants; therefore, no provision has been recorded in the accompanying basic financial statements for such contingencies.

2. Litigation

Various lawsuits are pending against the City involving general liability and civil rights actions. The City attorney estimates that most of the lawsuits are covered by insurance. With respect to the non-insured claims, it is the City attorney's opinion that the potential claims resulting from such litigations would not immaterially affect the financial position of the City.

L. Increase (Decrease) In Net Assets / Fund Balance

The fund equities as of October 1, 2005 have been restated to reflect corrections made to fund balances.

<u>General Fund</u>	
Fund Balance, October 1	\$ 5,832,125
Adjustment for prior year's expenditures	(117,217)
Fund Balance, October 1	<u>\$ 5,714,908</u>
 <u>PEDC</u>	
Fund Balance, October 1	\$ 1,759,494
Adjustment for prior year's revenues	744,552
Fund Balance, October 1	<u>\$ 2,504,046</u>
 <u>Debt Service Fund</u>	
Fund Balance, October 1	\$ 1,482,201
Adjustment for prior year's expenditures	(368,427)
Fund Balance, October 1	<u>\$ 1,113,774</u>
 <u>Enterprise Fund</u>	
Fund Balance, October 1	\$ 44,968,255
Adjustment for prior year's expenditures	341,539
Adjustment for prior year's expenditures	717
Fund Balance, October 1	<u>\$ 45,310,511</u>
 <u>Non-Major Governmental Funds</u>	
Fund Balance, October 1	\$ 1,812,792
Adjustment for prior year's revenues	200,371
Adjustment for prior year's expenditures	(225,997)
Fund Balance, October 1	<u>\$ 1,787,166</u>
 <u>Government - Wide</u>	
Adjustment for prior year's bond / lease reconciliations	<u>\$ 52,313</u>

M. Subsequent Events

On November 28, 2006, the City issued a \$7,100,000 Tax Note Series 2006. The purpose of the proceeds from the sale of the Notes will be used for City-wide street improvements, acquisition and installation of a fuel pump system and the purchase of golf-course equipment, and to pay the cost on the issuance of the Note. Some of the cost were paid during the current year which will be reimbursed by the Note.

## *Required Supplementary Information*

Required supplementary information includes financial information and disclosures required by the Governmental Accounting Standards Board but not considered a part of the basic financial statements.

**CITY OF PHARR, TEXAS**  
**GENERAL FUND**  
**BUDGETARY COMPARISON SCHEDULE**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2006**

EXHIBIT B-1

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenue:				
<i>Taxes</i>	\$ 18,991,342	\$ 19,284,342	\$ 19,617,912	\$ 333,570
<i>Licenses and permits</i>	816,000	859,000	1,468,291	609,291
<i>Intergovernmental</i>	--	242,610	(5,033)	(247,643)
<i>Charges for services</i>	3,825,000	3,485,000	3,463,451	(21,549)
<i>Other charges</i>	660,500	444,000	473,790	29,790
<i>Fines and forfeitures</i>	865,000	835,000	968,071	133,071
<i>Interest</i>	--	45,000	153,306	108,306
<i>Other</i>	--	403,701	842,945	439,244
Total revenues	<u>25,157,842</u>	<u>25,598,653</u>	<u>26,982,733</u>	<u>1,384,080</u>
Expenditures:				
Current:				
<i>General government</i>	8,536,718	8,434,668	7,961,281	473,387
<i>Public safety</i>	13,537,163	15,001,761	14,870,889	130,872
<i>Highways and streets</i>	2,011,421	2,383,471	2,542,037	(158,566)
<i>Sanitation</i>	2,775,000	3,000,000	3,021,043	(21,043)
<i>Culture and recreation</i>	1,056,425	1,063,178	976,971	86,207
Total expenditures	<u>27,916,727</u>	<u>29,883,078</u>	<u>29,372,221</u>	<u>510,857</u>
Excess (deficiency) of revenues (under) expenditures	(2,758,885)	(4,284,425)	(2,389,488)	1,894,937
Other financing sources (uses):				
<i>Operating transfers in</i>	2,821,311	2,776,451	2,614,866	(161,585)
<i>Lease proceeds</i>	--	1,723,100	1,660,078	63,022
Total other financing sources (uses)	<u>2,821,311</u>	<u>4,499,551</u>	<u>4,274,944</u>	<u>224,607</u>
Excess of revenues and other financing sources over (under) expenditures and other financing uses	62,426	215,126	1,885,456	1,670,330
Fund balances/equity, October 1	5,832,125	5,832,125	5,832,125	--
Prior period adjustment (Note L)	(117,217)	(117,217)	(117,217)	--
Fund balances/equity, September 30	<u>\$ 5,777,334</u>	<u>\$ 5,930,034</u>	<u>\$ 7,600,364</u>	<u>\$ 1,670,330</u>



**CITY OF PHARR, TEXAS**  
 ECONOMIC DEVELOPMENT CORPORATION  
 BUDGETARY COMPARISON SCHEDULE  
 FOR THE YEAR ENDED SEPTEMBER 30, 2006

EXHIBIT B-2

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenue:				
<i>Taxes</i>	\$ --	\$ --	\$ 2,836,513	\$ 2,836,513
<i>Other charges</i>	--	--	349,921	349,921
<i>Interest</i>	--	--	15,152	15,152
<i>Other</i>	--	--	1,855	1,855
Total revenues	<u>--</u>	<u>--</u>	<u>3,203,441</u>	<u>3,203,441</u>
Expenditures:				
Current:				
<i>Economic development and assistance</i>	661,708	661,708	3,120,252	(2,458,544)
<i>Debt service</i>	--	--	677,335	(677,335)
Total expenditures	<u>661,708</u>	<u>661,708</u>	<u>3,797,587</u>	<u>(3,135,879)</u>
Excess (deficiency) of revenues (under) expenditures	(661,708)	(661,708)	(594,146)	67,562
Other financing sources (uses):				
<i>Operating transfers out</i>	--	--	(546,000)	546,000
<i>Proceeds from Sale of Land</i>	--	--	978,881	978,881
<i>Loan proceeds</i>	--	--	1,460,000	(1,460,000)
Total other financing sources (uses)	<u>--</u>	<u>--</u>	<u>1,892,881</u>	<u>(1,892,881)</u>
Excess of revenues and other financing sources over (under) expenditures and other financing uses	(661,708)	(661,708)	1,298,735	1,960,443
Fund balances/equity, October 1	1,759,494	1,759,494	1,759,494	--
Prior period adjustment (Note L)	744,552	744,552	744,552	--
Fund balances/equity, September 30	<u>\$ 1,842,338</u>	<u>\$ 1,842,338</u>	<u>\$ 3,802,781</u>	<u>\$ 1,960,443</u>

*Combining Statements and Budget Comparisons  
as Supplementary Information*

This supplementary information includes financial statements and schedules not required by the Governmental Accounting Standards Board, nor a part of the basic financial statements, but are presented for purposes of additional analysis.

