



City of Pharr, TX



Comprehensive Annual Financial Report

Fiscal Year Ended September 30, 2012

Recipients of:



City of Pharr, TX

Comprehensive Annual Financial Report

For the Fiscal Year Ended
September 30, 2012

ELECTED OFFICIALS

Leo "Polo" Palacios, Jr. - Mayor

Adan Farias
Arturo J. Cortez
Aquiles Garza

Bobby Carrillo
Eduardo Cantu
Oscar Elizondo, Jr.

CITY MANAGER

Fred Sandoval

CHIEF FINANCIAL OFFICER

Juan G. Guerra, CPA

INDEPENDENT AUDITORS

Oscar R. Gonzalez, C.P.A. & Associates, P.L.L.C.
Certified Public Accountants

Prepared by:



CITY OF PHARR, TX

COMPREHENSIVE ANNUAL FINANCIAL REPORT
YEAR ENDED SEPTEMBER 30, 2012

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INTRODUCTORY SECTION



“Triple Crown City”



MAYOR
Leo “Polo” Palacios, Jr.

COMMISSIONERS
Arturo J. Cortez
Roberto “Bobby” Carrillo
Oscar Elizondo, Jr.
Eduardo “Eddie” Cantu
Aquiles “Jimmy” Garza
Adan Farias
CITY MANAGER
Fred Sandoval

February 5, 2013

To the Honorable Mayor, Members of the City Commission, and Citizens of the City of Pharr, Texas:

This report consists of management’s representations concerning the finances of the City. Consequently, management assumes full responsibility for the completeness and reliability of all of the information presented in this report. To provide a reasonable basis for making these representations, management of the City has established a comprehensive internal control framework that is designed both to protect the government’s assets from loss, theft, or misuse and to compile sufficient reliable information for the preparation of the City’s financial statements in conformity with Generally Accepted Accounting Principles (GAAP). Because the cost of internal controls should not outweigh their benefits, the City’s comprehensive framework of internal controls has been designed to provide reasonable rather than absolute assurance that the financial statements will be free from material misstatement. To the best of our knowledge and belief, the enclosed financial statements and schedules are accurate in all material respects and are reported in a manner designed to present fairly the financial position and results of operations of the various funds, account groups, and component units of Pharr, Texas.

The goal of the independent audit was to provide reasonable assurance that the financial statements of the City for the fiscal year ended September 30, 2012, are free of material misstatement. The independent audit involved examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; assessing the accounting principals used and significant estimates made by management; and evaluating the overall financial statement presentation. The independent auditor concluded, based upon the audit, that there was a reasonable basis for rendering an unqualified opinion that the City’s financial statements for the fiscal year ended September 30, 2012, are fairly presented in conformity with GAAP. The independent auditor’s report is presented as the first component of the financial section of this report.

GAAP require that management provide a narrative introduction, overview, and analysis to accompany the basic financial statements in the form of Management’s Discussion and Analysis (MD&A). This letter of transmittal is designed to complement MD&A and should be read in conjunction with it. The City’s MD&A can be found immediately following the report of the independent auditors.

The City provides a full range of services. Some of these services include police and fire protection; sanitation service; maintenance of streets and infrastructure; and recreational activities. In addition, the City provides water and wastewater services, a system of municipal parks, and a golf course.

On November 10, 2008 via ordinance O-2008-49, the PEDC 4B was approved by citizen vote and ratified by the City Commission to receive ½ percent (the City receives 1 ½ percent) of sales tax. City management has included PEDC 4B in its financial reports as a blended component unit since the City appoints all board members, can remove board members at will, and must approve PEDC’s budget and plan of work. The City is also a guarantor for debt that is collateralized by PEDC 4B funds. City management has also included PPFC # 1 in its financial statements as a blended component unit under same criteria followed for PEDC 4B.

PROFILE OF THE GOVERNMENT

Located on lands originally known in the 1600's as the Seno Mejicano, the City of Pharr was founded in 1909. During a period of great social and economic transition in the Rio Grande Valley. In 1909, John C. Kelly, Henry N. Pharr, W.E. Cage, and R.E. Briggs formed the Pharr Townsite Company, platting and registering the new town. Kelly donated lots in the original plat for early churches, including the Methodist, Baptist, Catholic, Episcopal, and Presbyterian denominations. Pharr schools began in 1911, and the community later joined with San Juan and Alamo to create the Pharr-San Juan-and Alamo School District. The City founders were also involved with the Louisiana - Rio Grande Canal Co., organized in 1910 to furnish irrigation and domestic water to 40,000 acres in the Pharr area by means of a Rio Grande Pumping Plant. The water system led the economy to shift from ranching to crop production, and the Railroad, which came through the area in 1905 made it possible to ship the produce around the country. Amidst the explosive growth caused by the introduction of irrigation, the coming of the railroad, and the Mexican Revolution, the City incorporated in 1916, and became a hub for the confluence of Tejano, Anglo and Mejicano influences in the region. Centrally located, Pharr played a key role as the agricultural frontier pushed into the brush and cattle country in the early 1900's to form a new fertile land dubbed the "Magic Valley". As water from the Rio Grande was being diverted for irrigation, Pharr served as headquarters for the Louisiana-Rio Grande Canal Company owned and operated by the Pharr co founders John C. Kelly and Henry N. Pharr. The company built the historic Hidalgo Pumphouse that initially irrigated 40,000 acres of land known as Pharr-Kelly tract.

Pharr, served by two state highways and the St. Louis, Brownsville and Mexico Railway Company, became a hub and a natural shipping center for the transportation and produce industries. By the early 1950's, Pharr was home to 22 processing and shipping businesses including the Valley Fruit and Vegetable Company, the largest packing facility in the world. Pharr is situated along a 43-mile corridor, U.S Business 83, once known as the longest Main Street in America. The City's image as the Hub City was firmly established when the Texas Highway Department chose Pharr as its District 21 Headquarters in 1932. The 13,869 Sq mile district is composed of Ten counties and is larger than the District of Columbia, Delaware, Connecticut and Massachusetts combined. Since the early days, Pharr sat at the cross-roads of the two most important highways in the Valley: Highways 4 and 66, known today as Memorial Highway U.S 281 and U.S Business 83 respectively. They intersect Pharr's historical Main Street District and are the basis for Hidalgo County's historical trails, making Pharr the region's historical hub as well. Pharr is also a center for international trade. The City boasts of the largest International Bridge in the world and is the gateway to Latin America along U.S 281. Pharr will be the terminus for Interstate Highway 69, NAFTA Corridor, linking Mexico, United States and Canada. In 2006, the city of Pharr was awarded the title of All American City.

The municipal government provided by the Charter of the City of Pharr is known as the Board of Commissioners – City Manager Form of Government. The Board of Commissioners consists of a Mayor and six (6) Commissioners which enact local legislation, adopt budgets, determine policies, and appoint the City Manager, who is held responsible to the Board of Commissioners for the execution of the laws and the administration of the government of the City. All powers of the City are exercised in the manner prescribed by the City Charter, or, if the manner be not prescribed, then in such manner as may be prescribed by ordinance, the State Constitution, or by the statutes of the State of Texas. The Mayor and the other members of the Board of Commissioners are elected by the City at large for a term of four (4) years.

ECONOMIC CONDITION AND OUTLOOK

Pharr is strategically located in the middle of the Rio Grande Valley of South Texas, only minutes from the Mexico border. Today with a healthy economy and steady growth, Pharr is the hub of transportation for the region and a major gateway for NAFTA-oriented businesses. It is strategically located to reap the benefits of explosive growth in commerce and trade. The Pharr area offers a top-quality workforce on both sides of the border. Many visitors enjoy the diversity of Pharr's culture, business and people with its variety and retail outlets, residential neighborhoods and cultural events – Pharr's rich heritage is unwavering. The spirit of tradition and a strong sense of community are flourishing in Pharr.

Over the last 10 years, Pharr has experienced unprecedented growth and economic development, and increase of over 50% in sales tax collections. Its population has steadily increased to over 70,000 people. The housing industry has slowed but is still increasing, businesses continue to look at Pharr and the Pharr-Reynosa International Bridge traffic is still producing positive changes in net position. The sales tax base has shown good signs of reversing its negative trend and is expected to continue to have a positive outcome in the upcoming year, thereby potentially creating more jobs. The economic future looks bright for Pharr. A few of the upcoming projects include

- Major commercial development projects
- Healthcare area
- Additional industrial warehouses
- Redevelopment of local mall

MAJOR INITIATIVES

The City Commission and staff have identified several initiatives to address significant issues in our community. The budget for the upcoming fiscal year reflects these goals. These programs are briefly described below:

Major tax activity: Well-managed economic growth is vital to any city. It increases the tax base and thereby allows improved services to be provided to the citizens.

Property Tax: Tax year 2012, which will be in effect during next fiscal year, is expected to see a minor increase in tax appraisals that will provide the City with levies slightly less than this fiscal year. A strong indicator of the City's fiscal health is the ability to keep the same tax rate as tax year 2010 and 2011 during the national economic slow-down.

Sales Tax: Sales tax revenue is used by the City as an economic indicator. This fiscal year, sales tax revenues were budgeted at a 20% increase from the estimated actual of last fiscal year's sales tax collections. The City has experienced positive sales tax revenue growth in 29 out of the last 31 months.

Fully Fund Reserves: During the annual audit ending September 30, 2007, the General Fund was identified as having a negative \$6.4 million unreserved fund balance. This major deficiency was in need of immediate attention and an action plan to correct it was approved by the City Commission September 16, 2008. One of the main corrective actions was to separate the contingency funding from the General Fund into an identifiable emergency-type account, in order to force the funding of the unreserved fund balance. Another corrective action was to strive to provide funding in addition to the contingency funds to speed up the reversal of the negative balance. Both of these major steps in the corrective plan are in place this fiscal year. The fund balance is fully funded to three months of operating expenditures as of September 30, 2012. Also, the Bridge Fund reserve fund, which consists of one full year of operating expenses and one full year of the highest debt service balance, has also been fully funded as of September 30, 2012.

Public Safety: Ensuring that the public safety personnel have the tools that they need to ensure the safety of the City is always a priority to the Commissioner's and management. Last fiscal year, a long term lease was entered into to assist in providing much needed assets to the Police and Fire personnel, this fiscal year, and several grants were awarded to assist in paying for new public safety personnel and equipment.

The Police Department along with the Bridge administrators collectively with federal border security organizations began a southbound inspection station, a first of its kind in south Texas. The purpose is to slow the flow of stolen vehicles and weapons into Mexico.

The Fire Department is in need of an administration building. Several grant applications have been submitted to assist in paying for the building. We are still waiting on a response concerning this assistant.

Public Works: The cost of infrastructure continues to rise while the need for the projects continues to be a priority. A new fund was created this fiscal year to monitor the Paving and Drainage Assessment that are applied to every utility bill to assist in maintaining and developing new streets within the City. The assessment provides an additional \$700,000 annually for that purpose. An example of this fund's benefit is that the school district in Pharr is building two new schools, these funds will be used to assist in paying for the development of streets leading to the schools.

Utility Infrastructure: The utility capital projects expenditures for the upcoming fiscal year are budgeted at \$4,500,000. Prior year's net revenues/fund balance will be used upalmost in its entirety. For this fiscal year, there are four utility capital projects; Wastewater treatment plant, Water treatment plant, LBJ water tower rehab and Southside waste water

International Trade: The City of Pharr owns an international bridge that allows the City to have a generous revenue source as a direct result of the North American Free Trade Agreement (NAFTA). The majority of the bridge traffic is from commercial vehicles. Although several international bridges are being built in surrounding communities, the City's continuous flow of commercial traffic is expected to continue at a prosperous rate.

FINANCIAL INFORMATION

BUDGETARY CONTROLS: The City of Pharr maintains a system of budgetary controls, the objective of which is to ensure compliance with the legal provisions of the annual appropriated budget approved by the City Commission. The adopted Annual Budget is the basic budget document. It governs all expenditures within a certain fiscal year, which runs from October 1 to September 30. The City Charter states that between sixty (60) and ninety (90) days prior to the end of the fiscal year, the City Manager is required to submit to the Board of Commissioners a proposed operating budget for the fiscal year commencing the following October 1. Furthermore, the Charter requires that the budgeted expenditures for governmental funds not exceed estimated resources and requires that public hearings be held prior to the adoption of the budget. Directors are expected to review their budgets on a monthly basis. The Finance Director will periodically review the budget and inform the Director and/or management of its status. A complete summary of significant accounting policies and budgetary principles is presented in the notes to the financial statements.

FUND ACCOUNTING: In accordance with generally accepted accounting principles, the City of Pharr uses a fund accounting system. Fund accounting is designed to ensure that public monies are spent for their intended purpose. Numerous funds are necessary due to legal, financial or operating constraints. Each fund is a separate fiscal entity with a self-balancing set of accounting books. In the financial section of the comprehensive annual financial report, each fund type used by the City of Pharr is defined immediately prior to that fund's financial statements.

GENERAL FUND UNRESERVED FUND BALANCE: The unreserved, undesignated fund balance of the General Fund are reflected in the table below.

	Fiscal Year (expressed in millions)		
	2011-12	2010-11	2009-10
Unreserved, Undesignated, Committed, Assigned, Unassigned General Fund, Fund Balance	\$ 9.8	\$ 13.9	\$ 14.9
Days Expenditure	89	133	191
Unassigned General Fund, Fund Balance	\$ 0.7	\$ -	\$ -
Days Expenditure	7	-	-

The total General Fund fund balance is \$30.6 million; the committed, assigned, and unassigned fund balance (comparable to prior year's unreserved fund balance) is \$9.8 million and is equal to 89 days of operating expenditures. This balance provides an adequate protection against unforeseen occurrences and significantly decreases the likelihood of the City entering the short-term debt market to pay for current operating expenditures. The City's General Fund is fiscally stable.

UTILITY FUND NET POSITION: The unreserved, available assets of the Utility Fund are reflected in the table below.

	<u>Fiscal Year (expressed in millions)</u>		
	<u>2011-12</u>	<u>2010-11</u>	<u>2009-10</u>
Unrestricted, Available Assets	\$ 7.5	\$ 4.6	\$ 1.5
Days Expense	390	239	98

GENERAL FUND FUND BALANCE POLICY: The City approved fiscal policies during every budget process. The fiscal policy as it relates to General Fund fund balance reserve/contingency account states: the City shall strive to maintain the General Fund undesignated/unreserved fund balance at 90 days of the current year's budget appropriation for operations and maintenance, which is defined as the total budget less capital outlay purchases and the annual transfers from the General Fund to the other funds. For fiscal year 2011-2012 that balance was \$8 million; this amount was fully funded and per City Commission action, is recognized as "Committed" in our financial statements. Concerning the use of committed fund balance, our policy states: committed fund balance shall be used only for emergencies, non-recurring expenditures, or major capital purchases that cannot be accommodated through current year savings. The use of these funds will be approved by the City Commission. Use of these funds will be disclosed to the Commission. If the required amounts go below the stated Policy amount, the City will set aside a sufficient portion of the upcoming fiscal year's budget to meet the required reserve amount. Any surpluses realized at year end shall be used first to meet reserve policies, then capital replacement purposes, then retirement/extinguishing of debt.

DEBT ADMINISTRATION: State law provides for and limits the issuance of debt. Furthermore, the amount of bonds issued or to be issued by the City, or on the City's behalf, shall at no time exceed ten percent of the value of property within the City that is subject to ad valorem tax.

General obligation bonds are backed by the full faith and credit of the City of Pharr and are used to finance permanent public improvements. They are repaid through an apportionment of the ad valorem tax. In December 2012, Fitch reaffirmed the rating of the City to "AA-".

CASH MANAGEMENT: All City operating funds are held in interest-bearing demand accounts in the depository bank. This money is protected by insurance from the Federal Deposit Insurance Corporation and by collateral interests in the depository's investment securities that are pledged against the City's deposits.

Cash not required for operations is invested according to the City's written investment policy. The policy emphasizes safety and liquidity in investing public funds. As of September 30, 2012, all of the City's funds were available within one day. Investments consisted of demand deposit accounts in our financial institution due to its interest floor of 2.02%, far greater than anything in the investment market.

RISK MANAGEMENT: The City continues to put high emphasis on safety concerns so as to lower workers' compensation claims. Risk management, particularly workers' compensation, is coordinated through the Human Resources Department. Insurance is provided by Texas Municipal League for general and asset insurance management.

OTHER INFORMATION

INDEPENDENT AUDIT: The City's financial statements have been audited by Oscar R. Gonzalez, CPA and Associates, P.L.L.C., a firm of a licensed certified public accountant and his degreed accounting staff. As a result of the audit, the City's financial statements have received an unqualified opinion. This indicates that there was no limitation on the scope of the auditor's examination, that the financial statements conform to generally accepted accounting principles and that the statements present fairly, in all material respects, the financial position of the City at September 30, 2012.

AWARDS: The Government Finance Officers Association of the United States and Canada (GFOA) has awarded the City a Certificate of Achievement for Excellence in Financial Reporting for its Comprehensive Annual Financial Report for the year ended September 30, 2011. This was the City's fourth consecutive year that the City has received this prestigious award. In order to be awarded a Certificate of Achievement, a government unit published an easily readable and efficiently organized comprehensive annual financial report. This report satisfied both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of only one year. We believe that our current comprehensive annual financial report continues to meet the Certificate of Achievement Program's requirements and we are submitting it to GFOA to determine its eligibility for another certificate.

In addition, the City also received the GFOA's Award for Distinguished Budget Presentation for its annual appropriated budget dated October 1, 2011. This was the City's fourth budget award from GFOA. The budget for October 1, 2012 has been submitted for review and notification of an award is awaited. In order to qualify for the Distinguished Budget Presentation Award, the City's budget document is judged on proficiency in several categories including policy documentation, financial planning and organization.

ACKNOWLEDGMENTS: The preparation of the City's fifth Comprehensive Annual Financial Report on a timely basis requires a great deal of cooperation. In recognition of that, the Finance Department gratefully acknowledges the leadership and support of the City Commission and City Manager. Furthermore, for their cooperation, the other departments within the City of Pharr have the Finance Department's appreciation. Also, the efforts of our external audit firm were invaluable.

Respectfully Submitted,


Fred Sandoval
City Manager

CURRENT CITY OFFICIALS

Elected Officials

Mayor	Leo “Polo” Palacios, Jr.
Mayor – Pro Tem	Adan Farias
Altemate Mayor – Pro Tem	Arturo J. Cortez
Commissioner	Bobby Carrillo
Commissioner	Eduardo Cantu
Commissioner	Oscar Elizondo, Jr.
Commissioner	Aquiles Garza

Appointed Officials

City Manager	Fred Sandoval
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Department Directors

City Clerk	Hilda Pedraza
Police Chief	Ruben Villescás
Fire Chief	Jaime Guzman
Director of Utilities/Assistant City Manager	David Garza
Chief Financial Officer	Juan G Guerra, CPA
Director of Parks & Recreation	Frank Marin
Library Director	Adolfo Garcia
Director of Planning & Zoning	Javier Rodriguez
Public Works Director	Roy Garcia
Director of Administrative Services	Raul Garza
Bridge Director	Jesse Medina

Certificate of Achievement for Excellence in Financial Reporting

Presented to

City of Pharr
Texas

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
September 30, 2011

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.



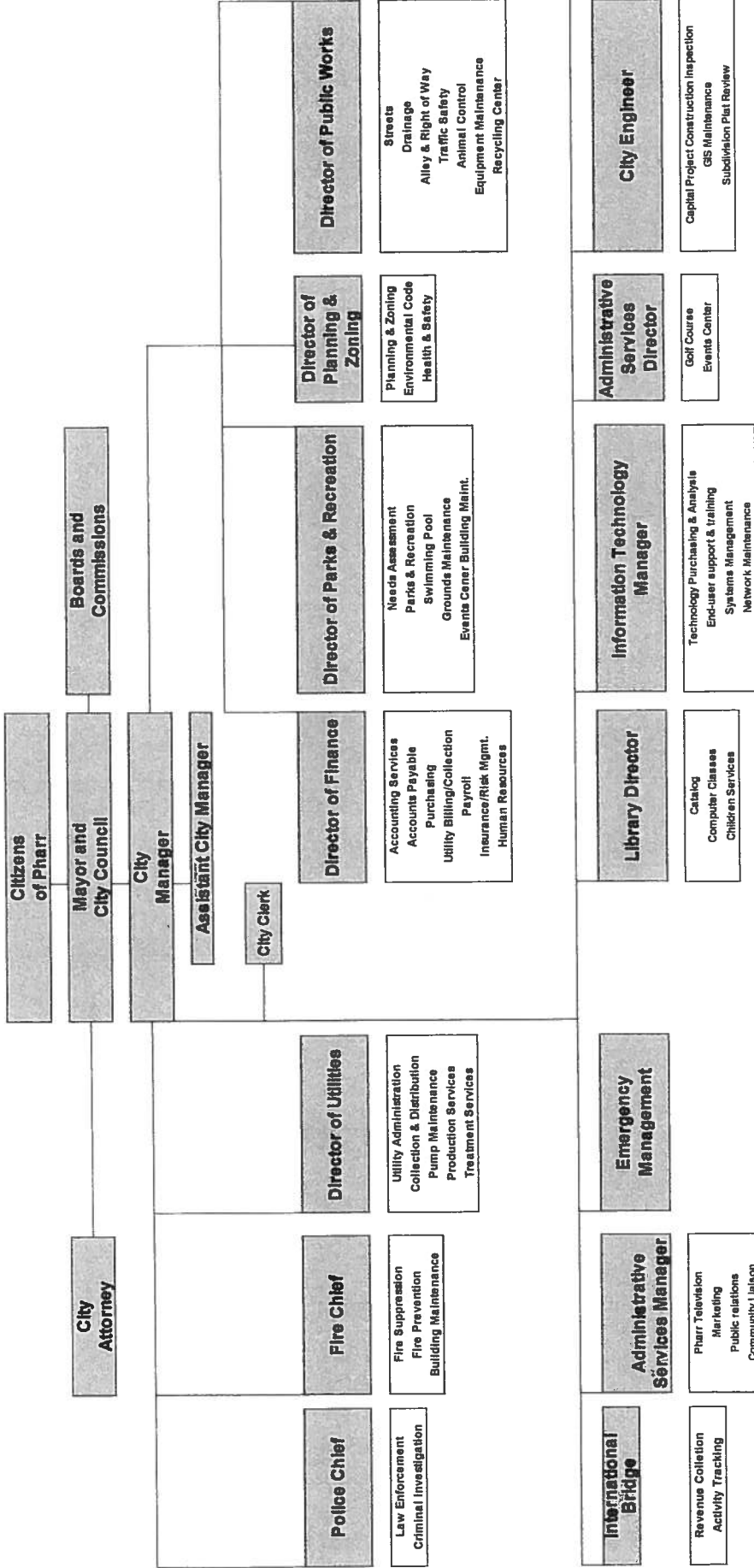
Christopher P. Morrell

President

Jeffrey R. Emer

Executive Director

ORGANIZATION CHART - CITY OF PHARR





FINANCIAL SECTION

Independent Auditor's Report

 *Oscar R. González, CPA*
&
Associates, P.L.L.C.
Certified Public Accountants

208 W. Ferguson Unit #1 • Pharr, Texas 78577

Tel: (956) 787-9909 • Fax: (956) 787-3067

Email: org110a@aol.com

Oscar R. González
Melissa González

INDEPENDENT AUDITOR'S REPORT

To the City Commissioners
City of Pharr, Texas

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of City of Pharr, Texas as of and for the year ended September 30, 2012, 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. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Pharr, Texas, as of September 30, 2012, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note IV. F. to the financial statements, the City adopted the provisions of GASB Statement No. 63, *Financial Reporting of Deferred Outflow of Resources, Deferred Inflow of Resources and Net Position* in 2012.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 31, 2013, on our consideration of the City of Pharr, Texas's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on 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 considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 3 through 9 and 67 through 70 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary

information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Pharr, Texas's financial statements as a whole. The introductory section, combining and individual nonmajor fund financial statements, and statistical section, are presented for purposes of additional analysis and are not a required part of the financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the financial statements. The combining and individual nonmajor fund financial statements and the schedule of expenditures of federal awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole. The introductory and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

Oscar R. Gonzalez CPA & Associates PLLC

Oscar R. Gonzalez, CPA & Associates, PLLC
Certified Public Accountants

Pharr, Texas

January 31, 2013

Management's Discussion & Analysis (MD&A)

Management's Discussion and Analysis

As management of the City of Pharr, Texas (the City), we offer readers of the City's financial statements this narrative overview and analysis of the financial activities of the City of Pharr for the fiscal year ended September 30, 2012.