**CITY OF PHARR, TEXAS**  
**COMBINING BALANCE SHEET**  
**NONMAJOR GOVERNMENTAL FUNDS**  
**SEPTEMBER 30, 2006**

	Special Revenue Funds	Debt Service Fund	Total Nonmajor Governmental Funds (See Exhibit A-3)
<b>ASSETS AND OTHER DEBITS</b>			
Assets:			
<i>Cash and investments</i>	\$ 1,667,915	\$ 824,836	\$ 2,492,751
<i>Property taxes</i>	--	347,839	347,839
<i>Other</i>	108,598	--	108,598
<i>Due from other funds</i>	147,511	270,759	418,270
<i>Note receivable-revolving loans</i>	81,086	--	81,086
Restricted assets:			
<i>Deferred charges</i>	1,477	--	1,477
<b>Total Assets and Other Debits</b>	<b>\$ 2,006,587</b>	<b>\$ 1,443,434</b>	<b>\$ 3,450,021</b>
<b>LIABILITIES, EQUITY AND OTHER CREDITS</b>			
Liabilities:			
<i>Accrued expenses</i>	\$ 3,151	\$ --	\$ 3,151
<i>Due to other funds</i>	59,033	51,691	110,724
Payable from restricted assets:			
<i>Deferred revenue-taxes</i>	--	347,839	347,839
<i>Deferred revenue-other</i>	157,610	--	157,610
<b>Total Liabilities and other credits</b>	<b>219,794</b>	<b>399,530</b>	<b>619,324</b>
Equity and other credits:			
Fund balances:			
<i>Reserved</i>	1,644,220	--	1,644,220
<i>Unreserved</i>	142,573	1,043,904	1,186,477
<b>Total equity and other credits</b>	<b>1,786,793</b>	<b>1,043,904</b>	<b>2,830,697</b>
<b>Total Liabilities, Equity &amp; Other Credits</b>	<b>\$ 2,006,587</b>	<b>\$ 1,443,434</b>	<b>\$ 3,450,021</b>

**CITY OF PHARR, TEXAS**

COMBINING STATEMENT OF REVENUES, EXPENDITURES,  
AND CHANGES IN FUND BALANCES  
NONMAJOR GOVERNMENTAL FUNDS  
FOR THE YEAR ENDED SEPTEMBER 30, 2006

	Special Revenue Funds	Debt Service Fund	Total Nonmajor Governmental Funds (See Exhibit A-5)
Revenue:			
<i>Taxes</i>	\$ 578,773	\$ 1,317,122	\$ 1,895,895
<i>Intergovernmental</i>	676,966	--	676,966
<i>Interest</i>	93,367	122,541	215,908
<i>Other</i>	1,275,933	--	1,275,933
Total revenues	<u>2,625,039</u>	<u>1,439,663</u>	<u>4,064,702</u>
Expenditures:			
Current:			
<i>General government</i>	1,574,395	--	1,574,395
<i>Public safety</i>	520,432	--	520,432
<i>Debt service</i>	--	2,125,856	2,125,856
Total expenditures	<u>2,094,827</u>	<u>2,125,856</u>	<u>4,220,683</u>
Excess (deficiency) of revenues (under) expenditures	530,212	(686,193)	(155,981)
Other financing sources (uses):			
<i>Operating transfers in</i>	--	971,000	971,000
<i>Operating transfers out</i>	(530,586)	(7,024)	(537,610)
Total other financing sources (uses)	<u>(530,586)</u>	<u>963,976</u>	<u>433,390</u>
Excess of revenues and other financing sources over (under) expenditures and other financing uses	(374)	277,783	277,409
Fund balances/equity, October 1	1,812,793	1,134,548	2,947,341
Prior period adjustment (Note L)	(25,626)	(368,427)	(394,053)
Fund balances/equity, September 30	<u>\$ 1,786,793</u>	<u>\$ 1,043,904</u>	<u>\$ 2,830,697</u>

**CITY OF PHARR, TEXAS**  
 COMBINING BALANCE SHEET  
 NONMAJOR SPECIAL REVENUE FUNDS  
 SEPTEMBER 30, 2006

	Assets Sharing Fund	Community Development Fund
<b>ASSETS AND OTHER DEBITS</b>		
Assets:		
<i>Cash and investments</i>	\$ 266,348	\$ 100,201
<i>Other</i>	-	20
<i>Due from other funds</i>	-	4,989
<i>Note receivable-revolving loans</i>	-	81,086
Restricted assets:		
<i>Deferred charges</i>	-	1,477
<b>Total Assets and Other Debits</b>	<b>\$ 266,348</b>	<b>\$ 187,773</b>
<b>LIABILITIES, EQUITY AND OTHER CREDITS</b>		
Liabilities:		
<i>Accrued expenses</i>	\$ -	\$ 3,151
<i>Due to other funds</i>	27,435	20,255
Payable from restricted assets:		
<i>Deferred revenue-other</i>	-	157,610
<b>Total Liabilities and other credits</b>	<b>27,435</b>	<b>181,016</b>
Equity and other credits:		
Fund balances:		
<i>Reserved</i>	238,913	-
<i>Unreserved</i>	-	6,757
<b>Total equity and other credits</b>	<b>238,913</b>	<b>6,757</b>
<b>Total Liabilities, Equity &amp; Other Credits</b>	<b>\$ 266,348</b>	<b>\$ 187,773</b>

Law Enforcement Fund	Hotel/Motel Occupancy Tax Fund	Parks and Maintenance Fund	Total Nonmajor Special Revenue Funds (See Exhibit C-1)
\$ 135,816	\$ 924,986	\$ 240,564	\$ 1,667,915
-	108,578	-	108,598
-	140,522	2,000	147,511
-	-	-	81,086
-	-	-	1,477
<u>\$ 135,816</u>	<u>\$ 1,174,086</u>	<u>\$ 242,564</u>	<u>\$ 2,006,587</u>
\$ -	\$ -	\$ -	\$ 3,151
-	9,082	2,261	59,033
-	-	-	157,610
<u>-</u>	<u>9,082</u>	<u>2,261</u>	<u>219,794</u>
-	1,165,004	240,303	1,644,220
135,816	-	-	142,573
<u>135,816</u>	<u>1,165,004</u>	<u>240,303</u>	<u>1,786,793</u>
<u>\$ 135,816</u>	<u>\$ 1,174,086</u>	<u>\$ 242,564</u>	<u>\$ 2,006,587</u>

**CITY OF PHARR, TEXAS**

COMBINING STATEMENT OF REVENUES, EXPENDITURES,  
AND CHANGES IN FUND BALANCES  
NONMAJOR SPECIAL REVENUE FUNDS  
FOR THE YEAR ENDED SEPTEMBER 30, 2006

	Assets Sharing Fund	Community Development Fund
Revenue:		
<i>Taxes</i>	\$ --	\$ --
<i>Intergovernmental</i>	365,175	--
<i>Interest</i>	14,902	4,781
<i>Other</i>	--	1,275,888
Total revenues	<u>380,077</u>	<u>1,280,669</u>
Expenditures:		
Current:		
<i>General government</i>	--	1,280,669
<i>Public safety</i>	520,374	--
Total expenditures	<u>520,374</u>	<u>1,280,669</u>
Excess (deficiency) of revenues (under) expenditures	(140,297)	--
Other financing sources (uses):		
<i>Operating transfers out</i>	--	--
Total other financing sources (uses)	<u>--</u>	<u>--</u>
Excess of revenues and other financing sources over (under) expenditures and other financing uses	(140,297)	--
Fund balances/equity, October 1	379,210	6,757
Prior period adjustment (Note L)	--	--
Fund balances/equity, September 30	<u>\$ 238,913</u>	<u>\$ 6,757</u>

Law Enforcement Fund	Hotel/Motel Occupancy Tax Fund	Parks and Maintenance Fund	Total Nonmajor Special Revenue Funds (See Exhibit C-2)
\$ --	\$ 578,773	\$ --	\$ 578,773
--	--	311,791	676,966
25,636	40,086	7,962	93,367
--	--	45	1,275,933
<u>25,636</u>	<u>618,859</u>	<u>319,798</u>	<u>2,625,039</u>
--	285,104	8,622	1,574,395
58	--	--	520,432
<u>58</u>	<u>285,104</u>	<u>8,622</u>	<u>2,094,827</u>
25,578	333,755	311,176	530,212
--	(72,716)	(457,870)	(530,586)
<u>--</u>	<u>(72,716)</u>	<u>(457,870)</u>	<u>(530,586)</u>
25,578	261,039	(146,694)	(374)
110,238	703,594	612,994	1,812,793
--	200,371	(225,997)	(25,626)
<u>\$ 135,816</u>	<u>\$ 1,165,004</u>	<u>\$ 240,303</u>	<u>\$ 1,786,793</u>



**CITY OF PHARR, TEXAS**  
**CAPITAL PROJECTS FUND**  
**BUDGETARY COMPARISON SCHEDULE**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2006**

EXHIBIT C-5

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenue:				
<i>Intergovernmental</i>	\$ —	\$ —	\$ 506,500	\$ 506,500
<i>Interest</i>	56,000	56,000	34,879	(21,121)
<i>Other</i>	6,251,500	6,251,500	5,000	(6,246,500)
Total revenues	<u>6,307,500</u>	<u>6,307,500</u>	<u>546,379</u>	<u>(5,761,121)</u>
Expenditures:				
Current:				
<i>General government</i>	2,706,270	2,706,270	4,681,574	(1,975,304)
Total expenditures	<u>2,706,270</u>	<u>2,706,270</u>	<u>4,681,574</u>	<u>(1,975,304)</u>
Excess (deficiency) of revenues (under) expenditures	3,601,230	3,601,230	(4,135,195)	(7,736,425)
Other financing sources (uses):				
<i>Operating transfers in</i>	500,000	500,000	457,870	(42,130)
<i>Operating transfers out</i>	—	—	(672,542)	672,542
Total other financing sources (uses)	<u>500,000</u>	<u>500,000</u>	<u>(214,672)</u>	<u>714,672</u>
Excess of revenues and other financing sources over (under) expenditures and other financing uses	4,101,230	4,101,230	(4,349,867)	(8,451,097)
Fund balances/equity, October 1	1,759,616	1,759,616	1,759,616	—
Fund balances/equity, September 30	<u>\$ 5,860,846</u>	<u>\$ 5,860,846</u>	<u>\$ (2,590,251)</u>	<u>\$ (8,451,097)</u>

**CITY OF PHARR, TEXAS**

COMBINING STATEMENT OF NET ASSETS

INTERNAL SERVICE FUNDS

SEPTEMBER 30, 2006

	City Garage Fund	Worker's Compensation Fund	Total Internal Service Funds (See Exhibit A-7)
<b>ASSETS</b>			
Assets:			
<i>Cash and time deposits</i>	\$ (103,787)	\$ (5,981)	\$ (109,768)
<i>Receivables ( net of allowances for uncollectibles):</i>			
<i>Due from other funds</i>	176,062	609,169	785,231
<i>Inventories</i>	3,880	--	3,880
Restricted assets:			
Capital Assets ( net of accumulated depreciation):			
<i>Buildings</i>	542,233	--	542,233
<i>Improvements other than Buildings</i>	140,630	--	140,630
<i>Machinery and Equipment</i>	168,440	--	168,440
Total Assets	<u>\$ 927,458</u>	<u>\$ 603,188</u>	<u>\$ 1,530,646</u>
<b>LIABILITIES</b>			
Liabilities:			
<i>Accounts payable</i>	\$ 1,053	\$ 537,319	\$ 538,372
<i>Compensated absences payable</i>	28,521	--	28,521
<i>Due to other funds</i>	280,668	43,384	324,052
<i>Accrued expenses payable</i>	2,118	--	2,118
Payable from restricted assets:			
<i>Leases and notes payable, net of current portion</i>	17,838	--	17,838
Total Liabilities	<u>330,198</u>	<u>580,703</u>	<u>910,901</u>
<b>NET ASSETS:</b>			
Investment in Capital Assets, Net of Related Debt	704,874	--	704,874
Restricted Net Assets	--	22,485	22,485
Unrestricted Net Assets	(107,614)	--	(107,614)
Total Net Assets	<u>\$ 597,260</u>	<u>\$ 22,485</u>	<u>\$ 619,745</u>

**CITY OF PHARR, TEXAS**

COMBINING STATEMENT OF REVENUES, EXPENSES,  
AND CHANGES IN FUND NET ASSETS  
INTERNAL SERVICE FUNDS  
FOR THE YEAR ENDED SEPTEMBER 30, 2006

	City Garage Fund	Worker's Compensation Fund	Total Internal Service Funds (See Exhibit A-8)
<b>OPERATING REVENUES:</b>			
<i>Charges for services</i>	\$ 933,357	\$ --	\$ 933,357
<b>Total Operating Revenues</b>	<u>933,357</u>	<u>--</u>	<u>933,357</u>
<b>OPERATING EXPENSES:</b>			
<i>Personal services</i>	183,040	--	183,040
<i>Operation and maintenance</i>	794,025	59,169	853,194
<i>Depreciation and amortization</i>	85,078	--	85,078
<b>Total Operating Expenses</b>	<u>1,062,143</u>	<u>59,169</u>	<u>1,121,312</u>
<b>Operating Income (Loss)</b>	<u>(128,786)</u>	<u>(59,169)</u>	<u>(187,955)</u>
<b>NON-OPERATING REVENUES (EXPENSES):</b>			
<i>Interest revenue</i>	194	--	194
<i>Other income</i>	--	53,566	53,566
<b>Total Non-operating Revenues (Expenses)</b>	<u>194</u>	<u>53,566</u>	<u>53,760</u>
<b>Net Income (Loss) before Operating Transfers</b>	<u>(128,592)</u>	<u>(5,603)</u>	<u>(134,195)</u>
<b>TRANSFERS:</b>			
<i>Interfund operating transfers in</i>	--	--	--
<i>Interfund operating transfers out</i>	--	--	--
<b>Net income</b>	<u>(128,592)</u>	<u>(5,603)</u>	<u>(134,195)</u>
Retained earnings, October 1	725,852	28,088	753,940
Retained earnings, September 30	\$ 597,260	\$ 22,485	\$ 619,745