FINANCIAL HIGHLIGHTS

- The assets of the City's governmental activities exceeded its liabilities at the close of the most recent fiscal year by over \$78.1 million (net position). Of this amount, over \$18.3 million (unrestricted net position) may be used to meet the government's ongoing obligations to citizens and creditors. This is an increase of more than \$1.5 million in unrestricted net assets, or 10%. The increase is mainly due to the Bridge funds transferring excess funds to the general fund for unrestricted purposes.
- At the end of the current fiscal year, spendable and non-restricted fund balance for all governmental funds decrease by \$3.4 million.
- The assets of the City's business-type activities exceeded its liabilities at the close of the most recent fiscal year by over \$107.2 million (net assets). Of this amount, over \$15.9 million (unrestricted net assets) may be used to meet the government's ongoing obligations to citizens and creditors, which is an increase of nearly \$.5 million, or more than .6%. The increase is due to the Utility Fund's change in net assets. The Utility fund routinely has positive change in net assets and will use the funds to reduce the amount of financing needed for capital projects.
- The General Fund assets exceeded its liabilities by over \$30.6 million (fund balance). Of this amount, \$748,274 (unassigned fund balance) may be used to meet the General Fund's ongoing obligations. This is a decrease of over \$5 million, or -89.0%. The decrease is due to the use of excess cash from last fiscal year to purchase land for economic development purposes which will be transferred to PEDC 4B next fiscal year.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis are intended to serve as an introduction to the City's basic financial statements. The City's basic financial statements comprise of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-Wide Financial Statements

The government-wide financial statements are designed to provide readers with a broad overview of the City's finances, in a manner similar to a private-sector business.

The Statement of Net Position presents information on all of the City's assets and liabilities as well as deferred outflow and inflow of resources, with the difference being reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The Statement of Activities presents information showing how the City's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

Both of the government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the City include services provided to the citizens for the basic health, safety, welfare, and administration of the City. Examples would include police and fire protection, animal control, streets, and parks and recreation. The business-type activities of the City which include the services provided to the citizens, the cost of which is recouped by user fees charged for the services. This includes water and wastewater services, bridge toll, and golf course fees to all residents and businesses.

Management's Discussion and Analysis

The government-wide financial statements include not only the City itself (known as the primary government), but also legally separate component units for which the City is financially accountable: the Pharr Economic Development Corporation II (blended component unit) and the Pharr Public Facilities Corporation No. 1 (blended component unit).

Fund Financial Statements

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City can be divided into four categories: governmental funds, proprietary funds, fiduciary funds, and discretely presented component units.

Governmental Funds

Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of resources that can be spent, as well as on balances of resources that can be spent available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental funds Balance Sheet and the governmental funds Statement of Revenues, Expenditures, and Changes in Fund Balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The City maintains four major (General, PEDC II, PPFC No. 1 and Capital projects) and six nonmajor governmental funds. Information for the major funds is presented separately in the governmental funds Balance Sheet and in the governmental funds Statement of Revenues, Expenditures, and Changes in Fund Balances for the General Fund, Capital Projects, PEDC4B and PPFC No. 1 fund, which are considered to be major funds due to its importance to the City. Data from the nonmajor governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these nonmajor funds is provided in the form of combining statements elsewhere in this report.

The City adopts an annual appropriated budget for the General, Asset Sharing, Community Development, Hotel/Motel, Parkland Dedication, Paving & Drainage, Grants, Capital Projects, and Debt Service governmental funds. A budgetary comparison statement has been provided for those funds to demonstrate compliance with this budget.

Proprietary Funds

The City maintains two different types of proprietary funds, enterprise funds and internal service funds. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The City uses enterprise funds to account for its water and wastewater operations, its bridge toll and golf course operations. Internal service funds are an accounting device used to accumulate and allocate costs internally among the City's various functions. The City uses internal service funds to account for its vehicle repair activities.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary funds financial statements provide separate information for the water and wastewater operations and its bridge toll and golf course operations. Conversely, internal service funds are combined into a single, aggregated presentation in the proprietary funds financial statements. Individual fund data for the internal service funds are provided in the form of combining statements elsewhere in this report.

The City adopts an annual appropriated budget for the Utility, Bridge, Golf, and Garage funds. A budgetary comparison statement has been provided for those funds to demonstrate compliance with this budget.

Management's Discussion and Analysis

Fiduciary Funds

Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the City's own programs. The accounting used for the fiduciary funds is much like that used for proprietary funds. The City has one fiduciary fund. The Retired Volunteer Firefighter's Pension Fund is an agency fund which accumulates resources for pension benefit payments to retired volunteer firefighters or their resulting widow; it is an agency account because there is no written legal trust. During this fiscal year, all assets of this agency fund were transferred to the Texas State Firefighters' Pension Commission for plan management.

Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

Other Information

The City's progress in funding its obligations to provide pension benefits to its employees can be found at the end of the notes to the financial statements.

In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning the result of activities comparing the budget versus actual.

The combining statements referred to earlier in connection with nonmajor governmental funds are presented immediately following the required supplementary information.

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the City, assets exceeded liabilities by over \$185.4 million at the close of the fiscal year.

The City's condensed Statement of Net Position along with last fiscal year's numbers is presented for comparison in the table is located below:

City of Pharr's Net Position						
Table 1 – Dollars in Millions	Governmental Activities		Business-Type Activities		Total	
	2012	2011	2012	2011	2012	2011
Assets						
Current and other assets	\$ 65.4	\$ 32.2	\$ 32.9	\$ 38.6	\$ 98.3	\$ 70.8
Capital assets	70.8	74.3	134.5	128.6	205.4	202.9
Total assets	<u>\$136.2</u>	<u>\$106.5</u>	<u>\$167.5</u>	<u>\$167.2</u>	<u>\$303.7</u>	<u>\$273.7</u>
Deferred Outflow of Resources*						
Deferred outflows	\$ 0.5	\$ -	\$ 0.8	\$ -	\$ 1.3	\$ -
Total deferred outflow of resources	<u>\$ 0.5</u>	<u>\$ -</u>	<u>\$ 0.8</u>	<u>\$ -</u>	<u>\$ 1.3</u>	<u>\$ -</u>
Total Assets and Deferred Outflow of Resources	<u>\$136.7</u>	<u>\$106.5</u>	<u>\$168.2</u>	<u>\$167.2</u>	<u>\$305.0</u>	<u>\$273.7</u>
Liabilities						
Long-term liabilities	\$47.7	\$20.1	\$53.6	\$55.0	\$101.4	\$75.1
Other liabilities	10.6	6.4	7.3	7.3	18.0	13.7
Total liabilities	<u>\$58.4</u>	<u>\$26.5</u>	<u>\$61.0</u>	<u>\$62.3</u>	<u>\$119.4</u>	<u>\$88.8</u>
Deferred Inflow of Resources*						
Deferred inflows	\$ 0.21	\$ -	\$ 0.03	\$ -	\$ 0.24	\$ -
Total deferred inflows of resources	<u>\$ 0.21</u>	<u>\$ -</u>	<u>\$ 0.03</u>	<u>\$ -</u>	<u>\$ 0.24</u>	<u>\$ -</u>
Total Liabilities and Deferred Inflow of Resources	<u>\$ 58.6</u>	<u>\$ 26.5</u>	<u>\$ 61.0</u>	<u>\$ 62.3</u>	<u>\$ 119.6</u>	<u>\$ 88.8</u>
Net Position						
Net Invested in capital assets, net of related debt	\$ 36.2	\$ 56.4	\$ 82.8	\$ 82.3	\$ 119.0	\$138.7
Restricted	23.7	7.1	8.5	10.2	32.2	17.3
Unrestricted	18.3	16.5	15.9	12.4	34.2	28.9
Total net position	<u>\$ 78.1</u>	<u>\$ 80.0</u>	<u>\$ 107.2</u>	<u>\$ 104.9</u>	<u>\$ 185.4</u>	<u>\$184.9</u>

* New GASB No. 63 and 65 implementation this year.

Management's Discussion and Analysis

By far the largest portion of the City's net position (\$119.0) reflects its investment in capital assets (e.g., land buildings, machinery, and equipment), less any related debt used to acquire those assets that is still outstanding. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City's investments in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

A portion of the City's net position, (\$32.2) million represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net position (\$34.2 million) may be used to meet the government's ongoing obligations to citizens and creditors.

At the end of the current fiscal year, the City is able to report positive balances in all three categories of net assets for the government as a whole. The same situation held true for the prior fiscal year.

The City's condensed Changes in Net Position along with last fiscal year's numbers are presented for comparison in the following table below:

City of Pharr's Changes in Net Position						
Table 2 – Dollars in Millions	Governmental Activities		Business-Type Activities		Total	
	2012	2011	2012	2011	2012	2011
Revenues						
Program Revenues:						
Charges for services	\$ 8.3	\$ 7.7	25.6	\$ 24.8	\$ 33.8	\$ 32.5
Operating grants and contributions	6.2	3.4	0.0	-	6.24	3.40
Capital grants and contributions	0.2	-	0.3	0.6	0.47	0.60
General Revenues:						
Property tax	15.2	15.0	-	-	15.20	15.00
Sales tax	12.8	11.8	-	-	12.80	11.80
Other taxes	2.1	2.8	-	-	2.10	2.80
Other	1.6	1.3	0.7	0.8	2.32	2.10
Total Revenues	46.3	42.0	26.7	26.2	72.97	68.2
Expenses:						
General governmental	16.3	10.9	-	-	16.3	10.9
Public safety	22.5	21.6	-	-	22.5	21.6
Streets	4.5	3.8	-	-	4.5	3.8
Health and welfare	2.7	2.7	-	-	2.7	2.7
Culture and recreation	4.1	3.2	-	-	4.1	3.2
Interest of debt service	1.3	0.7	-	-	1.3	0.7
Utility	-	-	11.8	10.4	11.8	10.4
Toll bridge	-	-	3.1	3.1	3.1	3.1
Tierra Del Sol Golf Course	-	-	1.2	1.2	1.2	1.2
Total Expenses	51.4	42.9	16.1	14.7	67.5	57.6
Excess of revenues over expenditures	(5.0)	(0.9)	10.6	11.5	5.5	10.6
Transfers	6.7	7.2	(6.7)	(7.2)	0.0	-
Net change in net position	1.7	6.3	3.9	4.3	5.5	10.6
Net position - beginning	80.0	77.7	104.9	99.7	185.0	177.4
Prior period adjustment	(3.6)	(4.0)	(1.6)	0.9	(5.1)	(3.1)
Net position - ending	\$ 78.1	\$ 80.0	\$ 107.2	\$ 104.9	\$ 185.4	\$ 184.9

Management's Discussion and Analysis

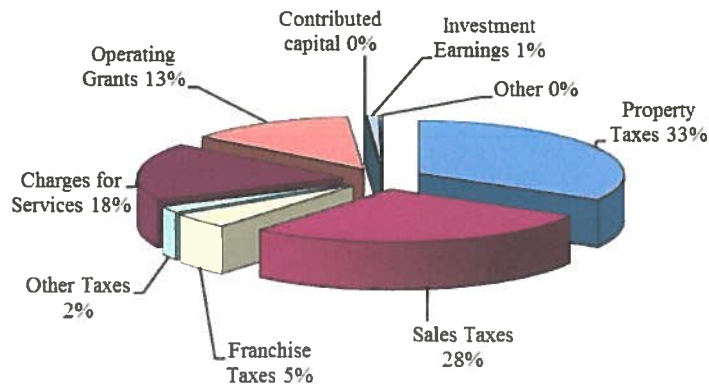
Governmental Activities

Governmental activities decreased the City's net position by \$1.9 million. The key change this fiscal year along with element of this decrease is described as follows:

- Net position decreased by \$1.9 million due to incentives and major land purchases.

The City's governmental activities' revenues source distribution is presented below.

Revenues by Source – Governmental Activities



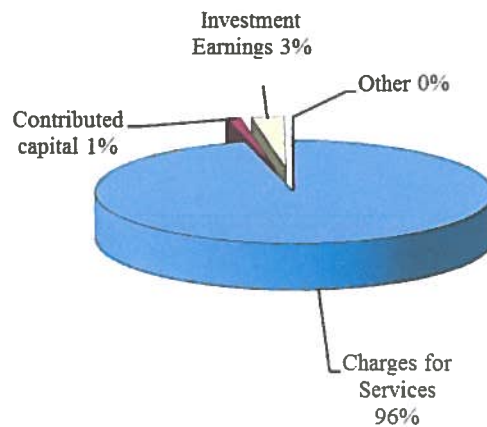
Business-Type Activities

Business-type activities increased the City's net position by over \$2.3 million. Key changes this fiscal year along with elements of this increase are described as follows:

- Utility Fund's charges for services increased by \$.8 million
- Utility Fund's Investment in Fixed Assets increased by \$5.2 million

The City's Business-Type activities' revenue source distribution is presented below.

Revenues by Source – Business-Type Activities



Management's Discussion and Analysis

GENERAL FUND BUDGETARY HIGHLIGHTS

The General Fund's net change in fund balance was roughly \$22.8 million more than budget. The operating revenues were \$1.5 million more than budget. The main reason for this increase was due to sales tax collections greater by \$664,534, sanitation and brush charges greater by \$152,119, licenses and permits fees greater by \$109,280 and other revenue greater by \$202,218. Expenditures were \$22 million less than budget; this is mainly because roughly \$17 million dollar worth of land was reclassified as part of the City's inventory in its balance sheet.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

The City of Pharr's investment in capital assets (net of accumulated depreciation) for its governmental and business-type activities amounts to \$205.3 million. This investment in capital assets includes land, buildings and system improvements, and machinery and equipment. The total increase in the City's investments in capital assets for the current fiscal year was \$2.4 million or 1%.

City of Pharr's Capital Assets
(Net of Depreciation)

Table 3- Dollars in millions

	Governmental		Business-Type		Total	
	Activities		Activities			
	2012	2011	2012	2011	2012	2011
Land	\$ 5.9	\$ 10.3	\$ 2.7	\$ 2.7	\$ 8.6	\$ 13.0
Building and system improvements	20.1	20.5	15.8	16.5	35.9	37.0
Other improvements	4.9	3.4	2.6	2.4	7.5	5.8
Machinery and equipment	7.5	6.3	4.7	5.1	12.2	11.4
Infrastructure	26.7	31.5	77.3	79.4	103.9	110.9
Construction in progress	5.7	2.3	31.5	22.5	37.2	24.8
	<u>\$ 70.8</u>	<u>\$ 74.3</u>	<u>\$ 134.5</u>	<u>\$ 128.6</u>	<u>\$ 205.3</u>	<u>\$ 202.9</u>

Additional information on the City's capital assets can be found in the Notes to the Financial Statements in this report under section *III-Detailed Notes on Funds and Component Units*, subsection *F-Capital Assets*.

Long-Term Debt

At the end of the current fiscal year, the City had total contractually obligated long-term debt of \$102.8 million. The details of the change in debt from last fiscal year are as indicated:

Table 4 - Dollars in millions (not including unamortized activity)

	2012	2011	Change
Governmental			
Bonds	\$ 14.3	\$ 15.7	\$ (1.4)
Certificates of obligation	7.6	-	7.6
Capital leases	3.4	2.7	0.7
Notes	21.6	-	21.6
	<u>46.9</u>	<u>18.4</u>	<u>28.5</u>
Business-Type			
Bonds	55.4	58.4	(3.0)
Notes	-	-	-
Capital leases	0.5	0.9	(0.4)
	<u>55.9</u>	<u>59.3</u>	<u>(3.4)</u>
Total	<u>\$ 102.8</u>	<u>\$ 77.7</u>	<u>\$ 25.1</u>

Management's Discussion and Analysis

Long-term debt for the Governmental activities increase by a net \$25.1 million. This increase was mainly due to the issuance of \$7.6 million C.O., a \$15 million promissory note and a total of \$6.5 million of loans for construction purposes and economic development.

Long-term debt for the Business-Type activities decreased by a net \$3.4 million. This decrease was due to the standard retirement of debt and a new capital lease debt.

Additional information on the City's long-term debt can be found in the Notes to the Financial Statements in this report under section *III-Detailed Notes on Funds and Component Units* subsection *G-Long-Term Obligations*.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

- The continue of improvement of bridge crossings which are currently trending upward for cars and trucks.
- Weather conditions for potential droughts which affect the utility rates and operations as during times of droughts more water is used which strains utility infrastructure.
- The rate of property tax collection for current and delinquent taxes which has allowed of continues year of positive collection growth.
- Owners of the retail shopping mall have shown interest in upgrading the area and allowing for an opportunity and development growth.
- The need for a new comprehensive plan has been identified and budgeted. This will allow for better management growth for the City.
- Industrial area located close to the international bridge continues to expand annually with a possibility of a new major development are catering to the bridge crossings.

All of these factors were considered in preparing the City's budget for the 2012-13 fiscal year.

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of the City's finances for all those with an interest in the City's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to City of Pharr, Office of the Finance Director, P.O. Box 1729, Pharr, TX 78577.



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BASIC FINANCIAL STATEMENTS

**CITY OF PHARR, TEXAS
STATEMENT OF NET POSITION
SEPTEMBER 30, 2012**

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
<u>ASSETS</u>			
Current assets:			
Cash	\$ 17,961,387	\$ 18,976,052	\$ 36,937,439
Receivables (net of allowance for uncollectible)	11,549,614	2,785,781	14,335,395
Prepaid items	7,500	-	7,500
Internal balances	161,489	(161,489)	-
Inventories	271,765	161,088	432,853
Land available for sale	20,717,246	-	20,717,246
Restricted assets:			
Cash	11,537,545	10,414,745	21,952,290
Cash with Fiscal Agent	881,966	731,096	1,613,062
Intergovernmental receivable	2,270,228	-	2,270,228
Total current assets	<u>65,358,740</u>	<u>32,907,273</u>	<u>98,266,013</u>
Capital assets (net of accumulated depreciation):			
Land	5,913,346	2,656,024	8,569,370
Buildings	20,044,133	15,798,332	35,842,465
Improvements other than buildings	4,926,107	2,595,787	7,521,894
Machinery and equipment	7,544,288	4,721,979	12,266,267
Infrastructure	26,686,271	77,255,969	103,942,240
Construction in progress	5,728,826	31,520,096	37,248,922
Total capital assets, net of accumulated	<u>70,842,971</u>	<u>134,548,187</u>	<u>205,391,158</u>
Total noncurrent assets	<u>70,842,971</u>	<u>134,548,187</u>	<u>205,391,158</u>
<u>DEFERRED OUTFLOW OF RESOURCES</u>			
Unamortized loss on refunding of debt	514,265	783,421	1,297,686
Total deferred outflow of resources	<u>514,265</u>	<u>783,421</u>	<u>1,297,686</u>
Total assets and deferred outflow of resources	<u>136,715,976</u>	<u>168,238,881</u>	<u>304,954,857</u>
<u>LIABILITIES</u>			
Current liabilities payable:			
Accounts payable and other current liabilities	4,803,227	1,926,259	6,729,486
Deferred revenue	1,084,698	39,185	1,123,883
Current portion debt payable	4,752,515	3,344,355	8,096,870
Liabilities from restricted assets	-	2,046,626	2,046,626
Total current liabilities payable	<u>10,640,440</u>	<u>7,356,425</u>	<u>17,996,865</u>
Noncurrent liabilities:			
Other post employment benefit	542,272	-	542,272
Due in more than one year, net	47,194,822	53,624,870	100,819,692
Total noncurrent liabilities	<u>47,737,094</u>	<u>53,624,870</u>	<u>101,361,964</u>
<u>DEFERRED INFLOW OF RESOURCES</u>			
Unamortized premium	207,384	31,866	239,250
Total deferred inflow of resources	<u>207,384</u>	<u>31,866</u>	<u>239,250</u>
Total liabilities and deferred inflow of resources	<u>58,584,918</u>	<u>61,013,161</u>	<u>119,598,079</u>
<u>NET POSITION</u>			
Net Invested in capital assets	36,204,739	82,756,825	118,961,564
Restricted for:			
Debt service	49,781	5,043,248	5,093,029
Capital projects	-	3,343,571	3,343,571
Economic development	19,138,744	141,976	19,280,720
Other	4,463,655	-	4,463,655
Unrestricted	18,274,139	15,940,100	34,214,239
Total net position	<u>\$ 78,131,058</u>	<u>\$ 107,225,720</u>	<u>\$ 185,356,778</u>

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

**CITY OF PHARR, TEXAS
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2012**

Functions/Programs	Net (Expense) Revenue and Changes in Net Position						
	Program Revenues			Primary Government			
	Expenses	Charges for Service	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total
Primary government:							
Governmental activities:							
General government	\$ 16,251,194	\$ 2,013,936	\$ 534,677	\$ -	\$ (13,702,581)	\$ -	\$ (13,702,581)
Public safety	22,427,011	1,179,843	3,258,108	-	(17,989,060)	-	(17,989,060)
Highways and streets	4,490,382	806,911	1,726,951	59,129	(1,897,391)	-	(1,897,391)
Health and welfare	2,698,673	3,584,977	2,293	-	888,597	-	888,597
Culture and recreation	4,133,352	664,939	698,866	-	(2,769,547)	-	(2,769,547)
Interest on long-term debt	1,292,651	-	-	-	(1,292,651)	-	(1,292,651)
Total governmental activities	51,293,263	8,250,606	6,220,895	59,129	(36,762,633)	-	(36,762,633)
Business-type activities:							
Utility	11,829,278	13,814,288	17,388	315,940	2,318,338	-	2,318,338
Toll Bridge	3,136,808	11,002,042	-	-	7,865,234	-	7,865,234
Tierra Del Sol Golf Course	1,109,627	775,955	-	-	(333,672)	-	(333,672)
Total business-type activities	16,075,713	25,592,285	17,388	315,940	9,849,900	-	9,849,900
Total primary government	\$ 67,368,976	\$ 33,842,891	\$ 6,238,283	\$ 375,069	\$ (36,762,633)	\$ 9,849,900	\$ (26,912,733)
General revenues:							
Property taxes					15,220,659	-	15,220,659
Sales taxes					12,801,485	-	12,801,485
Franchise taxes					2,232,328	-	2,232,328
Other taxes					940,137	-	940,137
Investment earnings					415,099	705,367	1,120,466
Gain on sale of assets					107,888	-	107,888
Other					-	21,998	21,998
Transfers					6,702,482	(6,702,482)	-
Total general revenues and transfers					38,420,078	(5,975,117)	32,444,961
Change in net position					1,657,445	3,874,783	5,532,228
Net position - beginning					80,029,763	104,930,610	184,960,373
Prior period adjustment					(3,556,150)	(1,579,673)	(5,135,823)
Net position - ending					78,131,058	107,225,720	185,356,778

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



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**CITY OF PHARR, TEXAS
BALANCE SHEET
GOVERNMENTAL FUNDS
SEPTEMBER 30, 2012**

	General	Capital Projects Fund	Pharr Public Facilities Corporation # I	Pharr		Non-Major Governmental	Total Governmental
				Economic Development Corporation II			
Cash	\$ 10,533,615	\$ 16,357,314	\$ 50,004	\$ 727,349	\$ 1,733,770	\$ 29,402,052	
Receivables (net of allowance for uncollectible):							
Property taxes	1,621,673	-	-	-	212,918	1,834,591	
Warrants	6,017,758	-	-	-	-	6,017,758	
Sales tax	1,592,678	-	-	526,376	-	2,119,054	
Notes	-	-	-	146,865	58,448	205,313	
Accounts	627,376	-	-	-	109,205	736,581	
Other	455,533	-	-	5,470	175,314	636,317	
Prepaid items	-	-	-	7,500	-	7,500	
Inventories	260,537	-	-	-	-	260,537	
Land available for sale	17,682,483	-	-	3,034,762	-	20,717,245	
Due from other funds	3,663,522	-	-	25,000	530	3,689,052	
Restricted assets:							
Cash	-	-	-	62,185	-	62,185	
Cash with Fiscal Agent	731,966	-	-	-	150,000	881,966	
Intergovernmental receivable	-	1,658,319	-	-	611,909	2,270,228	
Total assets	\$ 43,187,141	\$ 18,015,633	\$ 50,004	\$ 4,535,507	\$ 3,052,094	\$ 68,840,379	

ASSETS AND DEFERRED OUTFLOW OF RESOURCES

LIABILITIES, DEFERRED INFLOWS, OF RESOURCES AND FUND BALANCE

Liabilities:						
Accounts payable	\$ 3,219,584	\$ 859,089	\$ -	\$ 43,456	\$ 441,622	\$ 4,563,751
Accrued liabilities	-	-	-	5,563	-	5,563
Due to other governments	-	-	-	-	42,700	42,700
Due to other funds	25,000	-	-	2,845,108	651,130	3,521,238
Escrow accounts	1,013,650	-	-	-	-	1,013,650
Total liabilities	4,258,234	859,089	-	2,894,127	1,135,452	9,146,902
Deferred Inflows of Resources:						
Deferred property tax	1,621,673	-	-	-	212,918	1,834,591
Deferred accounts	627,376	-	-	-	109,205	736,581
Deferred warrants	6,017,758	-	-	-	-	6,017,758
Deferred revenue	61,262	-	-	146,865	71,048	279,175
Total deferred inflow of resources	8,328,069	-	-	146,865	393,171	8,868,105