## CITY OF PHARR, TEXAS

COMBINING STATEMENT OF CASH FLOWS  
 ALL INTERNAL SERVICE FUNDS  
 FOR THE YEAR ENDED SEPTEMBER 30, 2006

	City Garage Fund	Worker's Compensation Fund	Total Internal Service Funds (See Exhibit A-9)
<b>Cash Flows from Operating Activities:</b>			
Cash Received from Customers	\$ 933,357	\$ --	\$ 933,357
Cash Payments to Employees	--	--	--
Cash Payments to Suppliers for Goods and Services	(178,237)	--	(178,237)
Cash Payments for Grants to Other Organizations	(793,462)	(59,169)	(852,631)
Other Operating Cash Receipts (Payments)	--	--	--
Net Cash Provided (Used) by Operating Activities	<u>(38,342)</u>	<u>(59,169)</u>	<u>(97,511)</u>
<b>Cash Flows from Non-capital Financing Activities:</b>			
Proceeds (Payments) from (for) Borrowings	17,838	--	17,838
Other Non-Operating Income	--	53,566	53,566
Transfers From (To) Primary Government	--	--	--
Transfers From (To) Other Funds	59,574	--	59,574
Net Cash Provided (Used) by Non-capital Financing Activities	<u>77,412</u>	<u>53,566</u>	<u>130,978</u>
<b>Cash Flows from Capital and Related Financing Activities:</b>			
Proceeds from Issuance of Long-term Debt	--	--	--
Principal and Interest Paid	--	--	--
Acquisition or Construction of Capital Assets	(23,532)	--	(23,532)
Proceeds from Sale of Capital Assets	--	--	--
Contributed Capital	--	--	--
Net Cash Provided (Used) for Capital and Related Financing Activities	<u>(23,532)</u>	<u>--</u>	<u>(23,532)</u>
<b>Cash Flows from Investing Activities:</b>			
Purchase of Investment Securities	--	--	--
Interest and Dividends on Investments	194	--	194
Net Cash Provided (Used) for Investing Activities	<u>194</u>	<u>--</u>	<u>194</u>
Net Increase (Decrease) in Cash and Cash Equivalents	15,732	(5,603)	10,129
Cash and Cash Equivalents at Beginning of Year	(119,520)	(378)	(119,898)
Cash and Cash Equivalents at End of Year	<u>\$ (103,788)</u>	<u>\$ (5,981)</u>	<u>\$ (109,769)</u>
<b>Reconciliation of Operating Income to Net Cash Provided by Operating Activities:</b>			
Operating Income (Loss)	\$ (128,786)	\$ (59,169)	\$ (187,955)
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities			
Depreciation	85,078	--	85,078
Change in Assets and Liabilities:			
Decrease (Increase) in Receivables	--	--	--
Decrease (Increase) in Inventories	--	--	--
Increase (Decrease) in Accounts Payable	563	--	563
Increase (Decrease) in Payroll Deductions	--	--	--
Increase (Decrease) in Accrued Wages Payable	--	--	--
Increase (Decrease) in Accrued Expenses	4,803	--	4,803
Prior Period Adjustment	--	--	--
Net Cash Provided (Used) by Operating Activities	<u>\$ (38,342)</u>	<u>\$ (59,169)</u>	<u>\$ (97,511)</u>

### *Other Supplementary Information*

This section includes financial information and disclosures not required by the Governmental Accounting Standards Board and not considered a part of the basic financial statements. It may, however, include information which is required by other entities.



Oscar R. Gonzalez

Certified Public Accountant

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## Independent Auditor's Report

### Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards

Members of the City Council  
City Of Pharr, Texas  
201 West Park Avenue  
Pharr, Texas 78577

Members of the Members of the City Council:

I have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of City Of Pharr, Texas as of and for the year ended September 30, 2006, which collectively comprise the City Of Pharr, Texas's basic financial statements and have issued my report thereon dated May 1, 2007. I conducted my 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.

#### Internal Control Over Financial Reporting

In planning and performing my audit, I considered City Of Pharr, Texas's internal control over financial reporting in order to determine my auditing procedures for the purpose of expressing my opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. However, I noted certain matters involving the internal control over financial reporting and its operation that I consider to be reportable conditions. Reportable conditions involve matters coming to my attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in my judgment, could adversely affect City Of Pharr, Texas's ability to record, process, summarize and report financial data consistent with the assertions of management in the basic financial statements. Reportable conditions are described in the accompanying schedule of findings and questioned costs as items 06-1, 06-2, 06-3, 06-4, 06-5, 06-6, 06-7, 06-8, 06-9, 06-11, 06-13, 06-14, and 06-15.

A material weakness is a reportable 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 caused by error or fraud in amounts that would be material in relation to the 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. My 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, I considered items 06-1, 06-2, 06-3, 06-4, 06-5, 06-9, 06-10, 06-11, 06-13 and 06-15 to be material weaknesses.

#### Compliance and Other Matters

As part of obtaining reasonable assurance about whether City Of Pharr, Texas's financial statements are free of material misstatement, I performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of my audit, and accordingly, I do not express such an opinion. The results

of my tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* which are described in the accompanying schedule of findings and questioned costs as items 06-12. I also noted certain immaterial instances of noncompliance that I have reported to management of City Of Pharr, Texas in a separate letter dated May 1, 2007.

I also noted other matters that I reported to management of City Of Pharr, Texas in a separate letter dated May 1, 2007.

This report is intended solely for the information and use of management, others within the organization, the Members of the City Council, 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.

  
Oscar R. Gonzalez CPA

May 1, 2007



Oscar R. Gonzalez

Certified Public Accountant

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## Independent Auditor's Report

Report on Compliance with Requirements Applicable  
To each Major Program and Internal Control over Compliance  
In Accordance With OMB Circular A-133

Members of the City Council  
City Of Pharr, Texas  
201 West Park Avenue  
Pharr, Texas 78577

Members of the Members of the City Council:

### Compliance

I have audited the compliance of City Of Pharr, Texas with the types of compliance requirements described in the *U. S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended September 30, 2006. City Of Pharr, Texas's major federal programs are 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 City Of Pharr, Texas's management. My responsibility is to express an opinion on City Of Pharr, Texas's compliance based on my audit.

I conducted my 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 I 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 City Of Pharr, Texas's compliance with those requirements and performing such other procedures as I considered necessary in the circumstances. I believe that my audit provides a reasonable basis for my opinion. My audit does not provide a legal determination on City Of Pharr, Texas's compliance with those requirements.

In my opinion, City Of Pharr, Texas 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, 2006.

### Internal Control Over Compliance

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

I noted certain matters involving the internal control over compliance and its operation that I consider to be reportable conditions. Reportable conditions involve matters coming to my attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in my judgment, could adversely affect City Of Pharr, Texas's ability to administer a major federal program in accordance with the applicable requirements of laws, regulations, contracts and grants. Reportable conditions are described in the accompanying schedule of findings and questioned costs as items 06-1, 06-2, 06-3, 06-4, 60-5, and 06-6.



A material weakness is a reportable 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 the applicable requirements of laws, regulations, contracts and grants caused by error or fraud 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. My 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, I consider items 06-1, 06-2, 06-3, 06-4, 60-5, and 06-9. to be material weaknesses.

This report is intended solely for the information and use of management, others within the organization, the Members of the City Council, 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.

  
Oscar R. Gonzalez CPA

May 1, 2007

**CITY OF PHARR, TEXAS**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2006**

I. Summary of Auditor's Results

1. Financial Statements

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

Material weakness(es) identified? Yes X No

Reportable condition(s) identified that are not considered to be material weaknesses? X Yes        None Reported

Noncompliance material to financial statements noted?        Yes X No

2. Federal Awards

Internal control over major programs:

Material weakness(es) identified? Yes X No

Reportable condition(s) identified that are not considered to be material weaknesses? X Yes        None Reported

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 section 510(a) of Circular A-133?        Yes X No

Identification of major programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
14.218	Community Development Block Grant

Dollar threshold used to distinguish between type A and type B programs: \$300,000

Auditee qualified as low-risk auditee?        Yes X No

CITY OF PHARR, TEXAS  
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
 FOR THE YEAR ENDED SEPTEMBER 30, 2006

Section II – Financial Statement/Federal Awards Finding and Questioned Costs	Description
<p>06-1            Accounting Policies and Procedures Manual – Primary Government</p>	<p><b>Criteria:</b> 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><b>Statement of Condition:</b> The City does not have a written policies and procedures manual.</p> <p><b>Cause of Condition:</b> The City has not given priority to establishing such a document.</p> <p><b>Effect of Condition:</b> There is no proper guidance for applicable City personnel to follow in accounting for financial transactions.</p> <p><b>Recommendation:</b> 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><b>Auditee’s Response:</b> The Auditee has prepared a preliminary draft of a written accounting policies and procedures manual, which is scheduled to be presented for approval in fiscal year 2007. In addition staff uses the GFOA Blue Book as reference regarding accounting matters.</p> <p><b>Questioned Cost:</b> \$-0-</p>
<p>06-2            Purchasing – Primary Government</p>	<p><b>A. Purchasing Manual</b></p> <p><b>Criteria:</b> Good internal controls require that the City have a written purchasing manual to ensure compliance with state, federal, and legal requirements.</p> <p><b>Statement of Condition:</b> The City currently has a manual that is outdated.</p> <p><b>Cause of Condition:</b> The City has not given priority to updating or renewing its purchasing manual.</p> <p><b>Effect of Condition:</b> The City does not have the proper guidance to ensure compliance with state, federal, and legal requirements in the procurement process.</p> <p><b>Recommendation:</b> 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><b>Auditee’s Response:</b> The Auditee has prepared a preliminary draft of purchasing policies and procedures which is modeled after the State Comptroller’s document and is scheduled to be presented for approval in 2007. In addition, staff follows state statutes regarding procurement.</p> <p><b>Questioned Cost:</b> \$-0-</p>

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<p>06-2            Purchasing – Primary Government            (Cont.)</p>	<p><b>B. Purchase Orders</b>  <u>Criteria:</u> Good internal controls require that the City properly prepare purchase orders for all applicable purchases of goods or services before the purchases are made.  <u>Statement of Condition:</u> 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 inter-local 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).  <u>Cause of Condition:</u> The City does not have a current purchasing manual, which provides proper guidance to applicable personnel.  <u>Effect of Condition:</u> 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.  <u>Recommendation:</u> 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 contract and applicable inter-local agreements, before the purchases are made. The City should adhere to the policies and procedures in its purchasing manual.  <u>Auditee's Response:</u> The preliminary draft of purchasing policies and procedures is scheduled for approval in fiscal year 2007 and is modeled after the State Comptroller's document. It will address purchase orders and related transactions. Commitments are being updated bimonthly rather than monthly.  <u>Questioned Cost:</u> \$-0-</p>



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<p>06-3            Finance Department – Primary Government</p>	<p><b>A. Training, Supervision, and Review Criteria:</b> 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 employee's work.</p> <p><b>Statement of Condition:</b> 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 employee's work was reviewed.</p> <p><b>Cause of Condition:</b> The City is unaware of the required duties and responsibilities of the Finance Director's position.</p> <p><b>Effect of Condition:</b> 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><b>Recommendation:</b> 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><b>Auditee's Response:</b> The Auditee has created a Human Resources Division apart from the Finance Department. This has allowed the Finance Department more time to regularly review employee's work, conduct more frequent staff meetings, and to more closely monitor the status of work projects. This has enabled improved monitoring of current year audit preparations and year end closing procedures.</p> <p><b>Questioned Cost:</b> \$-0-</p> <p><b>B. Professional Development</b></p> <p><b>Criteria:</b> Good internal controls require that the City have a program in place for the professional development of its accounting staff.</p> <p><b>Statement of Condition:</b> The City does not have a formal program in place for the professional development of its accounting staff.</p> <p><b>Cause of Condition:</b> The City has not give priority to establishing a program for the professional development of its accounting staff.</p> <p><b>Effect of Condition:</b> 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><b>Recommendation:</b> 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 all professional staff will assist in the training and development of staff under their supervision.</p> <p><b>Auditee's Response:</b> The Finance Director will ensure that all professional personnel of the Finance Department obtain the required number of CPE hours. Staff development and training has been given higher priority.</p> <p><b>Questioned Cost:</b> \$-0-</p>

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06-4 Fixed Assets – Primary Government	<p><b>A. Capitalization Policies and Procedures</b></p> <p><b>Criteria:</b> 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><b>Statement of Condition:</b> 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><b>Cause of Condition:</b> 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><b>Effect of Condition:</b> The City did not properly account for its fixed assets as of and for the year ended September 30, 2006.</p> <p><b>Recommendation:</b> 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><b>Auditee's Response:</b> The Auditee does have a capitalization policy and has prepared a preliminary draft of a written accounting policies and procedures manual, which will be presented for approval in fiscal year 2007.</p> <p><b>Questioned Cost:</b> \$-0-</p> <p><b>B. Capitalization of Fixed Assets</b></p> <p><b>Criteria:</b> Good internal controls require that the City capitalize fixed assets, which were purchased, constructed, or received as donations, on a timely basis.</p> <p><b>Statement of Condition:</b> The City did not capitalize fixed assets purchased or constructed during the year on a timely basis.</p> <p><b>Cause of Condition:</b> The City's Finance Department has not given priority to the proper capitalization of fixed assets.</p> <p><b>Effect of Condition:</b> The City did not readily know what fixed assets were purchased or constructed during the year.</p> <p><b>Recommendation:</b> 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><b>Auditee's Response:</b> The City is using the new fixed asset software and will comply with the new proposed policies and procedures for the proper capitalization of fixed assets on a timely basis.</p> <p><b>Questioned Cost:</b> \$-0-</p>



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06-4 Fixed Assets – Primary Government, (Cont.)	<p><b>C. Subsidiary Ledger</b></p> <p><b>Criteria:</b> 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><b>Statement of Condition:</b> 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><b>Cause of Condition:</b> The City's Finance Department has not given priority to the proper maintenance of its fixed assets subsidiary ledger.</p> <p><b>Effect of Condition:</b> The City did not properly account for its fixed assets during the year ended September 30, 2006.</p> <p><b>Recommendation:</b> 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><b>Auditee's Response:</b> The City will perform an updated complete physical inventory of its fixed assets and adjust its fixed assets subsidiary ledger based on the physical inventory. One firm has been awarded inventory documentation to comply with GASB 34.</p> <p><b>Questioned Cost:</b> \$-0-</p> <p><b>D. Depreciation Schedules</b></p> <p><b>Criteria:</b> Good internal controls require that the City maintain depreciation schedules for all of its depreciable fixed assets.</p> <p><b>Statement of Condition:</b> 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><b>Cause of Condition:</b> The City's Finance Department has not given priority to establishing proper depreciation schedules for the City's depreciable fixed assets.</p> <p><b>Effect of Condition:</b> The City did not properly account for depreciation expense in fiscal year 2006.</p> <p><b>Recommendation:</b> 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><b>Auditee's Response:</b> The City has awarded GASB 34 inventory compliance services and is using the new fixed assets accounting software during fiscal year 2007 which will address depreciation and other fixed asset issues.</p> <p><b>Questioned Cost:</b> \$-0-</p>