	General	Capital Projects Fund	Pharr Public Facilities Corporation # 1	Economic Development Corporation 4B	Non-Major Governmental	Total Governmental
Fund balances:						
Nonspendable:						
Inventory	260,537	-	-	3,034,762	-	3,295,299
Noncurrent advances	2,863,930	-	-	-	-	2,863,930
Restricted:						
Debt service	-	-	-	-	19,692	19,692
Street paving and drainage	-	-	-	-	85,134	85,134
Public safety	-	-	-	-	1,242,133	1,242,133
Community development	-	-	-	-	11,921	11,921
Economic development	17,682,483	-	50,004	-	-	17,732,487
Committed:						
Contingency	8,313,648	-	-	-	-	8,313,648
Assigned:						
Capital outlay	731,966	17,156,544	-	235,122	-	18,123,632
Unassigned:	748,274	-	-	(1,775,369)	164,591	(862,504)
Total fund balances	30,600,838	17,156,544	50,004	1,494,515	1,523,471	50,825,372
Total liabilities, deferred inflows of resources and fund balances	\$ 43,187,141	\$ 18,015,633	\$ 50,004	\$ 4,535,507	\$ 3,052,094	\$ 68,840,379

CITY OF PHARR, TEXAS
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET POSITION
FOR THE YEAR ENDED SEPTEMBER 30, 2012

Amounts reported for governmental activities in the statement of net position are different because:

Total fund balances - governmental funds balance sheet	\$	50,825,372
(1) When capital assets that are to be used in governmental activities are purchased, the cost of those assets are reported as expenditures in governmental funds. However, the statement of net asset includes those capital assets among the assets of the city as a whole	Cost of capital assets Accumulated depreciation	132,204,092 <u>(61,890,090)</u> 70,314,002
(2) Internal service funds are used by management to charge the costs of fleet management and workman's compensation to individual funds. 100% of the assets is allocated to governmental activities. The assets and liabilities of these internal service funds are included in governmental activities in the statement of net assets	Garage	<u>528,967</u> 528,967
(3) Long-term liabilities applicable to the city's governmental activities are not due in the current period and accordingly are not reported as fund liabilities. All liabilities, both current and long-term, are reported in the statement of net assets	Bonds/Certificates/Notes Current Long-term Capital leases Current Long-term Unamortized loss -Deferred outflow Unamortized debt activity	(2,703,713) (40,793,583) (1,170,097) (2,234,444) 514,265 <u>(207,384)</u> (46,594,956)
(4) Because some property tax will not be collected for several months after the city's fiscal year ends, they are not considered as "available" revenues in the governmental funds and are considered deferred in governmental funds	Tax receivable Allowance	2,600,954 <u>(766,363)</u> 1,834,591
(5) Because some sanitation, brush, and paving fees will not be collected for several months after the city's fiscal year ends, they are not considered as "available" revenues in the governmental funds and are considered deferred in governmental funds	Sanitation Brush & Debris Paving Library Alarm permits	450,456 176,920 109,205 36,718 <u>24,546</u> 797,845
(6) Interest expense in the statement of activities differs from the amount reported in governmental funds due to accrued interest calculated for bonds and notes payable	Bonds Certificates Notes	(74,372) (35,186) <u>(73,272)</u> (182,830)

CITY OF PHARR, TEXAS
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET POSITION
FOR THE YEAR ENDED SEPTEMBER 30, 2012

(7)	Certain accrued obligations not normally expected to be liquidated with expendable available financial resources unless they are due for payment in the current period. The difference in compensated absences from last year to this year is recorded in the statement of activities	Current Long-term	(871,993) <u>(4,142,293)</u>	(5,014,286)
(8)	Because some warrants will not be collected for some time after the city's fiscal year ends, they are not considered as "available" revenues in the governmental funds and are considered deferred in governmental funds	Warrants receivable Allowance	9,805,932 <u>(3,788,174)</u>	6,017,758
(9)	Employers that participate in defined contribution OPEB plans are required to recognize OPEB liability for unpaid required contributions	OPEB Liability - Prior Years This fiscal year contribution This fiscal year trust fund contribution	(675,403) (178,355) 311,486	(542,272)
(10)	Because some EDC loan receivables will not be collected for some time after the city's fiscal year ends, they are not considered as "available" revenues in the governmental funds and are considered deferred in governmental funds.		146,865	146,865
	Rounding Difference			<u>2</u>
	Net position of governmental activities - statement of net position			<u>\$ 78,131,058</u>

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

CITY OF PHARR, TEXAS
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2012

	General	Capital Projects Fund	Pharr Public Facilities Corporation # 1	Pharr Economic Development Corporation II	Non-Major Governmental	Total Governmental
REVENUES						
Taxes:						
Property	\$ 13,644,916	\$ -	\$ -	\$ -	\$ 1,772,254	\$ 15,417,170
Sales	9,563,734	-	-	3,237,750	-	12,801,484
Franchise	2,232,328	-	-	-	-	2,232,328
Other	144,683	-	-	-	795,452	940,135
Licenses and permits	664,280	-	-	-	-	664,280
Intergovernmental	306,758	1,658,319	-	-	4,255,818	6,220,895
Fees and charges:						
Sanitation	2,478,021	-	-	-	-	2,478,021
Brush	1,062,898	-	-	-	-	1,062,898
Other	1,065,278	-	-	24,320	894,648	1,984,246
Fines	976,923	-	-	-	-	976,923
Special assessments	-	-	-	-	-	-
Interest income	313,206	-	4	35,048	66,840	415,098
Contributions and donations	-	-	-	-	-	-
Other	546,601	-	-	141,648	3,294	691,543
Total revenues	<u>32,999,626</u>	<u>1,658,319</u>	<u>4</u>	<u>3,438,766</u>	<u>7,788,306</u>	<u>45,885,021</u>
EXPENDITURES						
Current:						
General government	11,471,342	-	-	-	1,865,139	13,336,481
Public safety	19,914,640	-	-	-	2,143,683	22,058,323
Highways and streets	1,718,465	3,285,151	-	-	2,397,172	7,400,788
Health and welfare	2,651,313	-	-	-	2,293	2,653,606
Culture and recreation	3,689,390	1,726,068	-	-	108,392	5,523,850
Economic development	-	-	-	2,676,820	-	2,676,820
Debt service:						
Principal	844,626	-	-	-	1,742,914	2,587,540
Interest	73,204	-	305,947	-	776,555	1,155,706
Total expenditures	<u>40,362,980</u>	<u>5,011,219</u>	<u>305,947</u>	<u>2,676,820</u>	<u>9,036,148</u>	<u>57,393,114</u>
Excess (deficiency) of revenues over (under) expenditures	(7,363,354)	(3,352,900)	(305,943)	761,946	(1,247,842)	(11,508,093)
OTHER FINANCING SOURCES (USES)						
Transfers in	18,783,274	18,797,709	260,947	280,755	4,087,510	42,210,195
Transfers (out)	(11,452,540)	-	(14,905,000)	(3,151,721)	(5,998,452)	(35,507,713)
Proceeds from sale of assets	85,000	-	-	-	35,000	120,000
Issuance of debt	8,473,150	-	15,000,000	-	7,099,000	30,572,150
Total other financing sources and uses	<u>15,888,884</u>	<u>18,797,709</u>	<u>355,947</u>	<u>(2,870,966)</u>	<u>5,223,058</u>	<u>37,394,632</u>
Net change in fund balance	8,525,530	15,444,809	50,004	(2,109,020)	3,975,216	25,886,539
Fund balance - beginning	17,159,362	1,711,735	-	3,427,230	(2,419,957)	19,878,370
Prior period adjustment	4,915,946	-	-	176,305	(31,788)	5,060,463
Fund balance - ending	<u>\$ 30,600,838</u>	<u>\$ 17,156,544</u>	<u>\$ 50,004</u>	<u>\$ 1,494,515</u>	<u>\$ 1,523,471</u>	<u>\$ 50,825,372</u>

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

CITY OF PHARR, TEXAS
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND
BALANCE OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2012

Amounts reported for governmental activities in the statement of activities are different because:

	Net change in fund balances - total governmental funds	\$	25,886,539															
(1)	<p>Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period</p> <table border="0" style="width: 100%; margin-left: 20px;"> <tr> <td style="width: 60%;">Capital assets purchases</td> <td style="width: 10%; text-align: right;">8,904,674</td> <td style="width: 30%;"></td> </tr> <tr> <td>Depreciation expense</td> <td style="text-align: right;"><u>(4,447,506)</u></td> <td style="text-align: right;">4,457,168</td> </tr> </table>	Capital assets purchases	8,904,674		Depreciation expense	<u>(4,447,506)</u>	4,457,168											
Capital assets purchases	8,904,674																	
Depreciation expense	<u>(4,447,506)</u>	4,457,168																
(2)	<p>Governmental funds do not recognize developer contribution of land, roads, paving and draining as donation/contribution revenue nor as an increase in governmental expenditures. This is the net amount by which contributed capital increased the capital assets net or related debt of the city</p> <table border="0" style="width: 100%; margin-left: 20px;"> <tr> <td style="width: 60%;">Contributed capital - drainage</td> <td style="width: 10%; text-align: right;">11,290</td> <td style="width: 30%;"></td> </tr> <tr> <td>Contributed capital - streets</td> <td style="text-align: right;"><u>47,839</u></td> <td style="text-align: right;">59,129</td> </tr> </table>	Contributed capital - drainage	11,290		Contributed capital - streets	<u>47,839</u>	59,129											
Contributed capital - drainage	11,290																	
Contributed capital - streets	<u>47,839</u>	59,129																
(3)	<p>Internal service funds are used by management to charge the costs of fleet management and workman's compensation to individual funds. 100% is allocated to governmental activities. This is the net revenue of certain activities of internal service funds</p> <table border="0" style="width: 100%; margin-left: 20px;"> <tr> <td style="width: 60%;">Garage</td> <td style="width: 10%; text-align: right;"><u>(43,052)</u></td> <td style="width: 30%;"></td> </tr> </table>	Garage	<u>(43,052)</u>			(43,052)												
Garage	<u>(43,052)</u>																	
(4)	<p>Repayment of bond principal is reported as an expenditure in governmental funds. For the city as a whole, however, the principal payments reduce the liabilities in the statement of net assets and do not result in an expense in the statement of activities. The city's bonded debt was reduced in due to principal payments made to bondholder's and the amortization of the debt issuance cost, premium/discount, and gain or loss on refunding, which results in an increase to interest expenses. Also, any new debt issuances are recorded as other financial sources but not counted as revenue in governmental activities. This is the result of debt activity</p> <table border="0" style="width: 100%; margin-left: 20px;"> <tr> <td style="width: 60%;">New lease proceeds</td> <td style="width: 10%; text-align: right;">(22,947,150)</td> <td style="width: 30%;"></td> </tr> <tr> <td>Certificate of bonds proceeds</td> <td style="text-align: right;">(7,625,000)</td> <td></td> </tr> <tr> <td>Lease/Notes</td> <td style="text-align: right;">1,152,541</td> <td></td> </tr> <tr> <td>Tax Supported Debt, net of refunding</td> <td style="text-align: right;">1,435,000</td> <td></td> </tr> <tr> <td>Unamortized debt activity</td> <td style="text-align: right;"><u>(34,055)</u></td> <td style="text-align: right;">(28,018,664)</td> </tr> </table>	New lease proceeds	(22,947,150)		Certificate of bonds proceeds	(7,625,000)		Lease/Notes	1,152,541		Tax Supported Debt, net of refunding	1,435,000		Unamortized debt activity	<u>(34,055)</u>	(28,018,664)		
New lease proceeds	(22,947,150)																	
Certificate of bonds proceeds	(7,625,000)																	
Lease/Notes	1,152,541																	
Tax Supported Debt, net of refunding	1,435,000																	
Unamortized debt activity	<u>(34,055)</u>	(28,018,664)																
(5)	<p>Because some property tax will not be collected for several months after the city's fiscal year ends, they are not considered as "available" revenues in the governmental funds</p> <table border="0" style="width: 100%; margin-left: 20px;"> <tr> <td style="width: 60%;">Current tax</td> <td style="width: 10%; text-align: right;">805,126</td> <td style="width: 30%;"></td> </tr> <tr> <td>Delinquent tax</td> <td style="text-align: right;"><u>(1,001,638)</u></td> <td style="text-align: right;">(196,512)</td> </tr> </table>	Current tax	805,126		Delinquent tax	<u>(1,001,638)</u>	(196,512)											
Current tax	805,126																	
Delinquent tax	<u>(1,001,638)</u>	(196,512)																
(6)	<p>Because some sanitation and brush fees will not be collected for several months after the city's fiscal year ends, they are not considered as "available" revenues in the governmental funds</p> <table border="0" style="width: 100%; margin-left: 20px;"> <tr> <td style="width: 60%;">Garbage</td> <td style="width: 10%; text-align: right;">(12,851)</td> <td style="width: 30%;"></td> </tr> <tr> <td>Brush</td> <td style="text-align: right;">(5,036)</td> <td></td> </tr> <tr> <td>Paving</td> <td style="text-align: right;">1,802</td> <td></td> </tr> <tr> <td>Library</td> <td style="text-align: right;">36,717</td> <td></td> </tr> <tr> <td>Alarm Fees</td> <td style="text-align: right;"><u>24,545</u></td> <td style="text-align: right;">45,177</td> </tr> </table>	Garbage	(12,851)		Brush	(5,036)		Paving	1,802		Library	36,717		Alarm Fees	<u>24,545</u>	45,177		
Garbage	(12,851)																	
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CITY OF PHARR, TEXAS
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND
BALANCE OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES - Continued
FOR THE YEAR ENDED SEPTEMBER 30, 2012

(7)	Interest expense in the statement of activities differs from the amount reported in governmental funds due to accrued interest calculated for bonds and notes payable	Current year accrual Prior year accrual	(182,829) <u>79,939</u>	(102,890)
(8)	Certain accrued obligations not normally expected to be liquidated with expendable available financial resources unless they are due for payment in the current period. Compensated absences is recorded in the statement of assets	Current year Prior year	(5,014,286) <u>4,116,294</u>	(897,992)
(9)	Because some warrant fines will not be collected for some time after the city's fiscal year ends, they are not considered as "available" revenues in the governmental funds	Prior Year Warrant A/R Current Year Warrant A/R	(5,817,102) <u>6,017,758</u>	200,656
(10)	The proceeds from the sale of equipment are reported as revenue in the governmental funds. However, the cost sold is removed from the capital asset account in the statement of net assets and offset against the sale proceeds resulting in a "gain on sale of asset" in the statement of activities. Thus, more revenue is reported in governmental funds than the gain in the statement of activities	Sale proceeds Gain on Sale	(120,000) <u>107,888</u>	(12,112)
(11)	Employers that participate in defined contribution OPEB plans are required to recognize OPEB expense/expenditures for their net required contributions to the plan	OPEB Liability - This fiscal ye This fiscal year contribution Trust fund contributions	(853,758) 675,403 311,486	133,131
(12)	Loans issued to outside entities for Economic development are considered expenses governmental funds but not in the statement of activities.		146,865	146,865
	Rounding Difference		2	
	Change in net position of governmental activities		\$ 1,657,445	

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



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**CITY OF PHARR, TEXAS
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
SEPTEMBER 30, 2012**

	Business-type Enterprise Funds				Governmental Activities - Internal Service Fund
	Utility	Toll Bridge	Tierra Del Sol Golf Course	Total	
ASSETS					
Current assets:					
Cash	\$ 10,082,022	\$ 8,883,250	\$ 10,779	\$ 18,976,051	\$ 34,696
Investments	-	-	-	-	-
Receivables (net of allowance for uncollectible):					
Accounts	2,622,143	150,890	-	2,773,033	-
Other	2,894	-	9,854	12,748	-
	141,975	-	19,113	161,088	11,228
Inventories	10,119,499	295,246	-	10,414,745	-
Restricted assets:					
Cash	590,000	-	141,097	731,097	-
Cash with Fiscal Agent	-	-	-	-	-
Intergovernmental receivable	-	-	-	-	-
Total current assets	23,558,533	9,329,386	180,843	33,068,762	45,924
Capital assets (net of accumulated depreciation):					
Land	837,036	819,645	999,343	2,656,024	-
Buildings	13,727,169	1,731,319	339,844	15,798,332	451,817
Improvements other than buildings	475,173	178,677	1,941,937	2,595,787	69,464
Machinery and equipment	2,507,469	1,958,779	255,731	4,721,979	7,687
Infrastructure	62,796,955	14,388,474	70,540	77,255,969	-
Construction in progress	30,929,081	591,015	-	31,520,096	-
Total capital assets, net of accumulated depreciation	111,272,883	19,667,909	3,607,395	134,548,187	528,967
Total noncurrent assets	111,272,883	19,667,909	3,607,395	134,548,187	528,967
DEFERRED OUTFLOW OF RESOURCES					
Unamortized loss on refunding of debt	185,863	597,558	-	783,421	-
Total deferred outflow of resources	185,863	597,558	-	783,421	-
Total assets and deferred outflow of resources	\$ 135,017,279	\$ 29,594,853	\$ 3,788,238	\$ 168,400,370	\$ 574,891

	Business-type Enterprise Funds				Governmental Activities - Internal Service Fund
	Utility	Toll Bridge	Tierra Del Sol Golf Course	Total	
LIABILITIES					
Current liabilities payable:					
Accounts payable	\$ 1,605,885	\$ 138,833	\$ 16,056	\$ 1,760,774	\$ 8,384
Accrued liabilities	133,137	32,348	-	165,485	-
Due to other funds	107,538	35,462	18,489	161,489	6,325
Unearned revenue	-	-	39,185	39,185	-
Total current liabilities payable	1,846,560	206,643	73,730	2,126,933	14,709
Current liabilities payable from restricted assets:					
Customer deposits payable	2,027,926	-	-	2,027,926	-
Escrow payable	18,700	-	-	18,700	-
Matured accrued compensation	85,682	28,544	14,570	128,796	6,712
Matured capital lease	77,816	-	87,743	165,559	-
Matured bonds/notes, net	2,540,000	510,000	-	3,050,000	-
Total current liabilities payable from restricted assets	4,750,124	538,544	102,313	5,390,981	6,712
Total current liabilities	6,596,684	745,187	176,043	7,517,914	21,421
Noncurrent liabilities:					
Accrued compensation	647,004	170,794	101,064	918,862	24,503
Capital lease payable	153,877	-	217,131	371,008	-
Bonds/notes principal payable	46,670,000	5,665,000	-	52,335,000	-
Total noncurrent liabilities	47,470,881	5,835,794	318,195	53,624,870	24,503
DEFERRED INFLOW OF RESOURCES					
Unamortized premium	-	31,866	-	31,866	-
Total deferred inflow of resources	-	31,866	-	31,866	-
Total liabilities and deferred inflow of resources	54,067,565	6,612,847	494,238	61,174,650	45,924
NET POSITION					
Net Invested in capital assets	65,254,606	14,058,600	3,443,619	82,756,825	528,967
Restricted for:					
Debt service	4,748,001	295,247	-	5,043,248	-
Capital projects	3,343,571	-	-	3,343,571	-
Other	141,976	-	-	141,976	-
Unrestricted	7,461,560	8,628,159	(149,619)	15,940,100	-
Total net position	80,949,714	22,982,006	3,294,000	107,225,720	528,967

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

CITY OF PHARR, TEXAS
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
PROPRIETARY FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2012

	Business-type Enterprise Funds			Total	Governmental Activities - Internal Service Fund
	Utility	Toll Bridge	Tierra Del Sol Golf Course		
Operating revenues:					
Charges for sales and services:					
Water sales	\$ 7,611,132	\$ -	\$ -	\$ 7,611,132	\$ -
Sewer service	5,607,750	-	-	5,607,750	-
Tap fees	365,855	-	-	365,855	-
Toll fees	-	10,801,840	-	10,801,840	-
Golf services	-	-	675,270	675,270	-
Other	229,551	200,201	100,686	530,438	521,217
Total operating revenues	13,814,288	11,002,041	775,956	25,592,285	521,217
Operating expenses:					
Personnel services	2,567,936	804,645	455,422	3,828,003	156,783
Supplies and Materials	1,200,113	68,034	188,163	1,456,310	6,728
Contractual Services	3,211,085	943,261	221,489	4,375,835	371,755
Depreciation	3,281,811	836,456	238,727	4,356,994	29,003
Total operating expenses	10,260,945	2,652,396	1,103,801	14,017,142	564,269
Operating income (loss)	3,553,343	8,349,645	(327,845)	11,575,143	(43,052)
Nonoperating revenues (expenses):					
Investment earnings	451,085	250,698	3,586	705,369	-
Interest expense	(1,537,356)	(288,413)	(5,827)	(1,831,596)	-
Amortization expense	(30,977)	(196,000)	-	(226,977)	-
Intergovernmental	17,388	-	-	17,388	-
Other	(2,209)	396	23,811	21,998	-
Gain on sale of assets	-	-	-	-	-
Total nonoperating revenues (expenses)	(1,102,069)	(233,319)	21,570	(1,313,818)	-
Income before contributions and transfers	2,451,274	8,116,326	(306,275)	10,261,325	(43,052)
Transfers in	-	350,663	195,200	545,863	-
Transfers (out)	(361,620)	(6,856,725)	(30,000)	(7,248,345)	-
Capital contributions	315,940	-	-	315,940	-
Changes in net position	2,405,594	1,610,264	(141,075)	3,874,783	(43,052)
Total net position - beginning	79,872,651	21,728,755	3,329,204	104,930,610	548,765
Prior period adjustment	(1,328,531)	(357,013)	105,871	(1,579,673)	23,254
Total net position - ending	\$ 80,949,714	\$ 22,982,006	\$ 3,294,000	\$ 107,225,720	\$ 528,967

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



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**CITY OF PHARR, TEXAS
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2012**

	Business-type Enterprise Funds			Total	Governmental Activities - Internal Service Fund
	Utility	Toll Bridge	Tierra Del Sol Golf Course		
CASH FLOWS FROM OPERATING ACTIVITIES					
Receipts from customers	\$ 13,654,377	\$ 10,853,098	\$ 676,045	\$ 25,183,520	\$ 521,217
Payments to suppliers	(1,244,709)	(68,034)	(189,408)	(1,502,151)	(3,907)
Payments to employees	(2,580,840)	(830,850)	(469,179)	(3,880,869)	(154,404)
Payments for contractual services	(3,543,006)	(841,023)	(229,028)	(4,613,057)	(375,988)
Payments (to)/from others	219,793	200,201	100,686	520,680	-
Net cash flow (to)/from operating activities	6,505,615	9,313,392	(110,884)	15,708,123	(13,082)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES					
Receipts from grants	17,388	-	-	17,388	-
Advances (to)/from other funds	11,966	402,082	(3,991)	410,057	1,672
Transfers in from other funds	-	350,663	195,200	545,863	-
Transfers out to other funds	(361,620)	(6,856,725)	(30,000)	(7,248,345)	-
Net cash provided/(used) by noncapital and related financing activities	(332,266)	(6,103,980)	161,209	(6,275,037)	1,672
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES					
Acquisition and construction of capital assets	(9,476,639)	(530,127)	(245,934)	(10,252,700)	-
Principal paid on long-term debt	(2,494,523)	(1,073,059)	121,895	(3,445,687)	-
Interest paid on long-term debt	(1,542,139)	(291,062)	(5,827)	(1,839,028)	-
Other	(2,206)	395	23,809	21,998	-
Net cash provided/(used) by capital and related financing activities	(13,515,507)	(1,893,853)	(106,057)	(15,515,417)	-
CASH FLOWS FROM INVESTING ACTIVITIES					
Interest income received	451,084	250,698	3,586	705,368	-
Net cash provided/(used) by investing activities	451,084	250,698	3,586	705,368	-
Net increase/(decrease) in cash	(6,891,074)	1,566,257	(52,146)	(5,376,963)	(11,410)
Cash beginning of fiscal year	27,682,595	7,612,240	204,022	35,498,857	46,106
Cash end of fiscal year	\$ 20,791,521	\$ 9,178,497	\$ 151,876	\$ 30,121,894	\$ 34,696

	Business-type Enterprise Funds			Governmental Activities - Internal Service Fund	
	Utility	Toll Bridge	Tierra Del Sol Golf Course		Total
Operating income	\$ 3,553,343	\$ 8,349,647	\$ (327,845)	\$ 11,575,145	\$ (43,052)
Adjustments to reconcile operating income to net cash provided (used) by operating activities:					
Depreciation	3,281,811	836,456	238,727	4,356,994	29,003
(Increase) Decrease in Accounts and Other Receivables, net	(109,063)	51,257	(3,196)	(61,002)	2,821
(Increase) Decrease in Inventories	(44,597)	-	(1,245)	(45,842)	-
(Increase) Decrease in Other Assets	(331,921)	102,237	(7,539)	(237,223)	(4,234)
Increase (Decrease) in Accounts Payable	(12,903)	(26,205)	(13,757)	(52,865)	2,380
Increase (Decrease) in Deferred/Escrow Revenue	(9,758)	-	3,971	(5,787)	-
Increase (Decrease) in Customer Deposits	178,703	-	-	178,703	-
Increase (Decrease) in Other Liabilities	-	-	-	-	-
Total adjustments	2,952,272	963,745	216,961	4,132,978	29,970
Net cash provided by operating activities	\$ 6,505,615	\$ 9,313,392	\$ (110,884)	\$ 15,708,123	\$ (13,082)

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

CITY OF PHARR, TEXAS
STATEMENT OF FIDUCIARY NET POSITION
FIDUCIARY FUNDS
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2012

<u>ASSETS</u>	Retired Volunteer Firefighter's Pension Agency Fund
Cash	\$ -
Investments	-
Total assets	-
<u>LIABILITIES</u>	
Accounts payable	-
Total liabilities	-
<u>NET ASSETS</u>	
Held in trust for pension benefits and other purposes	\$ -

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

NOTES TO THE FINANCIAL STATEMENTS

City of Pharr, Texas
NOTES TO FINANCIAL STATEMENTS
September 30, 2012

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. General Statement

The City of Pharr, Texas (City) founded in 1909 and was incorporated as a general law city on February 22, 1916. The City charter was approved via election and adopted with an effective date of December 1, 1949. The charter established a City Manager form of government. The municipal government provided by the Charter of the City of Pharr shall be known as the Board of Commissioners. The Board of Commissioners shall consist of a Mayor and six (6) Commissioners and which shall enact local legislation, adopt budgets, determine policies, and appoint the City Manager, who is held responsible to the Board of Commissioners for the execution of the laws and the administration of the government of the City.

The general governmental functions include law enforcement, fire and other public safety activities, streets, sanitation, public improvements, public charities, parks and recreation, library services, zoning and general administrative services. Enterprise funds are used to account for the operations of its utility, bridge, and golf operations.

The accounting and reporting policies of the City relating to the funds included in the accompanying basic financial statements conform to accounting principles generally accepted in the United State of America applicable to state and local governments. Generally accepted accounting principles for local governments include those principles prescribed by the Governmental Accounting Standards Board (GASB), the American Institute of Certified Public Accountants in the publication entitled Audits of State and Local Governmental Units and by the Financial Accounting Standards Board (FASB), when applicable.

B. Financial Reporting Entity

The City's financial reporting entity comprises the following:

Primary Government: City of Pharr

The City's basic financial statements include the accounts of all City operations. The criteria for including organizations as component units with the City's reporting entity, as set forth in Section 2100 of GASB's Codification of Governmental Accounting and Financial Reporting Standards, include whether:

- the organization is legally separate (can sue and be sued in their own 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

Blended Component Unit

Blended component units are separate legal entities that meet the component unit criteria described above and whose governing body is the same or substantially the same as the City Commission or the component unit provides services entirely to the City. These component units' funds are blended into those of the City's by appropriate activity type to compose the primary government presentation.

The City has two blended component units, the Pharr Economic Development Corporation (PEDC) II, Inc. and Pharr Public Facilities Corporation No. 1. Information for these component units are stated below:

Pharr Economic Development Corporation II, Inc. – (PEDC) is a nonprofit industrial development corporation organized for the same purpose as the PEDC 4a but with the legal authority to use sales tax funds for a wider range of projects. Sales taxes are collected under Section 4B of the Development Corporation Act of 1979 for these purposes. Voted by the citizens of Pharr on November 4, 2008 and ratified by the City Commission on November 10, 2008 via ordinance O-2008-49, the PEDC 4a was dissolved and the PEDC was authorized to receive the sales tax revenues. The PEDC board is fully appointed by the City Board of Commissioners. The reason it is a blended component unit is because the City appoints all PEDC board members and can be removed them at will,

City of Pharr, Texas
NOTES TO FINANCIAL STATEMENTS
September 30, 2012

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (continued)

B. Financial Reporting Entity - (continued)

therefore, the PEDC board is substantially the same as the City governing body. Separate financial statements issued by the PEDC can be obtained by request at the following address:

PEDC
P.O. Box 1729
Pharr, TX 78577

Pharr Public Facilities Corporation No. 1- On September 6, 2011, with Resolution # R-2011-53, the City Commissioners created the Pharr Public Facilities Corporation #1 (PPFC#1). PPFC#1 is a separate entity with its own EIN, whose board consists of the same members of the City Commission. PPFC#1 was used for funding and purchase of land for economic development activities via a loan from Frost Bank of \$15,000,000. This loan has an interest rate of Wall Street Journal Prime plus 0, amortized over 20 years, but payable with a balloon payment at the 5th year. Separate financial statements issued by the PPFC # 1 can be obtained by request at the following address:

PPFC # 1
P.O. Box 1729
Pharr, TX 78577

Discretely Presented Component Unit

Discretely presented component units are separate legal entities that meet the component unit criteria described above but do not meet the criteria for blending. There are no discretely presented component units in the City of Pharr.

C. Government-Wide and Fund Financial Statements

The government-wide financial statements include the statement of net position and the statement of activities. These statements report information on all of the non-fiduciary financial information for the City and its component units. The primary government and component units are presented separately within the financial statements with the focus on the primary government. Eliminations have been made to minimize the double-counting of internal activities. Individual funds are not displayed but the statements distinguish governmental activities (generally supported by taxes and City general revenue) from business-type activities (generally financed in whole or in part with fees charged to external customers). The effect of interfund activity, within the governmental and business-type activities columns, has been removed from these statements.

The statement of activities demonstrates the degree to which the direct expenses of a given program are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or program. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given program and 2) operating or capital grants and contributions that are restricted to meeting the operations or capital requirements of a particular program. Taxes and other items not properly included among program revenues are reported instead as general revenues.

The fund financial statements provide reports on the financial condition and results of operations about the City's funds, with separate statements presented for each fund category. The emphasis of fund financial statements is on major governmental funds, each displayed in a separate column. All remaining governmental 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. Non-operating revenues, such as subsidies and investment earnings, result from non-exchange transactions or ancillary activities.

City of Pharr, Texas
NOTES TO FINANCIAL STATEMENTS
September 30, 2012

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (continued)

D. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The financial statements of the City are prepared in accordance with generally accepted accounting principles (GAAP). The City's reporting entity applies all relevant GASB pronouncements and applicable FASB pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, unless they conflict with GASB pronouncements. The City's reporting entity does not apply FASB pronouncements or APB opinions issued after November 30, 1989.

The government-wide statements and fund financial statements for proprietary funds are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund financial statements. The economic resources measurement focus means all assets and liabilities (whether current or non-current) are included on the statement of net assets and the operating statements present increase (revenues) and decrease (expenses) in net total assets. Under the accrual basis of accounting, revenues are recognized when earned, including unbilled water and sewer services which are accrued. Expenses are recognized at the time the liability is incurred. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and are accounted for using the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual; i.e., when they become both measurable and available. "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Expenditures are recorded when the related fund liability is incurred. However, debt service expenditures, as well as expenditures related to compensated absences are recorded only when payment is due.

The revenues susceptible to accrual are franchise fees, licenses, charges for service, and intergovernmental revenues. Sales taxes collected and held by the state at year-end on behalf of the government are also recognized as revenue. All other governmental fund revenues are recognized when received.

Operating income reported in proprietary fund financial statements includes revenues and expenses related to the primary, continuing operations of the fund. Principal operating revenues for proprietary funds are charges to customers for sales or services. Principal operating expenses are the costs of providing goods or services and include administrative expenses and depreciation of capital assets. Other revenues and expenses are classified as non-operating in the financial statements.

When both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first, then unrestricted resources as needed.

E. Fund Types and Major Funds

Governmental Funds

The City reports the following major governmental funds:

- *General Fund* – reports the primary fund of the City. This fund is used to account for all financial resources not reported in other funds. This FY 2011-2012, a fund previously reported as special revenue is now categorized as part of the General Fund for financial presentation purposes due to its fund revenue definition criteria.
- *Pharr Economic Development Corporation II*– is a nonprofit industrial development corporation organized for the purpose of promoting, assisting and enhancing economic development activities for the City.
- *Capital Projects*–reports the construction activity of the City. This fund is used to account for all construction projects not accounted in enterprise funds.
- *Pharr Public Facilities Corporation # 1*– is an independent entity organized for the purpose of funding the purchase of land for economic development.

City of Pharr, Texas
NOTES TO FINANCIAL STATEMENTS
September 30, 2012

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (continued)

E. Fund Types and Major Funds-(continued)

Proprietary Funds

The City reports the following major enterprise funds:

- *Utility Fund* – accounts for the provision of water and sewer services to the residents of the City.
- *Bridge Fund* – accounts for the operating function of the City’s international bridge with Mexico.

Other Fund Types

Additionally, the City reports internal service funds which are used to account for the financing of goods or services provided by one department to other departments within the City on a cost-reimbursement basis. These services include fleet management. These are proprietary funds that are reported with governmental activities in the government-wide financial statements because the majority of activity is for governmental activities. Direct expenses are not eliminated from the various functional categories, whereas indirect expenses are. Reimbursements are treated as a reduction of expenses.

The Retired Volunteer Firefighter’s Pension Fund is an agency fund (no legal trust exists) which accumulates resources for pension benefit payments to retired volunteer firefighter’s or their resulting widow.

F. Assets, Deferred Outflow of Resources, Liabilities, Deferred Inflow of Resources and Net Position or Equity

1. Cash and Investments

Cash of all funds, including restricted cash, are pooled into common pooled accounts in order to maximize investment opportunities. Each fund whose monies are deposited in the pooled cash accounts has equity therein, and interest earned on the investment of these monies is allocated based upon relative equity at month end. An individual fund’s pooled cash are available upon demand and are considered to be “cash equivalents” when preparing these financial statements. All investments are recorded at fair value based on quoted market prices. Fair value is the amount at which a financial instrument could be exchanged in a current transaction between willing parties.

2. Property Taxes

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

Taxable property includes real property and certain personal property situated in the City. Certain properties of religious, educational and charitable organizations, including the federal government and the State of Texas, are exempt from taxation. Additionally, there are other exemptions as noted below in arriving at the total assessed valuation of taxable property. The valuations are subject to County-wide revaluation every five years. The effective tax rate is based upon the previous year’s total assessed valuation.

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 included as part of the allowance for uncollectible; except for tax receivables over 20 years, the City is prohibited from writing off real property taxes without specific statutory authority from the Texas Legislature. The City does not write off tax receivable greater than 20 years.

City of Pharr, Texas
NOTES TO FINANCIAL STATEMENTS
September 30, 2012

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (continued)

F. Assets, Deferred Outflow of Resources, Liabilities, Deferred Inflow of Resources and Net Position or Equity- (continued)

3. Inventories

The inventories and are recorded at cost and are accounted for by the consumption method.

4. Receivables and Payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as "due to/from other funds". Any residual balances outstanding between the governmental activities and business-type activities are reported in the governmental-wide financial statements as "internal balances." All trade and property tax receivables are shown net of an allowance for uncollectibles.

5. Transactions between Funds

Legally authorized transfers are treated as interfund transfers and are included in the results of operations of both Governmental and Proprietary Funds.

6. Capital Assets

Capital assets, which include property, plant, and equipment, are reported in the applicable governmental or business-type activities columns in the government-wide financial statements and in the fund financial statements for proprietary funds. All capital assets are valued at historical cost or estimated historical cost if actual historical is not available. Donated assets are valued at their fair market value on the date donated. Repairs and maintenance are recorded as expenses. Renewals and betterments are capitalized. Interest has not been capitalized during the construction period on property, plant and equipment. Assets capitalized have an original cost of \$5,000 or more and over three years of useful life. Depreciation has been calculated on each class of depreciable property using the straight-line method. Estimated useful lives are as follows:

Buildings	50 Years
Infrastructure	30 Years
Improvements	20 Years
Water and Sewer System	30-50 Years
Machinery and Equipment	3-15 Years

7. Compensated Absences

The liability for compensated absences reported in the government-wide and proprietary fund statements consist of unpaid, accumulated annual and sick leave balances. The City's policy allows employees to accumulate unused sick leave and extra compensation time on an unlimited basis and vacation leave based on the number of years of full time employment with the City in accordance with the following chart:

Years of Employment	Pro-Rata Accrual Rate per Month
0-19 Years	10 hours (15 days per year)
20 & Over	13.33 hours (20 days per year)

Nonexempt employees may accumulate no more than a maximum of two years allotment of vacation leave as set above. Exempt employees can accumulate more than the maximum. Sick leave may be accrued but will not be paid out to employees that leave before retirement.

8. Long-Term Obligations

In the government-wide, proprietary and component unit financial statements, long-term debt and other long-term obligations are reported as liabilities. Bond premiums and discounts are deferred and amortized over the life of the bonds using the straight line method as the amount is immaterial against the effective interest method. Unamortized bond premium and discount and gain or loss on refunding are not netted against the liability but recorded in as deferred outflow/inflow of resources. Issuance cost is recorded as an expense for the period incurred and is no longer amortized over the life of the bond after implementing GASB Statement No. 65 and Statement No. 63. In the fund financial statements, long-term liabilities are not recorded in the governmental funds as the payment of the obligations will not be made by current financial resources. The governmental fund financial statements recognize the proceeds of debt as other financing resources.

City of Pharr, Texas
NOTES TO FINANCIAL STATEMENTS
September 30, 2012

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (continued)

F. Assets, Deferred Outflow of Resources, Liabilities, Deferred Inflow of Resources and Net Position or Equity- (continued)

9. Restricted Assets

The proceeds and required reserves of debt issuances are recorded as restricted assets as they are restricted for debt service and/or capital projects, payments and/or purchases.

10. Net Position / Fund Equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available or are legally restricted by outside parties for use for a specific purpose.

11. Estimates

The preparation of financial statements in accordance with generally accepted accounting principles requires the use of estimates by management.

12. General Fund's Fund Balance Policy

The City has adopted GASB 54 through a resolution as part of its fiscal year ending September 30, 2011. Implementation of GASB 54 is required of all cities for the fiscal year ending in 2011. The intention of the GASB is to provide a more structured classification of fund balance and to improve the usefulness of fund balance reporting to the users of the City's financial statements. The reporting standard establishes a hierarchy for fund balance classifications and the constraints imposed on the uses of those resources. GASB 54 provides for two major types of fund balances which are non-spendable and spendable.

Non-spendable fund balances are balances that cannot be spent because they are not expected to be converted to cash or they are legally or contractually required to remain intact. Examples of this classification are prepaid items, inventories, non-current advances to other funds that not expected to be collected in the next fiscal year, and the principal (corpus) of an endowment fund. The City has inventories that are considered non-spendable, an encumbrance, and a non-current advance to the PEDC II. The City does not have any prepaid items or non-spendable funds related to an endowment.

In addition to non-spendable fund balance, GASB 54 has provided a hierarchy of spendable fund balances, based on a hierarchy of spending constraints.

-Restricted: Fund balances that are constrained by external parties, constitutional provisions, or enabling legislation. All of the City's restricted funds are from Special Revenue Funds, whose funds are revenues legally restricted to expenditures for a particular purpose.

-Committed: Fund balances that contain self-imposed constraints of the government from its highest level of decision making authority. The responsibility to commit funds rests with the elected City Commissioners and Mayor through an approved resolution. Committed amounts cannot be used for any other purpose unless the governing board removes those constraints by taking the same type of formal action. The City formally approved the recording of its self-named "Contingency" fund balance as committed. The Contingency fund balance policy is as follows:

The City shall strive to maintain the General Fund (not the combined reporting General Fund which consists of the Payroll, Contingency, and the General funds) committed fund balance at 90 days (25%) of the current year's original budget appropriation for operations and maintenance, which is defined as the total budget less capital outlay purchase and the annual transfer from the General Fund to the other funds (Charter mandated contingency funding will not take place so long as the contingency fund is fully funded). For this fiscal year, the General Fund committed balance was over funded since the requirement to be funded was \$8,283,673 and the City's General fund balance was \$8,313,648 at September 30, 2012.

City of Pharr, Texas
NOTES TO FINANCIAL STATEMENTS
September 30, 2012

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (continued)

F. Assets, Deferred Outflow of Resources, Liabilities, Deferred Inflow of Resources and Net Position or Equity- (continued)

These funds shall be used only for emergencies, non-recurring expenditures, or major capital purchases that cannot be accommodated through current year savings. The use of these funds will be approved by the City Commission. Use of these funds will be disclosed to the City Commission. If the required amount goes below the stated policy amount, the City will set aside a sufficient portion of the upcoming fiscal year's budget to meet the required reserve amount. Any surpluses realized at year end shall be used first to meet reserve policies, then capital replacement purposes, then retirement/extinguishing of debt.

-Assigned: Fund balances that contain self-imposed constraints of the government to be used for a particular purpose. The responsibility to assign funds rests with the City Manager. The only funds assigned relate to the accumulation of funds for future capital projects.

-Unassigned: Fund balance of the general fund that is not constrained for any particular purpose. This is also where negative amounts from the other categories of fund balance are recognized.

When an expense is incurred for purposes for which both restricted and unrestricted net assets are available, the City typically first applies restricted resources, as appropriate opportunities arise, but reserves the right to selectively defer the use thereof to a future project or replacement equipment acquisition. When an expenditure is incurred for which committed, assigned, or unassigned fund balances are available, the City considers amounts to have been spent first out of assigned, then unassigned, and finally committed funds.

II. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. Budgetary Data

1. Budget Policy and Practice

The City follows the procedures outlined below in establishing budgetary data reflected in the financial statements:

Annual budgets are legally adopted for all City funds with revenue and expense/expenditure activity. The City Charter states that between sixty (60) and ninety (90) days prior to the end of the fiscal year, the City Manager is required to submit to the Board of Commissioners a proposed operating budget for the fiscal year commencing the following October 1. The operating budget includes the proposed expenditures/expenses and the proposed method to finance them.

Dates for public hearings, the purpose of which are to obtain taxpayers' comments, are set by the Board of Commissioners at the time the budget is submitted to that body. The Board of Commissioners may add to, subtract from or change appropriations, but may not change the form of the proposed budget. Any changes must be within the revenue and reserves estimated as available by the City Manager. Prior to September 25 of each year, the budget is legally enacted through the passage of an ordinance.

The appropriated budget is prepared by fund, function, and department. The City's department head's may make transfers of appropriations between/within a department in the same fund with the City Manager's approval. Transfers of appropriations between funds require the approval of the Board of Commissioners. The legal level of budgetary control (i.e., the level at which expenditures may not legally exceed appropriations) is the fund level.

At any time during the fiscal year, the City Manager can reallocate expenditures within a fund without the approval of the Board of Commissioners. However, any revisions to the budget which increase the total budgeted expenditures/expenses within any fund must be approved by the Board of Commissioners.

City of Pharr, Texas
NOTES TO FINANCIAL STATEMENTS
September 30, 2012

II. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY - (continued)

A. Budgetary Data-(continued)

The Board of Commissioners made several budget amendments during the fiscal year. The major reasons for the amendment was: to account for the funds contributed to Pharr Economic Development Corporation 4B for land, to allocate transfers to the General Capital Projects fund from issuance of debt, and to allocate funds contributed to Hotel/Motel Fund. In the General fund, net budget amendments totaled roughly \$14,345,690 in expenditures over revenues.

B. Budget Basis of Accounting

The City prepares its annual budget on a basis (budget basis), which slightly differs from generally accepted accounting principles (GAAP Basis). The budget and all transactions are presented in accordance with the City's method (budget basis) in the Statement of Revenues, Expenditures and Changes in Fund Balances – Budget and Actual – General Fund to provide a meaningful comparison of actual results with the budget. The major differences between budget and GAAP basis are debt service transactions and the recording of bond/loan proceeds.

C. Excess of General Fund Expenditures over Appropriations

Expenditures exceeded appropriations of transfers by \$281,740. The reason for this excess was due to land purchased transferred to PEDC II. Amounts were budgeted under non-departmental-land purchase, and then reclassified to transfer out.

D. 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	Not applicable

E. Deficit Fund Equity/Net Position

No funds had deficit in their total fund balances/net position; however, the Golf Course fund had a deficit in its unrestricted net position due to less golf service revenue. The PEDC II had also a deficit in its restricted fund balance for economic development mainly because most of its purchase of inventory and was categorized as nonspendable.

F. Prior Period Adjustment

Prior period adjustments were needed in several funds in order to properly state the correct financial position of the City. The prior period adjustment amounts and the reason are as follows:

City of Pharr, Texas
NOTES TO FINANCIAL STATEMENTS
September 30, 2012

II. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY - (continued)

F. Prior Period Adjustment-(continued)

Governmental Reports	
<u>Purpose of Prior Period Adjustment</u>	<u>Amount</u>
<u>General Fund:</u>	
To adjust prior year cash with fiscal agent allocation	\$ (27,630)
To adjust prior year sales tax payment owed to state	(577,125)
To adjust prior year municipal court payables	87,021
To adjust prior year allowance for uncollectible	42,711
To adjust prior year land available for sale as inventory	5,390,969
 <u>Grants Fund:</u>	
To adjust grant revenue receivable	(16,488)
 <u>Hotel/Motel</u>	
To adjust prior year liabilities	(15,300)
 <u>PEDC II</u>	
To adjust prior year land available for sale	257,212
To adjust prior year note receivable and deferred revenue	(80,907)
Total Governmental Fund Adjustment	<u>\$ 5,060,463</u>
<hr/>	
<u>Enterprise Fund: Utility Fund:</u>	
To adjust prior year cash with fiscal agent allocation	\$ 13,105
To adjust lease payable balance	(49,207)
To implement new GASB 63 for issuance cost	(1,183,214)
To adjust prior year accumulated depreciation	(109,215)
 <u>Enterprise Fund: Bridge Fund:</u>	
To implement new GASB 63 for issuance cost	(117,904)
To adjust prior year accumulated depreciation	(239,109)
 <u>Enterprise Fund: Golf Fund:</u>	
To adjust prior year accumulated depreciation	105,871
 <u>Internal Service Fund: Garage Fund:</u>	
To adjust prior year accumulated depreciation	23,254
Total Proprietary Fund Adjustment	<u>\$ (1,556,419)</u>
<hr/>	
<u>Fiduciary Fund: Volunteer Firefighter's Pension Agency Fund:</u>	
To adjust prior year payables	\$ (6,135)
Total Fiduciary Fund Adjustment	<u>\$ (6,135)</u>
<hr/>	
Government-Wide Reports	
<u>Purpose of Prior Period Adjustment</u>	
To adjust accumulated depreciation and land reclassified to inventory	\$ (7,961,309)
To adjust lease payable balance	(678,558)
Total Governmental Activities Adjustment	<u>\$ (8,639,867)</u>

City of Pharr, Texas
NOTES TO FINANCIAL STATEMENTS
September 30, 2012

III. DETAILED NOTES ON FUNDS AND COMPONENT UNITS

A. Deposits and Investments

1. Deposits

City's funds are required to be deposited and invested under the terms of a depository contract and investment policy pursuant to state statute. The depository bank deposits for safekeeping and trust with its agent approved pledged securities authorized by Chapter 2257 Collateral for Public Funds of the Government Code 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 dollar amount of Federal Deposit Insurance Corporation (FDIC) insurance.

At September 30, 2012, the carrying amount of all of the City's deposits was \$59,030,825. The City has two depository accounts: LoneStar National Bank (LSNB) and Frost Bank.

<u>LSNB/Frost Depository Accounts</u>	<u>Balance September 30, 2012</u>
Insured	\$ 500,000
Security collateral issued by pledging bank's trust department in the City's name	70,158,039
(Over-insured)/over-collateralized	(9,594,310)
Total Deposits	\$ 61,063,729

Custodial credit risk is the risk that in the event of a bank failure, the City's deposits may not be returned to it. The City has a policy of maintaining contact with the trust department of its depository agency to eliminate all custodial credit risk. As of September 30, 2012, the City's bank balance was not exposed to custodial credit risk and was over-insured and over-collateralized.

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

- a. Depository: LSNB and Frost Bank.
- b. The market value of securities pledged as of the date of the highest combined balance on deposit was \$66,486,305.
- c. The highest combined balances of cash accounts amounted to \$71,929,817 and occurred during February 2012.
- d. The total amount of FDIC coverage at the time of the largest combined balance was \$500,000.

The note above shows a shortage in the securities pledged as of the date of the highest cash balance, this is due to transfers from one bank to another, and not an increase in the overall balance. City funds were never at a real risk of being lost should the institution go bankrupt.

Restricted cash is defined as the cash balances restricted by the funder for a specific purpose. Cash with fiscal agents of \$1,613,063 on September 30, 2012, was covered by collateral held in the fiscal agents' trust departments, but not in the City's name. The trust department pledges a pool of collateral against all trust deposits it holds. There are two fiscal agents, one is Texas Water Development Board with cash that is escrowed to the City of \$590,000, and SunTrust with cash that is escrowed to the City of \$1,023,062.

2. Investments

The City is required by Government Code Chapter 2256, The Public Funds Investment Act ("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.

City of Pharr, Texas
NOTES TO FINANCIAL STATEMENTS
September 30, 2012

III. DETAILED NOTES ON FUNDS AND COMPONENT UNITS - (continued)

A. Deposits and Investments - (continued)

2. Investments – (continued)

The Act requires an annual audit of investment practices. Audit procedures in this area conducted as a part of the audit of the general purposes financial statements disclosed that in the areas of investment practices, management reports and establish appropriate policies. The City adheres to the requirements of the Act. Additionally, investment practices of the City are in accordance with local policies.