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<p>06-5            Bank Reconciliations – Primary Government</p>	<p><b>A. Preparation of Bank Reconciliations</b>  <u>Criteria:</u> 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 balance to agree with book balances per bank reconciliations.  <u>Statement of Condition:</u> 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 2006 monthly bank reconciliations for various bank accounts were corrected after year's end.  <u>Cause of Condition:</u> Applicable City staff was not properly trained to perform this function.  <u>Effect of Condition:</u> Many bank balances per general ledgers were not correct during the year.  <u>Recommendation:</u> 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.  <u>Auditee's Response:</u> Supervisory personnel train subordinate staff and review &amp; document bank reconciliations on a regular basis to ensure timely reconciliation of corresponding General Ledger accounts.  <u>Questioned Cost:</u> \$-0-</p> <p><b>B. Review of Bank Reconciliations</b>  <u>Criteria:</u> Good internal controls require that the City have someone in a supervisory capacity review the monthly bank reconciliations prepared by someone else.  <u>Statement of Condition:</u> There was no documentation to substantiate that supervisory reviews of bank reconciliations were performed.  <u>Cause of Condition:</u> Applicable City Staff was not properly trained to perform this function.  <u>Effect of Condition:</u> Many bank balances per general ledgers were not correct during the year.  <u>Recommendation:</u> 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.  <u>Auditee's Response:</u> Supervisory personnel review &amp; document bank reconciliations on a regular basis to ensure timely reconciliation of corresponding General Ledger accounts.  <u>Questioned Cost:</u> \$-0-</p>



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<p>06-6 Collateralization of Deposits and Investments – Primary Government</p>	<p><b>Criteria:</b> 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><b>Statement of Condition:</b> There was no documentation to substantiate the 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, 2006. Documentation provided was prepared after year's end.</p> <p><b>Cause of Condition:</b> The City's Finance Department has not given priority to the proper review of collateralization on the City's deposits and investments.</p> <p><b>Effect of Condition:</b> The City did not readily know whether all applicable depository institutions maintained adequate collateralization on the City's deposits and investments during fiscal year 2006.</p> <p><b>Recommendation:</b> 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 the 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><b>Auditee's Response:</b> The Auditee monitors and reviews collateralization of deposits on a regular monthly basis. Such reviews continue to be properly documented. Also, the City will ensure that depository banks provide to the City monthly copies of safekeeping or trust receipts covering all collateral held for the bank, including substitute collateral.</p> <p><b>Questioned Cost:</b> \$-0-</p>

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<p>06-7            Golf Course Inventories – Primary Government</p>	<p><b>Criteria:</b> 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><b>Statement of Condition:</b> 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><b>Cause of Condition:</b> The City has not given priority to performing periodic counts of inventories and reconciling such inventories to previous inventories.</p> <p><b>Effect of Condition:</b> The City has no way of knowing whether theft of inventory items has occurred.</p> <p><b>Recommendation:</b> 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><b>Auditee’s Response:</b> The Auditee is meeting with the current software provider and working on upgrading the current version to the newest version available, in fiscal year 2007. The upgraded software will better address inventory control.</p> <p><b>Questioned Cost:</b> \$-0-</p>



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<p>06-8 Golf Course Revenues - Primary Government</p>	<p><b>A. Accounting System</b></p> <p><b>Criteria:</b> Good Internal control requires that the City have an accounting system with cash register and software that will provide accurate, properly controlled, and protected information.</p> <p><b>Statement of Condition:</b> The current Golf Course accounting system is ineffective and unreliable.</p> <p><b>Cause of Condition:</b> The City as not given priority to the installation of a good accounting system at the Golf Course.</p> <p><b>Effect of Condition:</b> 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><b>Recommendation:</b> 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><b>Auditee's Response:</b> The Auditee is meeting with the current software provider and working on upgrading the current version to the newest version available, in fiscal year 2007.</p> <p><b>Questioned Cost:</b> \$-0-</p> <p><b>B. Policies and Procedures Manual</b></p> <p><b>Criteria:</b> 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><b>Statement of Condition</b> The City does not have written accounting policies and procedures manuals for its Golf Course Operations.</p> <p><b>Cause of Condition:</b> The City has not given priority to establishing such a document.</p> <p><b>Effect of Condition:</b> There was no proper guidance for applicable personnel to follow in accounting for financial transactions.</p> <p><b>Recommendation:</b> 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><b>Auditee's Response:</b> The Auditee has prepared a preliminary draft of a written accounting policies and procedures manual, which will be presented for approval in fiscal year 2007. This manual will address updated accounting for Golf Course operations</p> <p><b>Questioned Cost:</b> \$-0-</p>

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<p>06-9            Process to correct prior audit            Findings – Primary Government</p>	<p><b>Criteria:</b> Good Internal controls require that the City have a process in place to address and correct prior year's audit findings.  <b>Statement of Condition:</b> The City does not have a process in place to address and correct prior year's audit findings  <b>Cause of Condition:</b> The Finance Director did not give priority to the addressing and correcting prior year's audit findings.  <b>Effect of Condition:</b> Since no correcting action has been implemented, most of prior's year findings have been noted as current year's findings.  <b>Recommendation:</b> The City should ensure there is a process in place to correct all audit findings.  <b>Auditee's Response:</b> The Auditee concurs.  <b>Questioned Cost:</b> \$-0-</p>
<p>06-10            Municipal Court – Primary Government</p>	<p><b>A. Subsidiary Ledger</b>  <b>Criteria:</b> Good Internal controls require that the City have a subsidiary ledger for citation tickets for which warrants have been issued.  <b>Statement of Condition:</b> 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.  <b>Cause of Condition:</b> The City has not given priority to the installation of a good accounting system for the Municipal Court.  <b>Effect of Condition:</b> The balance of warrant receivable during the year and as of year end might not be correct.  <b>Recommendation:</b> 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.  <b>Auditee's Response:</b> The Auditee has purchased a new system that is compatible with the City's accounting system and has also contracted for collection services regarding outstanding tickets.  <b>Questioned Cost:</b> \$-0-</p> <p><b>B. Policies and Procedures Manual</b>  <b>Criteria:</b> Good internal controls require that the City have an accounting policies and procedures manual for the proper handling and recording of financial transactions of its Municipal Court operations.  <b>Statement of Condition:</b> The City does not have accounting policies and procedures manual for its municipal operations.  <b>Cause of Condition:</b> The City was unaware of the need to have such a document.  <b>Effect of Condition:</b> There was no proper guidance for applicable personnel to follow in accounting for financial transactions.  <b>Recommendation:</b> The City should include policies and procedure related to the Municipal Court in its City-wide accounting policies and procedures manual.  <b>Auditee's Response:</b> The Auditee has prepared a preliminary draft of accounting policies and procedures which will address Municipal Court operations.  <b>Questioned Cost:</b> \$-0-</p>



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<p>06-10 Municipal Court - Primary Government (Cont.)</p>	<p><b>C. Training</b>  <u>Criteria:</u> Good internal controls require that the City properly train the clerks in the performance of their assigned functions.  <u>Statement of Condition:</u> 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. .  <u>Cause of Condition:</u> The City has not given priority to the proper training of all clerks at the Municipal Court.  <u>Effect of Condition:</u> 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.  <u>Recommendation:</u> All applicable Municipal Court clerks should be properly trained to use the new computers and new accounting software.  <u>Auditee's Response:</u> The Auditee has made training mandatory for all individuals utilizing the new Municipal Court software.  <u>Questioned Cost:</u> \$-0-</p>
<p>06-11 Grants – Primary Government</p>	<p><b>A. Administration</b>  <u>Criteria:</u> 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.  <u>Statement of Condition:</u> During fiscal year 2006, the City did not properly record financial transactions related to these grants in the general ledger on a timely basis.  <u>Cause of Condition:</u> 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 withal of the necessary documentation related to these grants to properly account for these grants on a timely basis.  <u>Effect of Condition:</u> The City did not properly account for all grant-related financial transactions in the general ledger on a timely basis. Also, the City did not know whether all applicable financial status reports were filed correctly and timely with applicable grantors.  <u>Recommendation:</u> 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.  <u>Auditee's Response:</u> The Auditee has assigned an accountant as the main contact for all grants regarding accounting for these programs.  <u>Questioned Cost:</u> \$-0-</p>

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<p>06-11            Grants – Primary Government (Cont.)</p>	<p><b>B. Grant Funds</b>  <u>Criteria:</u> Good internal controls require that the City establish and maintain those funds that are required by law and sound administration to account for grants.  <u>Statement of Condition:</u> Except for the CDBG and the Technical Assistance Agreements Grants, all other grants that the City administered in fiscal year 2006 were accounted for in the City's General Fund.  <u>Cause of Condition:</u> The Finance Department has not given priority to establishing and maintaining those grant funds that are required by sound administration to account for grants.  <u>Effect of Condition:</u> The City did not properly record financial transactions related to those grants in the general ledger on a timely basis.  <u>Recommendation:</u> Except for those grants that are required to be accounted in an enterprise funds(s), the City should account for all other grants in special revenue funds.  <u>Auditee's Response:</u> The Auditee has made accounting of grants a priority and segregated grants in special revenue funds.  <u>Questioned Cost:</u> \$-0-</p>
<p>06-12            Public Investment Act - Primary Government - Noncompliance</p>	<p><b>A. Investment Policy</b>  <u>Criteria:</u> 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.  <u>Statement of Condition:</u> The City has not updated its written investment policy that addresses the requirements of the Public Investments Act. (The Act.). Although the City reviewed and made a minor change to its investment policy in December 2006, it did not make the required changes to satisfy all requirements of the Act.  <u>Cause of Condition:</u> The City did not correctly review its public investment policy.  <u>Effect of Condition:</u> The City did not comply with State law regarding this matter.  <u>Recommendation:</u> The City should immediately review and approve an investment policy that addresses all requirements of the Act.  <u>Auditee's Response:</u> The Auditee has reviewed and revised the Investment Policy during fiscal year 2007. The Investment committee has also been restructured.  <u>Questioned Cost:</u> \$-0-</p>



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<p>06-12            Public Investment Act - Primary Government – Noncompliance (Cont.)</p>	<p><b>B. Investment Committee</b>  <u>Criteria:</u> 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.  <u>Statement of Condition</u> The Investment Committee was never activated.  <u>Cause of Condition:</u> The City has not properly reviewed its investment policy to comply with its policy.  <u>Effect of Condition:</u> The City did not fully comply with its investment policy.  <u>Recommendation:</u> 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.  <u>Auditee's Response:</u> The Auditee has reviewed and revised the Investment Policy during fiscal year 2007. The investment committee has also been restructured.  <u>Questioned Cost:</u> \$-0-</p> <p><b>C. Investment Training</b>  <u>Criteria:</u> 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.  <u>Statement of Condition</u> Only one of the City investment officers has attended the required training sessions during the required time frame.  <u>Cause of Condition:</u> The City has not adopted an investment policy in compliance with the Act.  <u>Effect of Condition:</u> The City did not comply with state law regarding this matter.  <u>Recommendation:</u> The City should provide the required training to the employees it designates as the City's Investment officers.  <u>Auditee's Response:</u> The Auditee has designated two staff persons as investment officers to meet training requirements and will designate additional staff.  <u>Questioned Cost:</u> \$-0-</p>

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Section II – Financial Statement/Federal Awards Finding and Questioned Costs	Description
<p>06-12            Public Investment Act - Primary            Government – Noncompliance,            (Cont.)</p>	<p><b><u>D. Investment Management Reporting</u></b>  <b><u>Criteria:</u></b> 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.  <b><u>Statement of Condition:</u></b> The City's investment officer prepared all of the required quarterly reports in fiscal year 2006, except for the last quarter which was submitted in fiscal year 2007.  <b><u>Cause of Condition:</u></b> The City's Finance Department has not given enough priority to these reports.  <b><u>Effect of Condition:</u></b> The City did not comply on a timely basis with state law regarding this matter.  <b><u>Recommendation:</u></b> The City's investment officer should prepare and submit internal investment management reports, minimally, on a quarterly basis to the City Commission.  <b><u>Auditee's Response:</u></b> Quarterly reports were submitted after each respective quarter and will continue to be provided on a timely basis to the City Commission.  <b><u>Questioned Cost:</u></b> \$-0-</p>



CITY OF PHARR, TEXAS  
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
 FOR THE YEAR ENDED SEPTEMBER 30, 2006

Section II – Financial Statement/Federal Awards Findings and Questioned Costs	Description
<p>06-13            Accounting Policies and Procedures Manual – Pharr Economic Development Corporation, Inc. (PEDC)</p>	<p><b>Criteria:</b> Good internal controls require that PEDC have written accounting policies and procedures manual for the proper handling and recording of financial transactions by the Finance Department.  <b>Statement of Condition:</b> PEDC does not have a written policies and procedures manual.  <b>Cause of Condition:</b> PEDC has not given priority to establishing such a document.  <b>Effect of Condition:</b> there is no proper guidance for applicable PEDC personnel to follow in accounting for financial transactions.  <b>Recommendation:</b> PEDC should hire a consultant to help it establish 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.  <b>Auditee’s Response:</b> The Auditee’s proposed accounting policies and procedures will be provided to PEDC as a guide for accounting for their respective operations.  <b>Questioned Cost:</b> \$-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, 2006

Internal Control / Compliance	Description
05-1 <b>Accounting Policies and Procedures Manual – Primary Government</b>	<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><b><u>Corrective Action:</u></b> See current year's finding #06-1.</p>
05-2 <b>Purchasing – Primary Government</b>	<p><b><u>A. Purchasing Manual</u></b>            The City did not have a written purchasing manual to ensure compliance with state, federal, and legal requirements.</p> <p><b><u>Corrective Action:</u></b> See current year's finding #06-2A.</p> <p><b><u>B. Purchase Orders</u></b>            The City prepared purchase orders (P.O.) for certain purchases of goods, however P.O.'s were not prepared for services, construction contracts, or commitments via inter-local agreements. In many instances P.O.'s were prepared after the fact.</p> <p><b><u>Corrective Action:</u></b> See current year's finding #06-2B.</p>
05-3 <b>Finance Department – Primary Government</b>	<p><b><u>A. Training, Supervision, and Review:</u></b>            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 employee's work was reviewed.</p> <p><b><u>Corrective Action:</u></b> See current year's finding #06-3A.</p> <p><b><u>B. Professional Development</u></b>            The City does not have a formal program in place for the professional development of its accounting staff.</p> <p><b><u>Corrective Action:</u></b> See current year's finding #06-3B.</p>
05-4 <b>Fixed Assets–Primary Government</b>	<p><b><u>A. Capitalization Policies and Procedures</u></b>            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><b><u>Corrective Action:</u></b> See current year's finding #06-4A.</p> <p><b><u>B. Capitalization of Fixed Assets</u></b>            The City did not capitalize fixed assets purchased or constructed during the year on a timely basis</p> <p><b><u>Corrective Action:</u></b> See current year's finding #06-4B.</p> <p><b><u>C. Subsidiary Ledger</u></b>            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><b><u>Corrective Action:</u></b> See current year's finding #06-4C.</p>