Due to the extremely low interest rates, the City does not have any investments other than savings accounts in LSNB at September 30, 2012. The City's depository provides a greater savings rate (a floor of 2%) according to the depository contract entered into. The funds are available immediately as needed.

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. **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. The City's investment policy states that no investment shall exceed 24 months in maturity. By limiting the exposure of its investments, the City reduces its risk to the rising or decreasing interest rates.
- b. **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 agencies are designed to give an indication of credit risk. At year end, the City was not exposed to credit risk.
- c. **Custodial Credit Risk**
Deposits and investments are exposed to custodial credit risk if they are not covered by depository insurance and the deposits and investments 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. At year end, the City was not exposed to custodial credit risk. See Note III A.1 for more information on this risk.
- d. **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 exposed to concentration of credit risk, but highly collateralized. With the City's investment policy, diversification is stressed. The City was in compliance with its diversification investment guidelines. Although LSNB makes up 100% of the investment portfolio, the funds were fully collateralized by pledged securities.
- 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.

City of Pharr, Texas
NOTES TO FINANCIAL STATEMENTS
September 30, 2012

III. DETAILED NOTES ON FUNDS AND COMPONENT UNITS - (continued)

B. Receivables

Receivables for the City at September 30, 2012, were as follows:

	Governmental Activities			Business-Type Activities		
	General	Non-Major & Other	Total	Utility	Bridge & Golf	Total
Property taxes	\$ 2,279,204	\$ 321,751	\$ 2,600,955	\$ -	\$ -	\$ -
Warrants	9,805,932	-	9,805,932	-	-	-
Sales Tax	1,592,678	526,376	2,119,054	-	-	-
Notes	-	205,311	205,311	-	-	-
Accounts	641,811	111,486	753,297	2,679,035	160,744	2,839,779
Intergovernmental	-	2,270,228	2,270,228	-	-	-
Franchise taxes	281,913	-	281,913	-	-	-
Other	333,682	180,784	514,466	-	-	-
Gross receivables	14,935,220	3,615,936	18,551,156	2,679,035	160,744	2,839,779
Less; allowance for uncollectible	(4,620,201)	(111,113)	(4,731,314)	(53,998)	-	(53,998)
Net total receivable	<u>\$ 10,315,019</u>	<u>\$ 3,504,823</u>	<u>\$ 13,819,842</u>	<u>\$ 2,625,037</u>	<u>\$ 160,744</u>	<u>\$ 2,785,781</u>

C. Payables

Payables for the City at September 30, 2012, were as follows:

	Governmental Activities	Business-Type Activities				Total
	Governmental	Utility	Bridge	Golf	Business- Type Total	
Vendors	\$ 3,006,402	\$ 526,136	\$ 106,398	\$ 14,897	\$ 647,431	\$ 3,653,833
Salaries & benefits	1,208,354	-	-	-	-	1,208,354
Retainage fees	220,867	1,079,747	32,436	-	1,112,183	1,333,050
Accrued interest	182,829	133,137	32,347	-	165,484	348,313
Due to other governments	42,700	-	-	-	-	42,700
Due to state	142,075	-	-	1,161	1,161	143,236
Total payables	<u>\$ 4,803,227</u>	<u>\$ 1,739,020</u>	<u>\$ 171,181</u>	<u>\$ 16,058</u>	<u>\$ 1,926,259</u>	<u>\$ 6,729,486</u>

City of Pharr, Texas
NOTES TO FINANCIAL STATEMENTS
September 30, 2012

III. DETAILED NOTES ON FUNDS AND COMPONENT UNITS - (continued)

D. Deferred Revenue

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

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

	Governmental Activities	Business-Type	Total
Unearned golf revenue	\$ -	\$ 39,185	\$ 39,185
Restricted revenues (Escrows)-other	1,013,650	-	1,013,650
CDBG Sewer and Home services	71,048	-	71,048
	<u>\$ 1,084,698</u>	<u>\$ 39,185</u>	<u>\$ 1,123,883</u>

City of Pharr, Texas
NOTES TO FINANCIAL STATEMENTS
September 30, 2012

III. DETAILED NOTES ON FUNDS AND COMPONENT UNITS - (continued)

E. Interfund Balances

The City reports interfund balances between many of its funds. The total of all balances agrees with the sum of interfund balances presented in the statements of net assets/balance sheets for governmental and enterprise funds. The interfund balances are operational and short-term in nature. Interfund balances at September 30, 2012 consisted of the following:

		DUE FROM						
		Governmental Funds						
		General	PEDC II	Community Development	Asset Sharing	Grant	Hotel/ Motel	Total Governmental
DUE TO	General	\$ -	\$2,845,108	\$ 138,795	\$ 34,520	\$443,054	\$ 34,231	\$ 3,495,708
	PEDC II	25,000	-	-	-	-	-	25,000
	Asset Sharing	-	-	-	-	530	-	530
	Total governmental	\$ 25,000	2,845,108	138,795	34,520	443,584	34,231	3,521,238
	Total	\$ 25,000	\$2,845,108	\$ 138,795	\$ 34,520	\$443,584	\$ 34,231	\$ 3,521,238

		DUE FROM				DUE FROM		DUE FROM
		Enterprise Funds				Internal Service Funds		Total
		Utility	Bridge	Golf	Total Enterprise	Garage	Total Internal Service	Grand Total
DUE TO	General	\$107,538	\$35,462	\$18,489	\$161,489	\$ 6,325	\$6,325	\$ 3,663,522
	PEDC II	-	-	-	-	-	-	25,000
	Asset Sharing	-	-	-	-	-	-	530
	Total governmental	107,538	35,462	18,489	161,489	6,325	6,325	3,689,052
	Total	\$107,538	\$35,462	\$18,489	\$161,489	\$ 6,325	\$6,325	\$ 3,689,052

City of Pharr, Texas
NOTES TO FINANCIAL STATEMENTS
September 30, 2012

III. DETAILED NOTES ON FUNDS AND COMPONENT UNITS - (continued)

F. Capital Assets

Capital asset activity for the year ended September 30, 2012 was as follows:

	Beginning Balance	Increases	Decreases	Adjustments	Ending Balance
Primary Government					
Governmental Activities:					
<i>Capital assets, not being depreciated:</i>					
Land and right of way	\$ 9,367,740	\$ 1,198,047	\$ -	\$ (5,340,969)	\$ 5,224,818
Construction in Progress	2,308,191	4,504,189	1,083,554	-	5,728,826
Total capital assets, not being depreciated	11,675,931	5,702,236	1,083,554	(5,340,969)	10,953,644
<i>Capital assets, being depreciated:</i>					
Buildings	28,950,118	-	85,000	85,000	28,950,118
Machinery and equipment	13,699,942	2,272,136	15,764	-	15,956,314
Improvements other than buildings	5,384,253	1,698,869	-	-	7,083,122
Infrastructure	68,636,821	59,130	-	-	68,695,951
Total capital assets, being depreciated	116,671,134	4,030,135	100,764	85,000	120,685,505
Less accumulated depreciation for:					
Buildings	9,166,081	618,493	85,000	113,414	9,812,988
Machinery and equipment	7,374,635	1,444,809	3,651	(375,672)	8,440,121
Improvements other than buildings	2,075,412	230,696	-	8,422	2,314,530
Infrastructure	37,186,915	2,137,444	-	2,685,318	42,009,677
Total accumulated depreciation	55,803,043	4,431,442	88,651	2,431,482	62,577,316
Total capital assets, being depreciated, net	60,868,091	(401,307)	12,113	(2,346,482)	58,108,189
Governmental activities capital assets, net	\$ 72,544,022	\$ 5,300,929	\$ 1,095,667	\$ (7,687,451)	\$ 69,061,833
Business-Type Activities:					
<i>Capital assets, not being depreciated:</i>					
Land and right of way	\$ 2,656,024	\$ -	\$ -	\$ -	\$ 2,656,024
Construction in Progress	22,507,841	9,331,405	319,150	-	31,520,096
Total capital assets, not being depreciated	25,163,865	9,331,405	319,150	-	34,176,120
<i>Capital assets, being depreciated:</i>					
Buildings	28,124,175	-	-	-	28,124,175
Machinery and equipment	14,067,426	430,854	75,570	-	14,422,710
Improvements other than buildings	3,680,496	398,910	-	-	4,079,406
Infrastructure	96,887,093	690,519	-	-	97,577,612
Total capital assets, being depreciated	142,759,190	1,520,283	75,570	-	144,203,903
Less accumulated depreciation for:					
Buildings	11,652,443	627,158	-	46,240	12,325,841
Machinery and equipment	8,954,750	737,132	75,570	84,416	9,700,728
Improvements other than buildings	1,272,618	198,273	-	12,730	1,483,621
Infrastructure	17,428,148	2,794,430	-	99,068	20,321,646
Total accumulated depreciation	39,307,959	4,356,993	75,570	242,454	43,831,836
Total capital assets, being depreciated, net	103,451,231	(2,836,710)	-	(242,454)	100,372,067
Business-Type activities capital assets, net	128,615,096	6,494,695	319,150	(242,454)	134,548,187
Total Primary Government	\$ 201,159,118	\$ 11,795,624	\$ 1,414,817	\$ (7,929,905)	\$ 203,610,020

City of Pharr, Texas
NOTES TO FINANCIAL STATEMENTS
September 30, 2012

III. DETAILED NOTES ON FUNDS AND COMPONENT UNITS - (continued)

F. Capital Assets-(continued)

	Beginning Balance	Increases	Decreases	Adjustments	Ending Balance
Component Unit-Blended					
<i>Capital assets, not being depreciated:</i>					
Land and right of way	\$ 939,130	\$ -	\$ -	\$ (250,602)	\$ 688,528
Total capital assets, not being depreciated	939,130	-	-	-	688,528
<i>Capital assets, being depreciated:</i>					
Buildings	1,137,326	191,030	-	-	1,328,356
Improvement other than buildings	79,365	95,866	-	-	175,231
Machinery and equipment	69,226	28,092	-	-	97,318
Total capital assets, being depreciated	1,285,917	314,988	-	-	1,600,905
Less Accumulated Depreciation					
Buildings	379,465	41,890	-	-	421,355
Improvement other than buildings	14,537	3,177	-	-	17,714
Machinery and equipment	69,226	-	-	-	69,226
Total Accumulated Depreciation	463,228	45,067	-	-	508,295
Total Capital assets, being depreciated, net	822,689	269,921	-	-	1,092,610
Component Unit-Blended capital assets, net	1,761,819	269,921	-	-	1,781,138
City-Wide capital assets, net	<u>\$ 202,920,937</u>	<u>\$ 12,065,545</u>	<u>\$ 1,414,817</u>	<u>\$ (7,929,905)</u>	<u>\$ 205,391,158</u>

Depreciation expense was charged to functions of the primary government as follows:

Governmental Activities		Business-Type Activities	
General Government	\$ 472,276	Utility	\$ 3,281,811
Public Safety	1,258,795	Bridge	836,456
Highway & Streets	1,746,228	Golf	238,726
Sanitation	582,076	Total Business-Type Activities	<u>\$ 4,356,993</u>
Culture & Recreation	372,067		
Economic Development	45,067		
Total Governmental Activities	<u>\$ 4,476,509</u>		

This walk-forward capital asset table has an "Adjustment" column this fiscal year. Due to the reconciliation of our capital asset module in our accounting system, a computer error was identified. The error had an incorrect accumulated depreciation calculation. This adjustment will update the ending capital asset balances to their correct figures. A prior period adjustment is also being recorded to correct the accumulated depreciation balances in our financial statements. Also, last year the City purchased land of \$5,340,969 by general fund and \$250,602 by PEDC II to resell it for economic development purposes and was incorrectly included in the capital assets. This adjustment will reclassify it to inventory available for sale.

City of Pharr, Texas
NOTES TO FINANCIAL STATEMENTS
September 30, 2012

III. DETAILED NOTES ON FUNDS AND COMPONENT UNITS - (continued)

G. Long-Term Obligations

The following schedule summarizes the changes in long-term debt during the year ended September 30, 2012:

	Beginning Balance	Additions	Retirements	Adjustments	Ending Balance	Due Within One Year
Governmental Activities						
Refunding Bonds Payable	\$ 15,750,000	\$ -	\$ 1,435,000	\$ -	\$ 14,315,000	\$ 1,485,000
Certificates of Obligation	-	7,625,000	-	-	7,625,000	295,000
Capital Leases	2,737,723	1,327,150	1,089,837	429,505 A	3,404,541	1,170,097
CDBG Section 108 Note Payable	-	5,600,000	-	-	5,600,000	294,000
Notes Payable	-	1,020,000	62,705	-	957,295	129,713
Note Payable-PFC	-	15,000,000	-	-	15,000,000	500,000
Accrued Compensated Absences-PEDC	26,091	24,979	2,598	-	48,472	9,235
Accrued Compensated Absences	4,119,038	1,946,049	1,068,058	-	4,997,029	869,470
Other Post Employment Benefits	675,403	178,355	-	(311,486) B	542,272	-
Total	<u>\$ 23,308,255</u>	<u>\$ 32,721,533</u>	<u>\$ 3,658,198</u>	<u>\$ 118,019</u>	<u>\$ 52,489,609</u>	<u>\$ 4,752,515</u>
Deferred Outflow/Inflow of resources						
Unamortized Issuance Cost	\$ (249,056)	\$ -	\$ -	\$ 249,056 A	\$ -	\$ -
Unamortized Premium/(Discount)	253,526	-	46,142	-	207,384	46,142
Unamortized Gain/(loss) on Refunding	(594,461)	-	(80,197)	-	(514,265)	(80,197)
Total	<u>\$ (589,991)</u>	<u>\$ -</u>	<u>\$ (34,055)</u>	<u>\$ 249,056</u>	<u>\$ (306,881)</u>	<u>\$ (34,055)</u>
Business-Type						
Revenue Bonds Payable	\$ 47,385,000	\$ -	\$ 1,755,000	\$ -	\$ 45,630,000	\$ 1,810,000
Refunding Revenue Bonds Payable	11,030,000	-	1,275,000	-	9,755,000	1,240,000
Capital Leases	952,268	178,000	655,870	62,169 A	536,567	165,559
Accrued Compensated Absences	955,102	246,087	153,531	-	1,047,658	128,796
Other Post Employment Benefits	145,408	39,416	-	(184,824) B	-	-
Total	<u>\$ 60,467,778</u>	<u>\$ 463,503</u>	<u>\$ 3,839,401</u>	<u>\$ (122,655)</u>	<u>\$ 56,969,225</u>	<u>\$ 3,344,355</u>
Deferred Outflow/Inflow of resources						
Unamortized Issuance Cost	\$ (1,301,118)	\$ -	\$ -	\$ 1,301,118 C	\$ -	\$ -
Unamortized Premium/(Discount)	35,052	-	3,186	-	31,866	3,186
Unamortized Gain/(loss) on Refunding	(1,013,585)	-	(230,164)	-	(783,421)	(230,164)
Total	<u>\$ (2,279,651)</u>	<u>\$ -</u>	<u>\$ (226,978)</u>	<u>\$ 1,301,118</u>	<u>\$ (751,555)</u>	<u>\$ (226,978)</u>

A Prior Period Adjustment to correct balance allocation between enterprise and governmental

B Trust Fund allocated to governmental activities of \$496,310 per GASB No. 45

C Prior Period Adjustment to implement GASB No. 63 & 65

City of Pharr, Texas
NOTES TO FINANCIAL STATEMENTS
 September 30, 2012

III. DETAILED NOTES ON FUNDS AND COMPONENT UNITS - (continued)

G. Long-Term Obligations – (continued)
 Long-term bonded and revenue supported obligations outstanding at September 30, 2012 is comprised of the following:

Original Issuance	Series	Type	Name	Payment Installments		Installments		Interest Rates		Payment Through	Current Balance
				Lowest	Highest	Lowest	Highest	Lowest	Highest		
\$ 16,110,000	2005B	Refunding Bonds	GO	Annual	\$ 905,000	\$ 1,535,000	3.75%	5.00%	8/15/2021	\$ 12,625,000	
	2011	Refunding Bonds	GO	Annual	530,000	580,000	2.00%	4.00%	8/15/2015	1,690,000	
Subtotal-Refunding Bonds											
7,625,000	2012	Certificate of Obligation	GO	Annual	295,000	535,000	0.60%	4.98%	8/15/1932	7,625,000	
Subtotal-Certificate of Obligation											
Governmental Total											
\$ 21,940,000											
\$ 3,260,000	1988	Revenue Bonds Jr. Lien	WW & SS	Annual	\$ 185,000	\$ 190,000	0.00%	0.00%	9/1/2013	\$ 190,000	
	29,000,000	2007	Revenue Bonds-CW/SRF	Annual	790,000	2,480,000	2.90%	3.50%	9/1/2027	25,260,000	
	13,310,000	2007A	Revenue Bonds-DW/SFR	Annual	380,000	1,075,000	2.35%	3.50%	9/1/2027	12,115,000	
	10,000,000	2007B	Revenue Bonds-NADBANK	Annual	385,000	685,000	3.75%	3.75%	9/1/2027	8,065,000	
Subtotal-Revenue Bonds											
9,755,000	2005A	Refunding Bonds	CT & IBR	Annual	510,000	740,000	3.63%	4.50%	8/15/2022	6,175,000	
6,430,000	2008	Refunding Bonds	WW & SS	Annual	75,000	815,000	3.60%	3.60%	9/1/2018	3,580,000	
Subtotal-Refunding Bonds											
Business-Type Total											
\$ 55,385,000											

CT&IBR=Combination Tax & International Bridge Revenue
 CW SRF=Clean Water State Revolving Fund
 DW SRF=Drinking Water State Revolving Fund
 NADBANK=North American Development Bank
 WW & SS=Waterworks & Sewer System

City of Pharr, Texas
NOTES TO FINANCIAL STATEMENTS
September 30, 2012

III. DETAILED NOTES ON FUNDS AND COMPONENT UNITS - (continued)

G. Long-Term Obligations – (continued)

1 Bonds Payable

Debt service requirements of bonds payable at September 30, 2012 are as follows:

Year Ended September 30,	Governmental Activities			Business-Type Activities		
	Principal	Interest	Total	Principal	Interest	Total
2013	\$ 1,485,000	\$ 594,973	\$ 2,079,973	\$ 3,050,000	\$ 1,856,419	\$ 4,906,419
2014	1,535,000	543,373	2,078,373	3,145,000	1,758,292	4,903,292
2015	1,585,000	490,318	2,075,318	3,250,000	1,650,746	4,900,746
2016	1,675,000	427,928	2,102,928	3,360,000	1,539,526	4,899,526
2017	8,035,000	970,014	9,005,014	3,470,000	1,426,446	4,896,446
2018-2022	--	--	--	19,420,000	5,320,906	24,740,906
2023-2027	--	--	--	19,690,000	2,050,851	21,740,851
	<u>\$ 14,315,000</u>	<u>\$ 3,026,606</u>	<u>\$ 17,341,606</u>	<u>\$ 55,385,000</u>	<u>\$ 15,603,186</u>	<u>\$ 70,988,186</u>

2 Certificates of Obligation Payable

Debt service requirements of certificates of obligation payable at September 30, 2012 are as follows:

Year Ended September 30,	Governmental Activities		
	Principal	Interest	Total
2013	\$ 295,000	\$ 270,658	\$ 565,658
2014	305,000	258,062	563,062
2015	305,000	255,774	560,774
2016	305,000	252,541	557,541
2017	315,000	248,363	563,363
2018-2022	1,675,000	1,131,478	2,806,478
2023-2027	1,985,000	829,817	2,814,817
2028-2032	2,440,000	363,765	2,803,765
	<u>\$ 7,625,000</u>	<u>\$ 3,610,456</u>	<u>\$ 11,235,456</u>

City of Pharr, Texas
NOTES TO FINANCIAL STATEMENTS
September 30, 2012

III. DETAILED NOTES ON FUNDS AND COMPONENT UNITS - (continued)

G. Long-Term Obligations – (continued)

3 Capital Leases Payable

Capital leases payable at September 30, 2012 is comprised of the following issues:

Capital Leases	Governmental	Business-Type	Total
\$2,322,000 lease payable; due in monthly installments of \$31,600, including interest, through November 14, 2014; interest at 3.87%. All funds used to purchase Machinery & Equipment.	\$ 772,975	\$ 13,911	\$ 786,886
\$2,922,720 lease payable, due in quarterly installments starting with \$167,702, including interest, through May 20, 2014; interest at 2.42%. All funds used to purchase Machinery & Equipment.	1,485,405	364,703	1,850,108
\$405,000 lease payable, due in monthly installments of \$11,537, including interest, through February 28, 2015; interest at 1.64%. Police equipment purchased.	327,802	-	327,802
\$1,100,150 lease payable, due in monthly installments of \$19,099 including interest, through February 28, 2017; interest at 1.61%. All funds used to purchased equipment.	818,359	157,953	976,312
	<u>\$ 3,404,541</u>	<u>\$ 536,567</u>	<u>\$ 3,941,108</u>

Assets purchased with the lease funds are included in the City's capital assets and depreciation expense. Debt service requirements of capital leases obligations at September 30, 2012 are as follows:

Year Ended September 30,	Governmental Activities			Business-Type Activities		
	Principal	Interest	Total	Principal	Interest	Total
2013	\$ 1,170,097	\$ 71,520	\$ 1,241,617	\$ 165,559	\$ 10,454	\$ 176,013
2014	963,355	42,322	1,005,677	110,978	7,109	118,087
2015	513,748	22,109	535,857	88,202	4,989	93,191
2016	402,845	13,246	416,091	88,976	3,097	92,073
2017	298,848	5,186	304,034	69,188	1,256	70,444
2017-2018	55,648	351	55,999	13,664	86	13,750
	<u>\$ 3,404,541</u>	<u>\$ 154,734</u>	<u>\$ 3,559,275</u>	<u>\$ 536,567</u>	<u>\$ 26,991</u>	<u>\$ 563,558</u>

City of Pharr, Texas
NOTES TO FINANCIAL STATEMENTS
 September 30, 2012

III. DETAILED NOTES ON FUNDS AND COMPONENT UNITS - (continued)

G. Long-Term Obligations – (continued)

4. Notes Payable

Long-term notes payable outstanding at September 30, 2012 is comprised of the following:

Original Issuance	Issuer	Name	Payment Installments		Installments		Interest Rates		Payment Through	Current Balance
			Annual	Monthly	Lowest	Highest	Lowest	Highest		
\$5,600,000	Housing and Urban Development	CDBGHUD Section 108	Annual		\$294,000	\$295,000	0.49%	1.73%	8/1/2031	\$ 5,600,000
1,020,000	Lone Star National Bank	Paving and Drainage	Monthly		14,178	14,178	4.50%	4.50%	3/15/2015	957,295
								Subtotal-City of Pharr Governmental		6,557,295
15,000,000	The Frost National Bank	PPFC # 1 Promissory Note	Annual		500,000	700,000	3.25%	3.25%	9/30/2016	15,000,000
								Subtotal-PPFC # 1		15,000,000
								Total-Governmental Activities		<u>\$21,557,295</u>

3 Notes Payable

Debt service requirements of notes payable at September 30, 2012 are as follows:

Year Ended	Governmental Activities		
	Principal	Interest	Total
September 30,			
2013	\$ 923,713	\$ 578,433	\$ 1,502,146
2014	929,672	636,210	1,565,882
2015	1,035,905	611,757	1,647,662
2016	1,042,424	582,504	1,624,928
2017	13,249,243	553,098	13,802,341
2018-2022	1,721,338	536,211	2,257,549
2023-2027	1,475,000	330,902	1,805,902
2028-2032	1,180,000	99,268	1,279,268
	<u>\$ 21,557,295</u>	<u>\$ 3,928,383</u>	<u>\$ 25,485,678</u>

City of Pharr, Texas
NOTES TO FINANCIAL STATEMENTS
September 30, 2012

III. DETAILED NOTES ON FUNDS AND COMPONENT UNITS - (continued)

G. Long-Term Obligations – (continued)

5. Debt Disclosure and Currently Defeased Debt

The City has entered into a continuing disclosure undertaking to provide Annual Reports and Material Events Notices to the State Information Depository of Texas, which is the Municipal Advisory Commission. This information is required under SEC Rule 15c2-12 to enable investors to analyze the financial condition and operations of the City. In 2005, 2008 and 2011 the City defeased certain outstanding general obligation, certificates of obligation, and revenue bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments of the old bonds. Accordingly, the trust accounts for the defeased bonds and are not included in the City's financial statements. At September 30, 2012, the following outstanding bonds are considered defeased:

General Obligation Bonds		
Interest rates:	5.00% - 5.53%	
Series	2003	\$ 12,440,000
Interest rates:	4.65% - 5.00%	
Series	2011	1,725,000
Waterworks & Sewer System Revenue Bonds		
Interest rates:	4.15% - 6.74%	
Series	1996 through 1998a	5,244,000
Bridge Revenue Bonds		
Interest rates:	3.625% - 4.25%	
Series	1998 through 2001	<u>4,585,000</u>
Bonds legally defeased		<u><u>\$ 23,994,000</u></u>

City of Pharr, Texas
NOTES TO FINANCIAL STATEMENTS
September 30, 2012

III. DETAILED NOTES ON FUNDS AND COMPONENT UNITS - (continued)

G. Long-Term Obligations – (continued)

6. Accrued Compensated Absences

Accrued compensated absences (vested sick and vacation leave) are payable from the fund responsible for the employee's compensation. As of September 30, 2012, the owning fund of the liability is as follows:

<u>Owning Fund of Liability</u>	<u>Amount</u>
General	\$ 4,924,854
PEDC	48,472
Community Development	40,960
Garage	31,215
Utility	732,686
Bridge	199,339
Golf	115,633
	<u>\$ 6,093,159</u>

7. Arbitrage

The City has issued long-term debt for capital construction projects. These bonds are subject to the arbitrage regulations. Arbitrage regulations call for the return of the difference in interest revenue against interest expense. At September 30, 2012, there was no liability of arbitrage that would have been owed to the federal government.

City of Pharr, Texas
NOTES TO FINANCIAL STATEMENTS
September 30, 2012

III. DETAILED NOTES ON FUNDS AND COMPONENT UNITS - (continued)

H. Interfund Transfers

The City reports interfund transfers between many of its funds. Interfund transfers for the year ended September 30, 2012, consisted of the following:

		TRANSFER FROM							
		Governmental Funds							
		General	PEDC II	PFC #1	Community Development	Hotel/Motel	Parkland Dedication	Debt Service	Total Governmental
TRANSFER TO	General	\$ -	\$ 447,567	\$ 14,905,000	\$ -	\$ 16,362	\$ 6,000	\$ -	\$ 15,374,929
	Capital Projects	7,525,000	2,207,282	-	5,576,428	-	48,999	-	15,357,709
	PFC No. 1	260,947	-	-	-	-	-	-	260,947
	PEDC II	280,755	-	-	-	-	-	-	280,755
	Community Development	21,292	-	-	-	-	-	-	21,292
	Grants	16,488	-	-	-	-	-	-	16,488
	Hotel/Motel	3,152,858	-	-	-	-	-	-	3,152,858
	Debt Service	-	496,872	-	-	-	-	-	496,872
	Total governmental	11,257,340	3,151,721	14,905,000	5,576,428	16,362	54,999	-	34,961,850
	Bridge	-	-	-	-	77,930	-	272,733	350,663
Golf	195,200	-	-	-	-	-	-	195,200	
Total enterprise	195,200	-	-	-	77,930	-	272,733	545,863	
Total		\$ 11,452,540	\$ 3,151,721	\$ 14,905,000	\$ 5,576,428	\$ 94,292	\$ 54,999	\$ 272,733	\$ 35,507,713

The reasons for the transfers vary from operational, to reimbursements, to debt service payment supplements. The following details state the exact purpose of the transfers. The transfers on this page are related to Governmental transactions. The transfer from General to Golf and Community Development was for routine operational expenditures. The General Fund transfer to PEDC II was for land purchased by the General Fund that was contributed to PEDC II for the City's Economic Development. PEDC 4B's transfer to General is for reimbursements of operational expenditures. The PEDC II's transfer to Debt Service is for a bond issue the General Fund undertook a portion of which is to be paid through PEDC's sales tax collection. The PEDC II's transfer to Capital Projects is to assist in funding the construction of a capital project. The Hotel/Motel transfer to bridge (debt issued for a Hotel/Motel project) is for prior year agreement and is not expected to continue. The Parkland Dedication transfer to Capital projects was for a project to construct a swimming pool. The Debt Service transfer to Bridge is to provide tax proceeds for the payment of general obligation debt accounted for in bridge, this transfer will continue as long as excess debt related tax proceeds are collected.

City of Pharr, Texas
NOTES TO FINANCIAL STATEMENTS
 September 30, 2012

III. DETAILED NOTES ON FUNDS AND COMPONENT UNITS - (continued)

H. Interfund Transfers—(continued)

The following transfers are related to proprietary transactions, The Utility transfers to general are for reimbursements in the use of General assets and for payroll related charges, the reimbursement transfer is expected to continue in future years. Transfers from bridge to General are for capital and operational transactions and are expected to continue in future years if the Bridge has excess funds. The Golf transfer to General is for reimbursement of capital expenditures from prior years and is expected to continue in future years.

		TRANSFER FROM				
		Enterprise Funds				
		Utility	Bridge	Golf	Total Enterprise	
					Grand Total	
TRANSFER TO	General	\$ 361,620	\$ 3,016,725	\$ 30,000	\$ 3,408,345	\$ 18,783,274
	Capital Projects	-	3,440,000	-	3,440,000	18,797,709
	PFC No. 1	-	-	-	-	260,947
	PEDC II	-	-	-	-	280,755
	Community Development	-	-	-	-	21,292
	Grants	-	-	-	-	16,488
	Hotel/Motel	-	400,000	-	400,000	3,552,858
	Debt Service	-	-	-	-	496,872
	Total governmental	361,620	6,856,725	30,000	7,248,345	42,210,195
	Bridge	-	-	-	-	350,663
Golf	-	-	-	-	195,200	
Total enterprise	-	-	-	-	545,863	
Total		\$ 361,620	\$ 6,856,725	\$ 30,000	\$ 7,248,345	\$ 42,756,058

City of Pharr, Texas
NOTES TO FINANCIAL STATEMENTS
September 30, 2012

III. DETAILED NOTES ON FUNDS AND COMPONENT UNITS - (continued)

I. Restricted Assets

The balances of restricted asset as of September 30, 2012 are as follows:

<u>Governmental Funds</u>	
Capital financing-General Fund	\$ 7,625,000
Capital financing-Community development	3,850,360
Grant restrictions-Grant	2,270,228
Grant restrictions-PEDC II	62,185
Capital outlay reserves-General	<u>881,966</u>
Total restricted assets-governmental funds	14,689,739
<u>Business-Type Funds</u>	
Capital financing-Utility	\$ 3,933,571
Customer deposits-Utility	2,027,926
Debt reserves-Utility	4,748,001
Debt reserves-Bridge	295,247
Capital outlay reserves-Golf	<u>141,096</u>
Total restricted assets-business-type funds	<u>\$ 11,145,841</u>
Total restricted assets	<u><u>\$ 25,835,580</u></u>

IV. OTHER INFORMATION

A. Risk Management

The City is exposed to various risks of loss related to torts, theft of, damage to, and destruction of assets, errors and omissions, injuries to employees (workman's compensation), and natural disasters. During the fiscal year, 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. A copy of TML's Comprehensive Annual Report may be obtained by request at the following address:

Texas Municipal League
1821 Rutherford Lane, Suite 400
Austin, TX 78754-5128

City of Pharr, Texas
NOTES TO FINANCIAL STATEMENTS
September 30, 2012

IV. OTHER INFORMATION

1. Health Care Coverage-(continued)

During the fiscal year, employees of the City were covered by a health insurance plan (the Plan) with Blue Cross Blue Shield of Texas (BCBST). BCBST is A Division of Health Care Service Corporation, a Mutual Legal Reserve Company, an Independent Licensee of the Blue Cross and Blue Shield Association. The City pays for 100% of the employees insurance cost and 50% of the employee's dependent's insurance cost. The City paid premiums of \$275 per month per employee and \$495 for employee with 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 the coverage and premium costs are included in the contractual provision. A copy of BCBST's Comprehensive Annual Report may be obtained by request at the following address:

Health Care Service Corporation
300 East Randolph Street
Chicago, Illinois 60601-5099

2. Post-Retirement Health Care Benefits

The City provides certain health care and life insurance benefits, under City ordinance, for:

- A. A retired person and their dependents covered under the City of Pharr's health insurance plan, prior to January 1, 2009, shall be entitled to continued coverage at the municipality's expense not to exceed \$275 per month for the retiree, and fifty percent of the cost of coverage for the dependent or \$225 whichever is less. When a retiree reaches the age of 65, the municipality will no longer pay for the retiree's and dependent's health insurance. The municipality will only pay for the cost of the retiree's Medicare Advantage Plan coverage.
- B. Any person employed with the City of Pharr, prior to January 1, 2009, that has been employed for not less than twenty (20) years with any municipality in the State of Texas that participates in the Texas Municipal Retirement System, that was employed with the City of Pharr for not less than ten (10) years, and reaches the age of fifty (50), shall be eligible upon retirement to receive continued health coverage at the expense of the municipality not to exceed \$275 per month. A dependent of an eligible retired person under the subsection shall not receive continued coverage at the expense of the municipality. When a retiree reaches the age of 65, the municipality will no longer pay for the retiree's health coverage.
- C. A person that becomes employed with the City of Pharr, after January 1, 2009, shall not be eligible for any health insurance coverage at the expense of the municipality upon retirement. A dependent of an employee under this subsection shall not receive health insurance coverage at the expense of the municipality upon retirement.

Currently, approximately 46 retirees meet these eligibility requirements. The City pays 80% of the amount of validated claims for qualified medical and hospitalization costs incurred, after the retiree meets a deductible ranging from \$1,000 per individual to \$2,000 per family for In-Network coverage. The maximum out-of-pocket costs that can be incurred by a retiree in one year ranges from, \$1,500 per individual to \$3,000 per family.

B. Deferred Compensation Plan

The City offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The plan, available to all full-time employees at their option, permits participants to defer a portion of their salary until future years. The deferred compensation is not available to participants until termination, retirement, death, or unforeseeable emergency. All amounts of compensation deferred under the plan, all property and rights purchased with those amounts, and all income attributable to those amounts, property or rights are the property of the beneficiary.

City of Pharr, Texas
NOTES TO FINANCIAL STATEMENTS
September 30, 2012

IV. OTHER INFORMATION - (continued)

C. Commitments

1. Grant Programs

The City participates in several federal and state assisted grant programs. Under the terms of these grants, the City is subject to program compliance audits by the grantors or their representatives. Accordingly, the City's compliance with applicable grant requirements will be established at some future date. If future program compliance audits result in questioned or disallowed costs, reimbursements would be made to the grantor agencies. The amounts of expenditures which might be disallowed by the grantor agencies cannot be determined at this time; however, management believes such amounts, if any, would be immaterial.

2. Litigation

The City is a defendant in various lawsuits. Although the outcome of these lawsuits is not presently determinable, it is the opinion of the City's legal counsel and management that resolution of these matters will not have a material adverse effect on the financial condition of the City at September 30, 2012.

3. Construction Commitments

The City has entered into various significant construction commitments that are currently underway. As of September 30, 2012, they are as follows:

	<u>Project Amount</u>	<u>Expensed To Date</u>	<u>Remaining Cost</u>
Sam Houston	\$ 787,269	\$ 494,265	\$ 293,004
Owassa Road-East	505,640	271,101	234,539
Owassa Road-West	470,525	235,989	234,536
Hall Acres	3,905,220	1,257,620	2,647,600
Downtown Drainage	2,455,959	1,403,921	1,052,038
Aquatic Park	<u>13,388,000</u>	<u>2,065,930</u>	<u>11,322,070</u>
 Total Governmental	 \$ 21,512,613	 \$ 5,728,826	 \$ 15,783,787
 Wastewater treatment plant	 \$ 18,189,547	 \$ 17,577,894	 \$ 611,653
Water treatment plant	14,331,584	13,136,587	1,194,997
LBJ water tower rehab	1,500,000	34,600	1,465,400
Southside waste water	14,720,000	180,000	14,540,000
Port of entry modernization	1,465,144	249,944	1,215,200
Cold Storage	<u>381,071</u>	<u>341,071</u>	<u>40,000</u>
 Total Business-Type	 <u>\$ 50,587,346</u>	 <u>\$ 31,520,096</u>	 <u>\$ 19,067,250</u>
 Total	 <u>\$ 72,099,959</u>	 <u>\$ 37,248,922</u>	 <u>\$ 34,851,037</u>

City of Pharr, Texas
NOTES TO FINANCIAL STATEMENTS
September 30, 2012

IV. OTHER INFORMATION - (continued)

C. Commitments-(continued)

4. Economic Development Commitments

The PEDC II has the following outstanding commitments as of September 30, 2012:

Program Commitment To	Amount Pending
Universal Metal Products	\$ 15,726
Monarch Business Park	291,000
Costco	4,500,000
Total	\$4,806,726

D. Pension Plan

1. Plan Description

The City provides pension benefits for all of its full-time employees through a nontraditional, joint contributory, hybrid defined benefit plan in the state-wide Texas Municipal Retirement System (TMRS), an agent multiple-employer public employee retirement system. The plan provisions that have been adopted by the City are within the options available in the governing state statutes of TMRS.

TMRS issues a publicly available comprehensive annual financial report that includes financial statements and required supplementary information (RSI) for TMRS; the report also provides detailed explanations of the contributions, benefits and actuarial methods and assumptions used by TMRS. This report may be obtained by writing to TMRS, P.O. Box 149153, Austin, TX 78714-9153 or by calling 800-924-8677; in addition, the report is available on TMRS's website at www.TMRS.com.

The plan provisions are adopted by the governing body of the City, within the options available in the state statutes governing TMRS. Plan provisions for the City were as follows:

	Plan Year 2011	Plan Year 2012
Employee deposit rate	7.0%	7.0%
Matching ratio (city to employee)	2 to 1	2 to 1
Years required for vesting	5	5
Service retirement eligibility (express as age/years of	60/5, 0/20	60/5, 0/20
Updated Service Credit	0%	0%
Annuity Increase (to retirees)	0% of CPI	0% of CPI

City of Pharr, Texas
NOTES TO FINANCIAL STATEMENTS
September 30, 2012

IV. OTHER INFORMATION - (continued)

D. Pension Plan-(continued)

2. Contributions

Under the state law governing TMRS, the contribution rate for each city is determined annually by the actuary, using the Projected Unit Credit actuarial cost method. This rate consists of the normal cost contribution rate and the prior service cost contribution rate, which is calculated to be a level percent of payroll from year to year. The normal cost contribution rate finances the portion of an active member's projected benefit allocated annually; the prior service contribution rate amortizes the unfunded (overfunded) actuarial liability (asset) over the applicable period for that city. Both the normal cost and prior service contribution rates include recognition of the projected impact of annually repeating benefits, such as Updated Service Credits and Annuity Increases. The City contributes to the TMRS Plan at an actually determined rate. Both the employees and the City make contributions monthly. Since the City needs to know its contribution rate in advance for budgetary purposes, there is a one-year delay between the actuarial valuation that serves as the basis for the rate and the calendar year when the rate goes into effect. The annual pension cost and net pension obligation/(asset) are as follows:

	2011	2010	2009
Net pension Obligation at Beginning of Period	\$ -	\$ -	\$ -
Annual Pension Cost:			
Annual Required Contribution	3,236,159	3,059,283	3,092,191
Contributions Made	3,236,159	3,059,283	3,092,191
Net Pension Obligation	\$ -	\$ -	\$ -

The required contribution rates for this fiscal year 2012 were determined as part of the December 31, 2010 and 2011 actuarial valuations. Additional information as of the latest actuarial valuations, December 31, 2011, also follows:

General System-wide Actuarial Assumptions

Valuation Date	12/31/2008	12/31/2009	12/31/2010	12/31/2011
Actuarial Cost Method	Projected Unit Credit	Projected Unit Credit	Projected Unit Credit	Projected Unit Credit
	Level Percent of Payroll	Level Percent of Payroll	Level Percent of Payroll	Level Percent of Payroll
Amortization Method				
GASB 25 Equivalent Single	29 Years-Closed Period	28 Years-Closed Period	27 Years-Closed Period	26.1 Years
Gain/Losses				
Amortization Period for new				
Gain/Losses	29 Years-Closed Period	30 years	30 years	26.1 Years
Asset Valuation Method	Amortized Cost	10-Year Smoothed Market	10-Year Smoothed Market	10-Year Smoothed Market
Actuarial Assumptions:				
Investment rate of return*	7.5%	7.5%	7.0%	6.8%
Projected Salary Increases*	Varies by age and service	Varies by age and service	Varies by age and service	Varies by age and service
*Includes Inflation At	3.0%	3.0%	3.0%	3.0%
Cost-of-living Adjustments	0.0%	0.0%	0.0%	0.0%

City of Pharr, Texas
NOTES TO FINANCIAL STATEMENTS
September 30, 2012

IV. OTHER INFORMATION - (continued)

D. Pension Plan-(continued)

2. Contributions-(continued)

The funded status as of December 31, 2011, the most recent actuarial valuation date, is as follows:

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Funded Ratio	Unfunded AAL (UAAL)	Covered Payroll	UAAL as a Percentage of Covered Payroll
	(1)	(2)	(3)	(4)	(5)	(6)
			(1)/(2)	(2)-(1)		(4)/(5)
12/31/2008	\$ 26,572,033	\$ 35,134,900	75.3%	\$ 8,662,867	\$ 16,450,849	52.7%
12/31/2009	\$ 28,465,143	\$ 37,276,917	76.4%	\$ 8,811,774	\$ 17,729,336	49.7%
12/31/2010	\$ 31,719,659	\$ 40,488,486	78.3%	\$ 8,768,827	\$ 17,770,636	49.3%
12/31/2010	\$ 41,686,353	\$ 46,768,782	89.1%	\$ 5,082,429	\$ 17,770,636	28.6%
12/31/2011	\$ 45,864,221	\$ 49,965,141	91.80%	\$ 4,100,920	\$ 19,519,197	21.0%

¹ Actuarial valuation performed under the original fund structure.

² Actuarial valuation performed under the new fund structure.

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events far into the future. Actuarially determined amounts are subject to continual revisions as actual results are compared to past expectations and new estimates are made about the future.

Actuarial calculations are based on the benefits provided under the terms of the substantive plan in effect at the time of each valuation, and reflect a long-term perspective. Consistent with that perspective, actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets. The schedule of funding progress, presented as Required Supplementary Information following the notes to the financial statements, presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability of benefits.

E. Other Post Employment Benefit (OPEB) Programs

1. Supplemental Death Benefits Plan Description

The City also participates in the cost sharing multiple-employer defined benefit group-term life insurance plan operated by the Texas Municipal Retirement System (TMRS) known as the Supplemental Death Benefits Fund (SDBF). The City elected, by ordinance, to provide group-term life insurance coverage to both current and retired employees. The City may terminate coverage under and discontinue participation in the SDBF by adopting an ordinance before November 1 of any year to be effective the following January 1.

The death benefits for active employees provides a lump-sum payment approximately equal to the employee's annual salary (calculated based on the employee's actual earnings, for the 12-month period preceding the month of death); retired employees are insured for \$7,500; this coverage is an "other post-employment benefit," or OPEB.

City of Pharr, Texas
NOTES TO FINANCIAL STATEMENTS
September 30, 2012

IV. OTHER INFORMATION - (continued)

E. Other Post Employment Benefit (OPEB) Programs

2. Supplemental Death Benefits (SDBF) Plan Contributions

The City contributes to the SDBF at a contractually required rate as determined by an annual actuarial valuation. The rate is equal to the cost of providing one-year term life insurance. The funding policy for the SDBF program is to assure that adequate resources are available to meet all death benefit payments for the upcoming year; the intent is not to pre-fund retiree term life insurance during employees' entire careers.

The City's contributions to the TMRS SDBF for the years ended 2012, 2011, and 2010 were \$27,954, \$29,662, and \$28,186 respectively, which equaled the required contributions each year.

Plan/Calendar Year	Annual Required Contribution Rate (ARC) (Rate)	Actual Contribution Made (Rate)	Percentage of ARC
2009	0.02%	0.02%	100.0%
2010	0.03%	0.03%	100.0%
2011	0.02%	0.02%	100.0%
2012	0.01%	0.01%	100.0%

3. Retiree Health Insurance Benefit Plan Description

The City sponsors a post-retirement plan which covers health insurance benefits. Eligible City retirees and their dependents may continue health care coverage through the City's plan.

Retirement eligibility depends on when an employee was hired, their age, and their length of service with the City. Employees must be at least 50 years old and 10 years of service with the City. Employees hired on or after January 1, 2009 will not be eligible for retiree health benefits. Employees hired prior to January 1, 2009 will be eligible for the following City subsidy:

Current Pre-65 Retirees

City will pay 100% of single coverage rate not to exceed \$275 per month, and City will pay 50% of dependent coverage not to exceed \$225 per month. As actual premium costs increase in future years, retirees will pay the full difference between the above fixed subsidy amounts and the blended (pooled active and retiree) premium rate.

Current Post-65 Retirees

City will reimburse Medicare Advantage premium for self-coverage only. As premiums cost increase in the future, the City intends to reimburse the increased premium rate.

Current Employees Who Retire In The Future

Same as above, except no reimbursement for post-65 coverage, and no reimbursement for dependent coverage, for either pre-65 or post-65.

City of Pharr, Texas
NOTES TO FINANCIAL STATEMENTS
September 30, 2012

V. OTHER INFORMATION - (continued)

E. Other Post Employment Benefit (OPEB) Programs-(continued)

4. Retiree Health Insurance Benefit Plan Funding Policy

An irrevocable trust to fully fund this benefit plan has been created and is reflected in the Schedule of Funding Progress in the Required Supplementary Information Section as Value of Plan Assets that reduces the Actuarial Accrued Liability.

5. Retiree Health Insurance Benefit Plan Annual OPEB Cost and Net OPEB Obligation

The annual required contribution (ARC) is actuarially determined in accordance with the parameters of GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pension*. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover the normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed 30 years. The most current actuarial valuations were made as of January 1, 2010.

The following table shows the valuation results and the derivation of the Annual OPEB Cost for the fiscal year, it also contains the amount actually contributed to the plan, and changes in the City's net OPEB obligation:

	As of January 1, 2010
	Total Benefits
Valuation Results	
1 Present Value of Future Benefits	\$ 6,786,852
2 Actuarial Accrued Liability	4,698,844
3 Normal Cost Beginning of Year	128,988
4 Net OPEB Obligation (NOO)	631,916
Amortization Cost	
5 Actuarial Accrued Liability	4,698,844
6 Amortization Factor (30 years)	16.29
7 Amortization cost (5/6)	288,450
Annual Required Contribution	
Using 30-Year Amortization	
8 Normal cost with 4.5% Inventory to EOY	134,792
9 Amortization Cost at end of year	288,450
10 Total	\$ 423,242
Assumptions	
Discount Rate	4.50%
Healthcare cost trend rate	
*2011-2012	9.00%
*Ultimate (2015)	4.50%
Future participation rate	100.00%
Future retirees covering an spouse	0.00%
Annual OPEB Cost, Contribution, and Change in OPEB-FYE 09/30/12	
Annual required contribution prior to adjustments	\$ 423,242
Interest on net OPEB obligation at 4.5%	28,436
Adjustment to annual required contribution	(38,792)
Annual OPEB cost	412,886
Contributions made	(195,115)
Increase in net OPEB obligation	217,771
Net OPEB obligation beginning of year	820,811
Funded obligation through irrevocable trust	(496,310)
Net OPEB obligation end of year	\$ 542,272

City of Pharr, Texas
NOTES TO FINANCIAL STATEMENTS
September 30, 2012

IV. OTHER INFORMATION - (continued)

E. Other Post Employment Benefit (OPEB) Programs – (continued)

The City’s annual OPEB cost and the percentage cost contributed to the plan for the year is as follows:

Year Ended September 30,	Annual OPEB Cost	Actual Contribution	Percentage of Annual OPEB Cost Contribution
2010	\$ 559,159	\$ 243,199	43.5%
2011	\$ 412,886	\$ 234,347	56.8%
2012	\$ 412,886	\$ 195,115	47.3%

The information presented relating to the Retiree Health Insurance Benefit Plan (including the information in the Required Supplementary Information section) was determined as part of the actuarial valuations at the dates indicated. Additional information as of the latest actuarial valuation follows:

Actuarial Valuation Date	01/01/2010
Actuarial Cost Method	Projected Unit Credit
Amortization Method	Level dollar, open
Remaining Amortization Period	30 years
Asset Valuation Method	Market Value
Actuarial Assumptions:	
Investment Rate of Return	4.5%
Projected Salary Increases	N/A
Healthcare Inflation Rate	10% initial, 4.5% ultimate

6. OPEB Irrevocable Trust Fund

In Fiscal year 2011-2012, the City entered into a contractual agreement with First Southwest Advisory Services, Inc. (FSWA). for the administration and maintenance of cash and other assets from the City’s contributions for Other Post-Employment Benefits in the form of an irrevocable trust to fund for its long-term obligation to its participants and to comply with GASB Statement No. 45.

FSWA is registered as an investment advisor with the Securities and Exchange Commission (“SEC”) pursuant to the Investment Advisers Act of 1940 and acknowledges that it is a fiduciary with respect to the Trust. FSWA will notify Employer if at any time during the term of this Agreement if it is not registered or if its registration is suspended or restricted.

The balance of the trust at September 30, 2012 was \$496,310.