CITY OF PHARR, TEXAS  
 SCHEDULE OF STATUS OF PRIOR AUDIT FINDINGS  
 FOR THE YEAR ENDED SEPTEMBER 30, 2006

Internal Control / Compliance	Description
<p>06-5  <b>Bank Reconciliations – Primary Government</b></p>	<p><b>A. Preparation of Bank Reconciliations</b></p> <p>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.</p> <p><b>Corrective Action:</b> See current year's finding #06-5A.</p> <p><b>B. Review of Bank Reconciliations</b></p> <p>There was no documentation to substantiate that supervisory reviews of bank reconciliations were performed.</p> <p><b>Corrective Action:</b> See current year's finding #06-5B.</p>
<p>05-6  <b>Collateralization of Deposits and Investments – Primary Government</b></p>	<p>There was no documentation to substantiate the 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, 2006. Documentation provided</p> <p><b>Corrective Action:</b> See current year's finding #06-6.</p>
<p>05-7  <b>Golf Course Inventories – Primary Government</b></p>	<p>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><b>Corrective Action:</b> See current year's finding #06-7.</p>
<p>05-8  <b>Golf Course Revenues - Primary Government</b></p>	<p><b>A. Accounting System</b></p> <p>The current Golf Course accounting system is ineffective and unreliable. 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><b>Corrective Action:</b> See current year's finding #06-8A.</p> <p><b>B. Policies and Procedures Manual</b></p> <p>The City does not have written accounting policies and procedures manuals for its Golf Course Operations.</p> <p><b>Corrective Action:</b> See current year's finding #06-8B</p>
<p>05-9  <b>Process to correct prior audit Findings – Primary Government</b></p>	<p>The City does not have a process in place to address and correct prior year's audit findings.</p> <p><b>Corrective Action:</b> See current year's finding #06-9.</p>

CITY OF PHARR, TEXAS  
 SCHEDULE OF STATUS OF PRIOR AUDIT FINDINGS  
 FOR THE YEAR ENDED SEPTEMBER 30, 2006

Internal Control / Compliance	Description
<p>05-10            Municipal Court - Primary Government</p>	<p><b>A. <u>Subsidiary Ledger</u></b>            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><b><u>Corrective Action:</u></b> See current year's finding #06-10A.</p> <p><b>B. <u>Policies and Procedures Manual</u></b>            The City does not have a written accounting policies and procedures manual for its municipal operations.</p> <p><b><u>Corrective Action:</u></b> See current year's finding #06-10B.</p> <p><b>C. <u>Training</u></b>            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><b><u>Corrective Action:</u></b> See current year's finding #06-10C.</p>
<p>05-11            Grants – Primary Government</p>	<p><b>A. <u>Administration</u></b>            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><b><u>Corrective Action:</u></b> See current year's finding #06-11A.</p> <p><b>B. <u>Grant Funds</u></b>            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><b><u>Corrective Action:</u></b> See current year's finding #06-11B.</p>
<p>05-12            Public Investment Act - Primary Government - Noncompliance</p>	<p><b>A. <u>Investment Policy</u></b>            The City has not updated its written investment policy that addresses the requirements of the Public Investments 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><b><u>Corrective Action:</u></b> See current year's finding #06-12A.</p>
	<p><b>B. <u>Investment Committee</u></b>            The Investment Committee was never activated.</p> <p><b><u>Corrective Action:</u></b> See current year's finding #06-12B</p> <p><b>C. <u>Investment Training</u></b>            Only one of the City investment officers has attended the required training sessions during the required time frame.</p> <p><b><u>Corrective Action:</u></b> See current year's finding #06-12B</p>

CITY OF PHARR, TEXAS  
SCHEDULE OF STATUS OF PRIOR AUDIT FINDINGS  
FOR THE YEAR ENDED SEPTEMBER 30, 2006

Internal Control / Compliance	Description
05-13 Accounting Policies and Procedures Manual – Pharr Economic Development Corporation, Inc. (PEDC)	PEDC does not have a written policies and procedures manual.  <b><u>Corrective Action:</u></b> See current year's finding #06-13.

**CITY OF PHARR, TEXAS**  
*CORRECTIVE ACTION PLAN*  
*FOR THE YEAR ENDED SEPTEMBER 30, 2006*



**CITY OF PHARR, TEXAS**

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED SEPTEMBER 30, 2006

EXHIBIT D-1

Federal Grantor/ Pass-Through Grantor/ Program Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
<u>U.S. DEPARTMENT OF THE TREASURY</u>			
Passed Through Direct Programs:			
Operation Task Force	21.00	106SA1599	\$ 39,391
Total U.S. DEPARTMENT OF THE TREASURY			<u>39,391</u>
<u>U.S. DEPARTMENT OF JUSTICE</u>			
Passed Through Passed Through Governor's Division of Criminal Justice:			
Juvenile Accountability Incentive Grant	16.523	JB-03-J20-18162-01	33,333
Passed Through Direct Programs:			
COPS In School	16.710	2002UMX0287	15,000
COPS In School	16.710	2003UMX0258	57,817
Total Passed Through Direct Programs			<u>72,817</u>
Passed Through Direct Program:			
Bulletproof Vest Partnership Program	16.607	2006BUBX0603042	11,625
Total U.S. DEPARTMENT OF JUSTICE			<u>117,775</u>
<u>U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPEMNT</u>			
Passed Through Direct Programs:			
Community Development Block Grant	14.218	B-04-MC-48-0507	508,010
Community Development Block Grant	14.218	B-05-MC-48-0507	768,367
Total Passed Through Direct Programs			<u>1,276,377</u>
Total U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPEMNT			<u>1,276,377</u>
<u>U.S. DEPARTMENT OF HOMELAND SECURITY</u>			
Passed Through Passed Through Governor's Division of Emergency Management:			
State Homeland Security Grant Program	97.004	2004SHSP-57200	8,693
State Homeland Security Grant Program	97.004	2005SHSP-57200	32,105
Total Passed Through Passed Through Governor's Division of Emergency Management			<u>40,797</u>
Total U.S. DEPARTMENT OF HOMELAND SECURITY			<u>40,797</u>
<u>NATIONAL TRAFFIC SAFETY ADMINISTRATION, DEPARTMENT OF TRANSPORTATION</u>			
Passed Through Passed Through State Department of Transportation:			
STEP - CI OT *	20.604	586XXF6180	5,320
STEP - Comprehensive Grant	20.605	586XXF6043	70,173
STEP - IDM	20.605	585XXF6181-02	6,163
Total Passed Through Passed Through State Department of Transportation			<u>81,655</u>
Total NATIONAL TRAFFIC SAFETY ADMINISTRATION, DEPARTMENT OF TRANSPORTATION			<u>81,655</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS			<u>\$ 1,555,995</u>

\* Indicates clustered program under OMB Circular A-133 Compliance Supplement

The accompanying notes are an integral part of this schedule.

**CITY OF PHARR, TEXAS**

*NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED SEPTEMBER 30, 2006*

Basis of Presentation

The accompanying schedule of expenditures of federal awards includes the federal grant activity of City Of Pharr, Texas and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, AUDITS OF STATES, LOCAL GOVERNMENTS, AND NON-PROFIT ORGANIZATIONS. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the general purpose financial statements.