REQUIRED SUPPLEMENTARY INFORMATION

City of Pharr, Texas
NOTES TO FINANCIAL STATEMENTS
September 30, 2012

IV. OTHER INFORMATION - (continued)

F. New Accounting Principles

The GASB has issued Statement No. 63 "Financial Reporting of Deferred Outflow of Resources, Deferred Inflow of Resources, and Net Position" and Statement No. 65 "Items previously Reported as Assets and Liabilities". These statements establish new categories for reporting certain assets and liabilities and revise the definition for governmental fund types and for government-wide statements. The requirements of Statement No. 63 and 65 are effective for financial statements for periods beginning after December 15, 2011 and December 15, 2012 respectively, however, since early implementation is encouraged, the City applied the applicable changes at September 30, 2012 resulting in a prior period adjustment of \$(1,301,118).

G. Other

On June 15, 2012, the Hidalgo County Commissioner's Court approved the Interlocal agreement to participate in the TIRZ # 1. with Resolution # R-2011-40, the City of Pharr (City) Commissioners created the Tax Increment Financing Reinvestment Zone #1 (TIRZ#1). TIRZ#1 is a separate entity currently without its own EIN, whose board consists of the City Mayor and 3 members of the City Commission along with one member of the County Commission. TIRZ#1 is created via ordinance and an Interlocal with Hidalgo County to participate in an inter-local agreement that lasts till 2032 with the City. The County contributes 50% of its M&O Tax Rate for the increase in taxable value (personal and real property) in the zone, but shall not exceed \$13,080,899 during the life of the inter-local agreement. The City would contribute 75% of its M&O Tax Rate for the increase in taxable value (personal and real property) in the zone, but shall not exceed \$25,535,918 during the life of the inter-local agreement. There is one project currently being worked on and should be implemented as part of the TIRZ#1 activities, the Pharr Industrial Park Project.

H. Land available for sale

During FY 2011-2012, the City and PEDC II entered into an agreement to buy land for economic development purposes. As of September 30, 2012, the City has purchased a total of \$17,682,483 in properties and PEDC II a total of \$3,034,762. Since the purpose of this land is to develop business in the City of Pharr area, it is available for sale to any potential buyer. On February 2012, the City approved the motion to contribute all purchased land to PEDCII and transfer of title is still in progress as of September 30, 2012 and is expected to be completed this next fiscal year.

I. Related Party

In March 2012, a company owned by a commissioner's family member entered into a 380 agreement with the City. Under the agreement, the company will petition annexation of 154.88 acres of land it owns into the City. The company will donate 8.8 acres of land to the City for development and will reimburse the City \$362,565 for development costs incurred by the City. The company will be eligible for reimbursement of these costs through TIRZ # 1. Once the land is developed and the City has been reimbursed, it will transfer the two developed lots to the company for its own use.

J. Subsequent events

On November 30, 2012, the PEDC II settled a loan from Lone Star National Bank of \$4,642,500 for the development of a produce district to stimulate the local and state economy and increase international commercial crossings leading to and from the Pharr-Reynosa International Toll Bridge.

On October 25, 2012, the Pharr-San Juan-Alamo I.S.D. financed the City the purchase of Whitney Elementary School building for a total of \$4,250,000 to be repaid within the next five years. The purpose of this purchase is to use the land for economic development.

On December 20, 2012, the Fitch Group reaffirmed the rating of the City to "AA".



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**CITY OF PHARR, TEXAS
TEXAS MUNICIPAL RETIREMENT SYSTEM
POST EMPLOYMENT PENSION PLAN
SCHEDULE OF FUNDING PROGRESS (unaudited)**

Actuarial Valuation Date	Actuarial Value of Plan Assets (a)	Actuarial Accrued Liability (AAL) (b)	Funded Ratio (a/b)	Excess of Assets Over/ (Unfunded) AAL (a-b)	Covered Payroll (c)	Unfunded AAL as Percentage of Covered Payroll ((b-a)/c)
12/31/08	\$ 26,472,033	\$ 35,134,900	75.3%	\$ (8,662,867)	\$ 16,450,849	52.7%
12/31/09	\$ 28,465,143	\$ 37,276,917	76.4%	\$ (8,811,774)	\$ 17,729,336	49.7%
12/31/10 ⁽¹⁾	\$ 31,719,659	\$ 40,488,486	78.3%	\$ (8,768,827)	\$ 17,770,636	49.3%
12/31/10 ⁽²⁾	\$ 41,686,353	\$ 46,768,782	89.1%	\$ (5,082,429)	\$ 17,770,636	28.6%
12/31/11 ⁽²⁾	\$ 45,864,221	\$ 49,965,141	91.8%	\$ (4,100,920)	\$ 19,519,197	21.0%

(1) Actuarial valuation performed under the original fund structure

(2) Actuarial valuation performed under the new fund structure

**CITY OF PHARR, TEXAS
POST EMPLOYMENT BENEFIT PLAN
RETIREE HEALTH INSURANCE BENEFIT PLAN
SCHEDULE OF FUNDING PROGRESS (unaudited)**

Actuarial Valuation Date	Value of Plan Assets (a)	Actuarial Accrued Liability (AAL) (b)	Funded Ratio (a/b)	Excess of Assets Over/ (Unfunded) AAL (a-b)	Covered Payroll (c)	Unfunded AAL as Percentage of Covered Payroll ((b-a)/c)
1/1/08	\$ -	\$ 6,701,179	0.00%	\$ (6,701,179)	\$ 16,450,849	40.7%
1/1/09	\$ -	\$ 6,701,179	0.00%	\$ (6,701,179)	\$ 17,729,336	37.8%
1/1/10	\$ -	\$ 4,698,844	0.00%	\$ (4,698,844)	\$ 17,770,636	26.4%
1/1/11	\$ 496,310	\$ 4,698,844	10.56%	\$ (4,202,534)	\$ 19,519,197	21.5%

CITY OF PHARR, TEXAS
GENERAL FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)
FOR THE YEAR ENDED SEPTEMBER 30, 2012

	<u>Budgeted Amounts</u>		<u>Actual Budget Basis</u>	<u>Final Variance Budget Basis</u>
	<u>Original</u>	<u>Final</u>		
REVENUES				
Taxes:				
Property	\$ 13,391,490	\$ 13,611,490	\$ 13,644,916	\$ 33,426
Sales	7,999,200	8,899,200	9,563,734	664,534
Franchise	1,893,200	2,078,200	2,232,328	154,128
Other	164,000	164,000	144,683	(19,317)
Licenses and permits	555,000	555,000	664,280	109,280
Intergovernmental	274,000	274,000	306,758	32,758
Fees and charges:				
Sanitation	2,370,000	2,370,000	2,478,021	108,021
Brush	1,018,800	1,018,800	1,062,898	44,098
Other	527,600	983,000	1,065,278	82,278
Fines	1,030,000	968,000	976,923	8,923
Interest income	240,000	240,000	313,206	73,206
Other	175,680	344,380	546,601	202,221
Total revenues	<u>29,638,970</u>	<u>31,506,070</u>	<u>32,999,626</u>	<u>1,493,556</u>
EXPENDITURES				
Current:				
General government	6,016,250	32,907,928	11,471,342	21,436,586
Public safety	18,419,210	20,291,252	19,914,640	376,612
Highways and streets	1,901,480	1,814,466	1,718,465	96,001
Health and welfare	2,566,000	2,676,020	2,651,313	24,707
Culture and recreation	3,385,580	3,762,594	3,689,390	73,204
Debt service:				
Principal	759,260	850,900	844,626	6,274
Interest	86,910	89,680	73,204	16,476
Total expenditures	<u>33,134,690</u>	<u>62,392,840</u>	<u>40,362,980</u>	<u>22,029,860</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(3,495,720)</u>	<u>(30,886,770)</u>	<u>(7,363,354)</u>	<u>23,523,416</u>
OTHER FINANCING SOURCES (USES)				
Transfers in	2,737,230	19,153,730	18,783,274	(370,456)
Transfers (out)	(89,660)	(11,170,800)	(11,452,540)	(281,740)
Sale of capital asset	-	85,000	85,000	-
Issuance of debt	848,150	8,473,150	8,473,150	-
Total other financing sources and uses	<u>3,495,720</u>	<u>16,541,080</u>	<u>15,888,884</u>	<u>(652,196)</u>
Net change in fund balance	-	(14,345,690)	8,525,530	22,871,220
Fund balance - beginning	17,159,362	17,159,362	17,159,362	-
Prior period adjustment	-	-	4,915,946	4,915,946
Fund balance - ending	<u>\$ 17,159,362</u>	<u>\$ 2,813,672</u>	<u>\$ 30,600,838</u>	<u>\$ 27,787,166</u>

CITY OF PHARR, TEXAS
ECONOMIC DEVELOPMENT CORPORATION 4B FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)
FOR THE YEAR ENDED SEPTEMBER 30, 2012

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Final</u>
	<u>Original</u>	<u>Final</u>	<u>Budget</u>	<u>Variance</u>
			<u>Basis</u>	<u>Budget Basis</u>
REVENUES				
Taxes:				
Sales	\$ 2,666,400	\$ 2,899,400	\$ 3,237,750	\$ 338,350
Other	30,000	30,000	24,320	(5,680)
Interest income	20,000	20,000	35,048	15,048
Other	-	-	141,648	141,648
Total revenues	<u>2,716,400</u>	<u>2,949,400</u>	<u>3,438,766</u>	<u>489,366</u>
EXPENDITURES				
Current:				
Economic development	<u>1,682,420</u>	<u>2,943,342</u>	<u>2,676,820</u>	<u>266,522</u>
Total expenditures	<u>1,682,420</u>	<u>2,943,342</u>	<u>2,676,820</u>	<u>266,522</u>
Excess (deficiency) of revenues over (under) expenditures	<u>1,033,980</u>	<u>6,058</u>	<u>761,946</u>	<u>755,888</u>
OTHER FINANCING SOURCES (USES)				
Transfers in	-	-	280,755	280,755
Transfers (out)	(3,043,980)	(7,988,980)	(3,151,721)	4,837,259
Issuance of debt	-	4,600,000	-	(4,600,000)
Total other financing sources and uses	<u>(3,043,980)</u>	<u>(3,388,980)</u>	<u>(2,870,966)</u>	<u>518,014</u>
Net change in fund balance	<u>(2,010,000)</u>	<u>(3,382,922)</u>	<u>(2,109,020)</u>	<u>1,273,902</u>
Fund balance - beginning	3,427,230	3,427,230	3,427,230	-
Prior period adjustment	-	-	176,305	176,305
Fund balance - ending	<u>\$ 1,417,230</u>	<u>\$ 44,308</u>	<u>\$ 1,494,515</u>	<u>\$ 1,450,207</u>

CITY OF PHARR, TEXAS
CAPITAL PROJECTS FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)
FOR THE YEAR ENDED SEPTEMBER 30, 2012

	<u>Budgeted Amounts</u>		<u>Actual Budget Basis</u>	<u>Final Variance Budget Basis</u>
	<u>Original</u>	<u>Final</u>		
REVENUES				
Intergovernmental	\$ 7,889,000	\$ 7,889,000	\$ 1,658,319	\$ (6,230,681)
Total revenues	<u>7,889,000</u>	<u>7,889,000</u>	<u>1,658,319</u>	<u>(6,230,681)</u>
EXPENDITURES				
Current:				
Highways and streets	18,007,000	13,507,000	3,285,151	10,221,849
Culture and recreation	<u>5,840,000</u>	<u>5,840,000</u>	<u>1,726,068</u>	<u>4,113,932</u>
Total expenditures	<u>23,847,000</u>	<u>19,347,000</u>	<u>5,011,219</u>	<u>14,335,781</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(15,958,000)</u>	<u>(11,458,000)</u>	<u>(3,352,900)</u>	<u>8,105,100</u>
OTHER FINANCING SOURCES (USES)				
Transfers in	<u>14,008,000</u>	<u>9,508,000</u>	<u>18,797,709</u>	<u>9,289,709</u>
Total other financing sources and uses	<u>14,008,000</u>	<u>9,508,000</u>	<u>18,797,709</u>	<u>9,289,709</u>
Net change in fund balance	(1,950,000)	(1,950,000)	15,444,809	17,394,809
Fund balance - beginning	1,711,735	1,711,735	1,711,735	-
Prior period adjustment	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Fund balance - ending	<u>\$ (238,265)</u>	<u>\$ (238,265)</u>	<u>\$ 17,156,544</u>	<u>\$ 17,394,809</u>

CITY OF PHARR, TEXAS
PHARR PUBLIC FACILITIES CORPORATION # 1
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)
FOR THE YEAR ENDED SEPTEMBER 30, 2012

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Final</u>
	<u>Original</u>	<u>Final</u>	<u>Budget</u>	<u>Variance</u>
			<u>Basis</u>	<u>Budget Basis</u>
REVENUES				
Interest income	\$ -	\$ -	\$ 4	\$ 4
Total revenues	<u>-</u>	<u>-</u>	<u>4</u>	<u>4</u>
EXPENDITURES				
Debt service:				
Interest	410,000	410,000	305,947	104,053
Total expenditures	<u>410,000</u>	<u>410,000</u>	<u>305,947</u>	<u>104,053</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(410,000)</u>	<u>(410,000)</u>	<u>(305,943)</u>	<u>104,057</u>
OTHER FINANCING SOURCES (USES)				
Transfers in		410,000	260,947	(149,053)
Transfers (out)	(14,905,000)	(14,905,000)	(14,905,000)	-
Issuance of debt	-	-	15,000,000	15,000,000
Total other financing sources and uses	<u>(14,905,000)</u>	<u>(14,495,000)</u>	<u>355,947</u>	<u>14,850,947</u>
Net change in fund balance	<u>(15,315,000)</u>	<u>(14,905,000)</u>	<u>50,004</u>	<u>14,955,004</u>
Fund balance - beginning	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Fund balance - ending	<u>\$ (15,315,000)</u>	<u>\$ (14,905,000)</u>	<u>\$ 50,004</u>	<u>\$ 14,955,004</u>

**COMBINING AND INDIVIDUAL FUND INFORMATION AND OTHER
SUPPLEMENTARY INFORMATION**

Non-Major Governmental Funds Combining Financial Statements

Special Revenue Funds are used to account for specific revenues that are legally restricted to expenditure for particular purposes.

Asset Sharing – This fund accounts for forfeitures awarded to the City by the courts and drug enforcement expenditures.

Community Development – This fund accounts for revenue received from the Community Development Block Grant and the expenditures allowed by grant terms.

Hotel-Motel – This fund accounts for revenue from a seven percent tax levied upon the cost of City hotel and motel rooms with a daily rate over \$2. According to state civil statutes, this tax revenue can be used to promote tourism, maintain and repair convention facilities, promote the arts and humanities, or any other purpose directly related to these activities.

Parkland Dedication – This fund accounts for contributions developers are required to make when creating subdivisions for park improvements or development.

Paving & Drainage – This fund accounts for restricted funds that were billed and collected from every utility account to supplement the cost of street improvements.

Special Revenue – This fund accounts for miscellaneous revenues for various purposes that are restricted from general use. Seven departments use this fund: Police, Fire, Court, Streets, Library, Planning & Zoning, and Non-Departmental.

Grants – This fund accounts for general grant revenues awarded to the City. Three departments utilize this fund: Police, Fire, and Library.

Debt Service Funds are used to account for the accumulation of resources and payment of general long-term debt of the City.

Debt Service – This fund accounts for the accumulation of resources for and the payment of General and Certificates of Obligation.

**CITY OF PHARR, TEXAS
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
SEPTEMBER 30, 2012**

	Special Revenue Funds			
	Asset Sharing	Community Development	Hotel/Motel	Parkland Dedication
<u>ASSETS AND DEFERRED OUTFLOWS</u>				
Cash	\$ 1,395,760	\$ 187,830	\$ 21,054	\$ -
Receivables (net of allowance for uncollectible):				
Property taxes	-	-	-	-
Notes	-	58,448	-	-
Accounts	-	-	-	-
Other	-	-	175,315	-
Due from other funds	530	-	-	-
Restricted assets:				
Cash with fiscal agent	-	-	150,000	-
Intergovernmental receivable	-	139,512	-	-
Total assets	\$ 1,396,290	\$ 385,790	\$ 346,369	\$ -
<u>LIABILITIES, DEFERRED INFLOW OF RESOURCES AND FUND BALANCE</u>				
Liabilities:				
Accounts payable	\$ 119,637	\$ 133,926	\$ 134,947	\$ -
Due to other governments	-	42,700	-	-
Due to other funds	34,520	138,795	34,231	-
Total liabilities	154,157	315,421	169,178	-
Deferred property tax	-	-	-	-
Deferred accounts	-	-	-	-
Deferred revenue	-	58,448	12,600	-
Total deferred inflows	-	58,448	12,600	-
Fund balances:				
Restricted:				
Debt service	-	-	-	-
Street paving and drainage	-	-	-	-
Tourism	-	-	-	-
Public safety	1,242,133	-	-	-
Community development	-	11,921	-	-
Unassigned:				
Total fund balances	1,242,133	11,921	164,591	-
Total liabilities and fund balances	\$ 1,396,290	\$ 385,790	\$ 346,369	\$ -

			Debt Service Fund Debt Service	Total Nonmajor Governmental Funds
Paving & Drainage	Grants	Total		
\$ 92,395	\$ 16,488	\$ 1,713,527	\$ 20,242	\$ 1,733,769
-	-	-	212,918	212,918
-	-	58,448	-	58,448
109,205	-	109,205	-	109,205
-	-	175,315	-	175,315
-	-	530	-	530
-	-	150,000	-	150,000
-	472,397	611,909	-	611,909
<u>\$ 201,600</u>	<u>\$ 488,885</u>	<u>\$ 2,818,934</u>	<u>\$ 233,160</u>	<u>\$ 3,052,094</u>
\$ 7,261	\$ 45,301	\$ 441,072	\$ 550	\$ 441,622
-	-	42,700	-	42,700
-	443,584	651,130	-	651,130
<u>7,261</u>	<u>488,885</u>	<u>1,134,902</u>	<u>550</u>	<u>1,135,452</u>
-	-	-	212,918	212,918
109,205	-	109,205	-	109,205
-	-	71,048	-	71,048
<u>109,205</u>	<u>-</u>	<u>180,253</u>	<u>212,918</u>	<u>393,171</u>
-	-	-	19,692	19,692
85,134	-	85,134	-	85,134
-	-	-	-	-
-	-	1,242,133	-	1,242,133
-	-	11,921	-	11,921
-	-	164,591	-	164,591
<u>85,134</u>	<u>-</u>	<u>1,503,779</u>	<u>19,692</u>	<u>1,523,471</u>
<u>\$ 201,600</u>	<u>\$ 488,885</u>	<u>\$ 2,818,934</u>	<u>\$ 233,160</u>	<u>\$ 3,052,094</u>

CITY OF PHARR, TEXAS
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
NONMAJOR GOVERNMENTAL FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2012

	Special Revenue Funds			
	Asset Sharing	Community Development	Hotel/Motel	Parkland Dedication
REVENUES				
Taxes:				
Property	\$ -	\$ -	\$ -	\$ -
Other	-	-	795,452	-
Intergovernmental	1,703,549	1,320,715	-	-
Fees and charges:				
Other	-	-	34,525	54,885
Interest income	23,158	736	4,745	114
Other	100	3,194	-	-
Total revenues	<u>1,726,807</u>	<u>1,324,645</u>	<u>834,722</u>	<u>54,999</u>
EXPENDITURES				
Current:				
General government	-	489,440	1,374,350	-
Public safety	895,882	87,860	-	-
Highways and streets	-	600,786	-	-
Health and welfare	-	-	-	-
Culture and recreation	-	97,391	-	-
Debt service:				
Principal	-	-	16,883	-
Interest	-	92,963	1,345	-
Total expenditures	<u>895,882</u>	<u>1,368,440</u>	<u>1,392,578</u>	<u>-</u>
Excess (deficiency) of revenues over (under) expenditures	<u>830,925</u>	<u>(43,795)</u>	<u>(557,856)</u>	<u>54,999</u>
OTHER FINANCING SOURCES (USES)				
Transfers in	-	21,292	3,552,859	-
Transfers (out)	-	(5,576,428)	(94,292)	(54,999)
Proceeds from sale of assets	35,000	-	-	-
Issuance of Debt	-	5,600,000	150,000	-
Total other financing sources and uses	<u>35,000</u>	<u>44,864</u>	<u>3,608,567</u>	<u>(54,999)</u>
Net change in fund balances	865,925	1,069	3,050,711	-
Fund balance - beginning	376,208	10,852	(2,870,819)	-
Prior period adjustment	-	-	(15,301)	-
Fund balance - ending	<u>\$ 1,242,133</u>	<u>\$ 11,921</u>	<u>\$ 164,591</u>	<u>\$ -</u>

<u>Paving & Drainage</u>	<u>Grants</u>	<u>Total</u>	<u>Debt Service Fund Debt Service</u>	<u>Total Nonmajor Governmental Funds</u>
\$ -	\$ -	\$ -	\$ 1,772,254	\$ 1,772,254
-	-	795,452	-	795,452
-	1,231,554	4,255,818	-	4,255,818
805,238	-	894,648	-	894,648
2,355	-	31,108	35,733	66,841
-	-	3,294	-	3,294
<u>807,593</u>	<u>1,231,554</u>	<u>5,980,320</u>	<u>1,807,987</u>	<u>7,788,307</u>
-	-	1,863,790	1,350	1,865,140
-	1,159,940	2,143,682	-	2,143,682
1,738,066	58,321	2,397,173	-	2,397,173
-	2,293	2,293	-	2,293
-	11,000	108,391	-	108,391
291,032	-	307,915	1,435,000	1,742,915
42,737	-	137,045	639,510	776,555
<u>2,071,835</u>	<u>1,231,554</u>	<u>6,960,289</u>	<u>2,075,860</u>	<u>9,036,149</u>
<u>(1,264,242)</u>	<u>-</u>	<u>(979,969)</u>	<u>(267,873)</u>	<u>(1,247,842)</u>
-	16,488	3,590,639	496,872	4,087,511
-	-	(5,725,719)	(272,733)	(5,998,452)
-	-	35,000	-	35,000
<u>1,349,000</u>	<u>-</u>	<u>7,099,000</u>	<u>-</u>	<u>7,099,000</u>
<u>1,349,000</u>	<u>16,488</u>	<u>4,998,920</u>	<u>224,139</u>	<u>5,223,059</u>
84,758	16,488	4,018,951	(43,734)	3,975,217
376	-	(2,483,383)	63,426	(2,419,957)
-	(16,488)	(31,789)	-	(31,789)
\$ <u>85,134</u>	\$ <u>-</u>	\$ <u>1,503,779</u>	\$ <u>19,692</u>	\$ <u>1,523,471</u>



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Fiduciary Fund
Schedule of Changes in Pension Liabilities

Retired Volunteer Firefighter's Pension Fund: is used to account for all changes in pension funds that the City holds for the retired volunteer firefighters.

CITY OF PHARR, TEXAS
SCHEDULE OF CHANGES IN FIDUCIARY PENSION ASSETS & LIABILITIES
FIDUCIARY FUNDS
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2012

		Retired Volunteer Firefighter's Pension Agency Fund
ADDITIONS		
Contributions:		
City of Pharr	\$	22,940
Employee		276
Total contributions		23,216
Investment earnings		
Interest		5,928
Total additions		29,144
DEDUCTIONS		
Benefits		353,195
Administrative expenses		20
Total deductions		353,215
Change in pension assets & liabilities		(324,071)
Pension assets & liabilities - beginning		330,206
Prior period adjustment		(6,135)
Pension assets & liabilities - ending	\$	-



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Governmental Funds

Schedule of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual

General Fund (detailed): is used to account for all financial resources except those required to be reported in another fund.

Special Revenue Funds are used to account for specific revenues that are legally restricted to expenditure for particular purposes.

Asset Sharing – This fund accounts for forfeitures awarded to the City by the courts and drug enforcement expenditures.

Community Development – This fund accounts for revenue received from the Community Development Block Grant and the expenditures allowed by grant terms.

Hotel-Motel – This fund accounts for revenue from a seven percent tax levied upon the cost of City hotel and motel rooms with a daily rate over \$2. According to state civil statutes, this tax revenue can be used to promote tourism, maintain and repair convention facilities, promote the arts and humanities, or any other purpose directly related to these activities.

Parkland Dedication – This fund accounts for contributions developers are required to make when creating subdivisions for park improvements or development.

Paving & Drainage – This fund accounts for restricted funds that were billed and collected from every utility account to supplement the cost of street improvements.

Grants – This fund accounts for general grant revenues awarded to the City. Three departments utilize this fund: Police, Fire, and Library.

Debt Service Funds are used to account for the accumulation of resources and payment of general long-term debt of the City.

Debt Service – This fund accounts for the accumulation of resources for and the payment of General and Certificates of Obligation.

CITY OF PHARR, TEXAS
GENERAL FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)
FOR THE YEAR ENDED SEPTEMBER 30, 2012

REVENUES	Budgeted Amounts		Actual Budget Basis	Final Variance Budget Basis
	Original	Final		
Taxes:				
Property				
Current	\$ 11,990,000	\$ 12,210,000	\$ 12,193,239	\$ (16,761)
Delinquent	850,000	850,000	927,081	77,081
Penalty & interest	551,490	551,490	524,597	(26,893)
Other	164,000	164,000	144,682	(19,318)
Total property taxes	13,555,490	13,775,490	13,789,599	14,109
Sales	7,999,200	8,899,200	9,563,734	664,534
Franchise				
Telephone	227,200	227,200	302,618	75,418
Electric	1,350,000	1,535,000	1,538,704	3,704
Cable	225,620	225,620	307,048	81,428
Gas	90,380	90,380	83,958	(6,422)
Total franchise taxes	1,893,200	2,078,200	2,232,328	154,128
Total taxes	23,447,890	24,752,890	25,585,661	832,771
Licenses and permits				
Building	350,000	350,000	413,851	63,851
Vocational	113,000	113,000	137,372	24,372
Other	92,000	92,000	113,057	21,057
Total licenses & permits	555,000	555,000	664,280	109,280
Intergovernmental				
Local school districts	264,000	264,000	257,964	(6,036)
County	10,000	10,000	23,849	13,849
Other	-	-	24,945	24,945
Total intergovernmental	274,000	274,000	306,758	32,758
Fees and charges:				
Sanitation	2,370,000	2,370,000	2,478,021	108,021
Brush	1,018,800	1,018,800	1,062,898	44,098
Other	527,600	983,000	1,065,278	82,278
Total fees & charges	3,916,400	4,371,800	4,606,197	234,397
Fines				
Court	990,000	928,000	946,765	18,765
Other	40,000	40,000	30,158	(9,842)
Total fines	1,030,000	968,000	976,923	8,923
Interest income	240,000	240,000	313,206	73,206
Other	175,680	344,380	546,601	202,221
Total revenues	\$ 29,638,970	\$ 31,506,070	\$ 32,999,626	\$ 1,493,556

CITY OF PHARR, TEXAS
GENERAL FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS) - Continued
FOR THE YEAR ENDED SEPTEMBER 30, 2012

EXPENDITURES				
Current:				
General government				
City manager	1,146,250	1,192,102	1,012,757	179,345
Finance	932,150	938,208	911,085	27,123
IT	420,970	592,866	552,740	40,126
Planning	1,021,830	1,071,176	1,054,295	16,881
Engineering	288,750	291,276	244,740	46,536
Non-departmental	<u>2,206,300</u>	<u>28,822,300</u>	<u>7,695,725</u>	<u>21,126,575</u>
Total general government	6,016,250	32,907,928	11,471,342	21,436,586
Public safety				
Police	11,228,290	12,332,138	12,145,819	186,319
Traffic safety	1,284,020	1,453,040	1,412,858	40,182
Court	427,450	433,172	403,542	29,630
Fire	<u>5,479,450</u>	<u>6,072,902</u>	<u>5,952,421</u>	<u>120,481</u>
Total public safety	18,419,210	20,291,252	19,914,640	376,612
Highways and streets	1,901,480	1,814,466	1,718,465	96,001
Health and welfare				
Garbage	576,000	576,000	564,784	11,216
Brush	1,740,000	1,740,000	1,726,509	13,491
Animal control	<u>250,000</u>	<u>360,020</u>	<u>360,020</u>	<u>-</u>
Total health and welfare	2,566,000	2,676,020	2,651,313	24,707
Culture and recreation				
Library	1,057,410	1,074,668	1,056,656	18,012
Parks	<u>2,328,170</u>	<u>2,687,926</u>	<u>2,632,734</u>	<u>55,192</u>
Total culture and recreation	3,385,580	3,762,594	3,689,390	73,204
Debt service:				
Principal	759,260	850,900	844,626	6,274
Interest	<u>86,910</u>	<u>89,680</u>	<u>73,204</u>	<u>16,476</u>
	846,170	940,580	917,830	22,750
Total expenditures	<u>33,134,690</u>	<u>62,392,840</u>	<u>40,362,980</u>	<u>22,029,860</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(3,495,720)</u>	<u>(30,886,770)</u>	<u>(7,363,354)</u>	<u>23,523,416</u>
OTHER FINANCING SOURCES (USES)				
Transfers in				
Bridge	1,500,000	2,902,500	3,016,725	114,225
Utility	361,620	361,620	361,620	-
Golf	30,000	30,000	30,000	-
PEDC	547,110	892,110	447,567	(444,543)
PFC No. 1	-	14,945,000	14,905,000	(40,000)
Hotel/Motel	292,500	16,500	16,362	(138)
Parkland	<u>6,000</u>	<u>6,000</u>	<u>6,000</u>	<u>-</u>
Total transfers in	2,737,230	19,153,730	18,783,274	(370,456)
Transfers (out)				
Golf	(38,740)	(195,200)	(195,200)	-
Community Development	(50,920)	(50,920)	(21,292)	29,628
Grants	-	-	(16,487)	(16,487)
Capital Projects	-	(7,525,000)	(7,525,000)	-
Hotel/Motel	-	(3,138,680)	(3,152,859)	(14,179)
PEDC	-	-	(280,755)	(280,755)
PFC No. 1	-	(261,000)	(260,947)	53
Total transfers (out)	(89,660)	(11,170,800)	(11,452,540)	(281,740)
Sales of capital assets		85,000	85,000	-
Issuance of debt	848,150	8,473,150	8,473,150	-
Total	848,150	8,558,150	8,558,150	-
Total other financing sources and uses	<u>3,495,720</u>	<u>16,541,080</u>	<u>15,888,884</u>	<u>(652,196)</u>
Net change in fund balance	-	(14,345,690)	8,525,530	22,871,220
Fund balance - beginning	17,159,362	17,159,362	17,159,362	-
Prior period adjustment	-	-	4,915,946	4,915,946
Fund balance - ending	<u>\$ 17,159,362</u>	<u>\$ 2,813,672</u>	<u>\$ 30,600,838</u>	<u>\$ 27,787,166</u>

**CITY OF PHARR, TEXAS
ASSET SHARING FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)
FOR THE YEAR ENDED SEPTEMBER 30, 2012**

	<u>Budgeted Amounts</u>		<u>Actual Budget Basis</u>	<u>Final Variance Budget Basis</u>
	<u>Original</u>	<u>Final</u>		
REVENUES				
Intergovernmental	\$ 300,000	\$ 300,000	\$ 1,703,549	\$ 1,403,549
Interest income	8,000	8,000	23,158	15,158
Other	-	-	100	100
Total revenues	<u>308,000</u>	<u>308,000</u>	<u>1,726,807</u>	<u>1,418,807</u>
EXPENDITURES				
Current:				
Public safety	<u>708,000</u>	<u>833,000</u>	<u>895,882</u>	<u>(62,882)</u>
Total expenditures	<u>708,000</u>	<u>833,000</u>	<u>895,882</u>	<u>(62,882)</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(400,000)</u>	<u>(525,000)</u>	<u>830,925</u>	<u>1,355,925</u>
OTHER FINANCING SOURCES (USES)				
Sales of capital assets	<u>-</u>	<u>-</u>	<u>35,000</u>	<u>35,000</u>
Total other financing sources and uses	<u>-</u>	<u>-</u>	<u>35,000</u>	<u>35,000</u>
Net change in fund balance	<u>(400,000)</u>	<u>(525,000)</u>	<u>865,925</u>	<u>1,390,925</u>
Fund balance - beginning	<u>376,208</u>	<u>376,208</u>	<u>376,208</u>	<u>-</u>
Fund balance - ending	<u>\$ (23,792)</u>	<u>\$ (148,792)</u>	<u>\$ 1,242,133</u>	<u>\$ 1,390,925</u>

CITY OF PHARR, TEXAS
COMMUNITY DEVELOPMENT FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)
FOR THE YEAR ENDED SEPTEMBER 30, 2012

	<u>Budgeted Amounts</u>		<u>Actual Budget Basis</u>	<u>Final Variance Budget Basis</u>
	<u>Original</u>	<u>Final</u>		
REVENUES				
Intergovernmental	\$ 2,537,060	\$ 2,537,060	\$ 1,320,715	\$ (1,216,345)
Interest income	-	-	736	736
Other	-	-	3,194	3,194
Total revenues	<u>2,537,060</u>	<u>2,537,060</u>	<u>1,324,645</u>	<u>(1,212,415)</u>
EXPENDITURES				
Current:				
General government	976,610	1,502,692	489,440	1,013,252
Public safety	-	93,276	87,860	5,416
Highways and streets	257,230	357,230	600,786	(243,556)
Culture and recreation	-	97,391	97,391	-
Debt service:				
Principal	526,000	526,000	-	526,000
Interest	15,660	15,660	92,963	(77,303)
Total expenditures	<u>1,775,500</u>	<u>2,592,249</u>	<u>1,368,440</u>	<u>1,223,809</u>
Excess (deficiency) of revenues over (under) expenditures	<u>761,560</u>	<u>(55,189)</u>	<u>(43,795)</u>	<u>11,394</u>
OTHER FINANCING SOURCES (USES)				
Transfers in	50,920	50,920	21,292	(29,628)
Transfers (out)	-	(5,575,500)	(5,576,428)	(928)
Bond/loan proceeds	-	5,575,500	5,600,000	24,500
Total other financing sources and uses	<u>50,920</u>	<u>50,920</u>	<u>44,864</u>	<u>(6,056)</u>
Net change in fund balance	812,480	(4,269)	1,069	5,338
Fund balance - beginning	<u>10,852</u>	<u>10,852</u>	<u>10,852</u>	<u>-</u>
Fund balance - ending	<u>\$ 823,332</u>	<u>\$ 6,583</u>	<u>\$ 11,921</u>	<u>\$ 5,338</u>

CITY OF PHARR, TEXAS
HOTEL/MOTEL FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)
FOR THE YEAR ENDED SEPTEMBER 30, 2012

	<u>Budgeted Amounts</u>		<u>Actual Budget Basis</u>	<u>Final Variance Budget Basis</u>
	<u>Original</u>	<u>Final</u>		
REVENUES				
Taxes:				
Other	\$ 790,000	\$ 790,000	\$ 795,452	\$ 5,452
Fees and charges:				
Other	420,000	420,000	34,525	(385,475)
Interest income	5,000	5,000	4,745	(255)
Total revenues	<u>1,215,000</u>	<u>1,215,000</u>	<u>834,722</u>	<u>(380,278)</u>
EXPENDITURES				
Current:				
General government	1,080,350	1,086,474	1,374,350	(287,876)
Debt service:				
Principal	4,670	4,670	16,883	(12,213)
Interest	22,050	22,050	1,345	20,705
Total expenditures	<u>1,107,070</u>	<u>1,113,194</u>	<u>1,392,578</u>	<u>(279,384)</u>
Excess (deficiency) of revenues over (under) expenditures	<u>107,930</u>	<u>101,806</u>	<u>(557,856)</u>	<u>(659,662)</u>
OTHER FINANCING SOURCES (USES)				
Transfers in	-	-	3,552,859	3,552,859
Transfers (out)	(370,430)	(370,430)	(94,292)	276,138
Bond/loan proceeds	150,000	150,000	150,000	-
Total other financing sources and uses	<u>(220,430)</u>	<u>(220,430)</u>	<u>3,608,567</u>	<u>3,828,997</u>
Net change in fund balance	(112,500)	(118,624)	3,050,711	3,169,335
Fund balance - beginning	(2,870,819)	(2,870,819)	(2,870,819)	-
Prior period adjustment	-	-	(15,301)	(15,301)
Fund balance - ending	<u>\$ (2,983,319)</u>	<u>\$ (2,989,443)</u>	<u>\$ 164,591</u>	<u>\$ 3,154,034</u>

CITY OF PHARR, TEXAS
PARKLAND DEDICATION FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)
FOR THE YEAR ENDED SEPTEMBER 30, 2012

	<u>Budgeted Amounts</u>		<u>Actual Budget Basis</u>	<u>Final Variance Budget Basis</u>
	<u>Original</u>	<u>Final</u>		
REVENUES				
Fees and charges:				
Other	\$ 5,000	\$ 5,000	\$ 54,885	\$ 49,885
Interest Income	1,000	1,000	115	(885)
Total revenues	<u>6,000</u>	<u>6,000</u>	<u>55,000</u>	<u>49,000</u>
EXPENDITURES				
Current:				
Culture and recreation	-	-	-	-
Total expenditures	-	-	-	-
Excess (deficiency) of revenues over (under) expenditures	<u>6,000</u>	<u>6,000</u>	<u>55,000</u>	<u>49,000</u>
OTHER FINANCING SOURCES (USES)				
Transfers (out)	<u>(6,000)</u>	<u>(55,000)</u>	<u>(55,000)</u>	<u>-</u>
Total other financing sources and uses	<u>(6,000)</u>	<u>(55,000)</u>	<u>(55,000)</u>	<u>-</u>
Net change in fund balance	-	(49,000)	-	49,000
Fund balance - beginning	-	-	-	-
Fund balance - ending	<u>\$ -</u>	<u>\$ (49,000)</u>	<u>\$ -</u>	<u>\$ 49,000</u>

CITY OF PHARR, TEXAS
PAVING & DRAINAGE FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)
FOR THE YEAR ENDED SEPTEMBER 30, 2012

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Final</u>
	<u>Original</u>	<u>Final</u>	<u>Budget</u>	<u>Variance</u>
			<u>Basis</u>	<u>Budget Basis</u>
REVENUES				
Fees and charges:				
Other	\$ 720,000	\$ 720,000	\$ 805,238	\$ 85,238
Interest income	2,090	2,090	2,355	265
Other	-	110,000	-	(110,000)
Total revenues	<u>722,090</u>	<u>832,090</u>	<u>807,593</u>	<u>(24,497)</u>
EXPENDITURES				
Current:				
Highways and streets	783,750	1,898,690	1,738,066	160,624
Debt service:				
Principal	239,660	302,360	291,032	11,328
Interest	27,680	50,040	42,737	7,303
Total expenditures	<u>1,051,090</u>	<u>2,251,090</u>	<u>2,071,835</u>	<u>179,255</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(329,000)</u>	<u>(1,419,000)</u>	<u>(1,264,242)</u>	<u>154,758</u>
OTHER FINANCING SOURCES (USES)				
Bond/loan proceeds	329,000	1,349,000	1,349,000	-
Total other financing sources and uses	<u>329,000</u>	<u>1,349,000</u>	<u>1,349,000</u>	<u>-</u>
Net change in fund balance	-	(70,000)	84,758	154,758
Fund balance - beginning	376	376	376	-
Fund balance - ending	<u>\$ 376</u>	<u>\$ (69,624)</u>	<u>\$ 85,134</u>	<u>\$ 154,758</u>

CITY OF PHARR, TEXAS
GRANTS FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)
FOR THE YEAR ENDED SEPTEMBER 30, 2012

	<u>Budgeted Amounts</u>		<u>Actual Budget Basis</u>	<u>Final Variance Budget Basis</u>
	<u>Original</u>	<u>Final</u>		
REVENUES				
Intergovernmental	\$ 1,268,060	\$ 1,268,060	\$ 1,231,554	\$ (36,506)
Total revenues	<u>1,268,060</u>	<u>1,268,060</u>	<u>1,231,554</u>	<u>(36,506)</u>
EXPENDITURES				
Current:				
General government	-	-	-	-
Public safety	1,268,060	1,268,060	1,159,940	108,120
Highways and streets	-	-	58,321	(58,321)
Health and welfare	-	-	2,293	(2,293)
Culture and recreation	-	-	11,000	(11,000)
Total expenditures	<u>1,268,060</u>	<u>1,268,060</u>	<u>1,231,554</u>	<u>36,506</u>
Excess (deficiency) of revenues over (under) expenditures	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
OTHER FINANCING SOURCES (USES)				
Transfers in	-	-	16,488	16,488
Total other financing sources and uses	<u>-</u>	<u>-</u>	<u>16,488</u>	<u>16,488</u>
Net change in fund balance	-	-	-	-
Fund balance - beginning	-	-	-	-
Prior period adjustment	-	-	(16,488)	(16,488)
Fund balance - ending	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

CITY OF PHARR, TEXAS
DEBT SERVICE FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)
FOR THE YEAR ENDED SEPTEMBER 30, 2012

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Final</u>
	<u>Original</u>	<u>Final</u>	<u>Budget</u>	<u>Variance</u>
			<u>Basis</u>	<u>Budget Basis</u>
REVENUES				
Taxes:				
Property	\$ 1,731,000	\$ 1,731,000	\$ 1,772,254	\$ 41,254
Interest income	15,000	15,000	35,733	20,733
Total revenues	<u>1,746,000</u>	<u>1,746,000</u>	<u>1,807,987</u>	<u>61,987</u>
EXPENDITURES				
Current:				
General government	8,000	8,000	1,350	6,650
Debt service:				
Principal	1,435,000	1,435,000	1,435,000	-
Interest	639,510	639,510	639,510	-
Total expenditures	<u>2,082,510</u>	<u>2,082,510</u>	<u>2,075,860</u>	<u>6,650</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(336,510)</u>	<u>(336,510)</u>	<u>(267,873)</u>	<u>68,637</u>
OTHER FINANCING SOURCES (USES)				
Transfers in	496,870	496,870	496,872	2
Transfers (out)	<u>(160,360)</u>	<u>(272,360)</u>	<u>(272,733)</u>	<u>(373)</u>
Total other financing sources and uses	<u>336,510</u>	<u>224,510</u>	<u>224,139</u>	<u>(371)</u>
Net change in fund balance	-	(112,000)	(43,734)	68,266
Fund balance - beginning	<u>63,426</u>	<u>63,426</u>	<u>63,426</u>	<u>-</u>
Fund balance - ending	<u>\$ 63,426</u>	<u>\$ (48,574)</u>	<u>\$ 19,692</u>	<u>\$ 68,266</u>



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Proprietary Funds
Schedule of Revenues, Expenses and Changes in Net Position– Budget
and Actual

Utility Fund: is used to account for the City’s water and sewer/wastewater system operations.

Bridge Fund: is used to account for the City’s international bridge operations. The bridge enables traffic to flow to and from Mexico.

Golf Course Fund: is to account for the City owned Tierra Del Sol Golf Course operations.

City Garage Fund – This fund is used to account for fleet maintenance and maintains an inventory of parts for the City-owned vehicles.

CITY OF PHARR, TEXAS
UTILITY FUND
SCHEDULE OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)
FOR THE YEAR ENDED SEPTEMBER 30, 2012

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Final</u>
	<u>Original</u>	<u>Final</u>	<u>Budget</u>	<u>Variance</u>
			<u>Basis</u>	<u>Budget Basis</u>
OPERATING REVENUES				
Charges for sales and services:				
Water sales	\$ 6,340,000	\$ 6,582,550	\$ 7,611,132	\$ 1,028,582
Sewer service	4,975,000	4,975,000	5,607,750	632,750
Tap fees	210,640	210,640	365,855	155,215
Other	158,350	158,350	229,551	71,201
Total operating revenues	<u>11,683,990</u>	<u>11,926,540</u>	<u>13,814,288</u>	<u>1,887,748</u>
OPERATING EXPENSES				
Personnel services	2,630,390	2,719,832	2,567,936	151,896
Supplies and Materials	1,017,525	1,249,935	1,200,113	49,822
Contractual Services	3,044,315	3,219,105	3,211,085	8,020
Depreciation	-	-	3,281,811	(3,281,811)
Total operating expenses	<u>6,692,230</u>	<u>7,188,872</u>	<u>10,260,945</u>	<u>(3,072,073)</u>
Operating income (loss)	<u>4,991,760</u>	<u>4,737,668</u>	<u>3,553,343</u>	<u>(1,184,325)</u>
NON OPERATING REVENUES/(EXPENSES):				
Investment earnings	350,000	350,000	451,084	101,084
Interest expense	(1,681,050)	(1,681,050)	(1,537,356)	143,694
Amortization expense	-	-	(30,977)	(30,977)
Intergovernmental	-	-	17,388	17,388
Other	(25,000)	(25,000)	(2,208)	22,792
Total nonoperating revenues/ (expenses)	<u>(1,356,050)</u>	<u>(1,356,050)</u>	<u>(1,102,069)</u>	<u>253,981</u>
Income before contributions and transfers	<u>3,635,710</u>	<u>3,381,618</u>	<u>2,451,274</u>	<u>(930,344)</u>
Transfers in	-	-	-	-
Transfers (out)	(361,620)	(361,620)	(361,620)	-
Capital contributions	-	-	315,940	315,940
Changes in net position	<u>3,274,090</u>	<u>3,019,998</u>	<u>2,405,594</u>	<u>(614,404)</u>
Total net position - beginning	79,872,652	79,872,652	79,872,652	-
Prior period adjustment	-	-	(1,328,531)	(1,328,531)
Total net position- ending	<u>\$ 83,146,742</u>	<u>\$ 82,892,650</u>	<u>\$ 80,949,715</u>	<u>\$ (1,942,935)</u>

CITY OF PHARR, TEXAS
BRIDGE FUND
SCHEDULE OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)
FOR THE YEAR ENDED SEPTEMBER 30, 2012

	<u>Budgeted Amounts</u>		<u>Actual Budget Basis</u>	<u>Final Variance Budget Basis</u>
	<u>Original</u>	<u>Final</u>		
OPERATING REVENUES				
Charges for sales and services:				
Toll fees	\$ 9,367,620	\$ 10,801,370	\$ 10,801,840	\$ 470
Other	135,000	135,000	200,201	65,201
Total operating revenues	<u>9,502,620</u>	<u>10,936,370</u>	<u>11,002,041</u>	<u>65,671</u>
OPERATING EXPENSES				
Personnel services	883,920	915,946	804,645	111,301
Supplies and Materials	84,000	83,500	68,034	15,466
Contractual Services	2,257,040	2,349,700	943,261	1,406,439
Depreciation	-	-	836,456	(836,456)
Total operating expenses	<u>3,224,960</u>	<u>3,349,146</u>	<u>2,652,396</u>	<u>696,750</u>
Operating income (loss)	<u>6,277,660</u>	<u>7,587,224</u>	<u>8,349,645</u>	<u>762,421</u>
NON OPERATING REVENUES/(EXPENSES):				
Investment earnings	100,000	250,700	250,698	(2)
Interest expense	(343,350)	(343,350)	(288,413)	54,937
Amortization expense	-	-	(196,000)	(196,000)
Other	-	-	395	395
Total nonoperating revenues/ (expenses)	<u>(243,350)</u>	<u>(92,650)</u>	<u>(233,320)</u>	<u>(140,670)</u>
Income before contributions and transfers	<u>6,034,310</u>	<u>7,494,574</u>	<u>8,116,325</u>	<u>621,751</u>
Transfers in	238,290	238,290	350,663	112,373
Transfers (out)	(8,408,000)	(7,242,500)	(6,856,725)	385,775
Capital contributions	-	-	-	-
Changes in net position	<u>(2,135,400)</u>	<u>490,364</u>	<u>1,610,263</u>	<u>1,119,899</u>
Total net position - beginning	21,728,756	21,728,756	21,728,756	-
Prior period adjustment	-	-	(357,013)	(357,013)
Total net position - ending	<u>\$ 19,593,356</u>	<u>\$ 22,219,120</u>	<u>\$ 22,982,006</u>	<u>\$ 762,886</u>

CITY OF PHARR, TEXAS
GOLF FUND
SCHEDULE OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)
FOR THE YEAR ENDED SEPTEMBER 30, 2012

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Final</u>
	<u>Original</u>	<u>Final</u>	<u>Budget</u>	<u>Variance</u>
			<u>Basis</u>	<u>Budget Basis</u>
OPERATING REVENUES				
Charges for sales and services:				
Golf services	\$ 790,000	\$ 790,000	\$ 675,270	\$ (114,730)
Other	115,000	115,000	100,686	(14,314)
Total operating revenues	<u>905,000</u>	<u>905,000</u>	<u>775,956</u>	<u>(129,044)</u>
OPERATING EXPENSES				
Personnel services	533,850	544,752	455,422	89,330
Supplies and Materials	169,630	169,630	188,163	(18,533)
Contractual Services	159,270	186,910	221,489	(34,579)
Depreciation	-	-	238,727	(238,727)
Total operating expenses	<u>862,750</u>	<u>901,292</u>	<u>1,103,801</u>	<u>(202,509)</u>
Operating income (loss)	<u>42,250</u>	<u>3,708</u>	<u>(327,845)</u>	<u>(331,553)</u>
NON OPERATING REVENUES/(EXPENSES):				
Investment earnings	4,000	4,000	3,586	(414)
Interest expense	(84,990)	(84,990)	(5,827)	79,163
Other	30,000	30,000	23,810	(6,190)
Total nonoperating revenues/ (expenses)	<u>(50,990)</u>	<u>(50,990)</u>	<u>21,569</u>	<u>72,559</u>
Income before contributions and transfers	<u>(8,740)</u>	<u>(47,282)</u>	<u>(306,276)</u>	<u>(258,994)</u>
Transfers in	38,740	66,380	195,200	128,820
Transfers (out)	(30,000)	(30,000)	(30,000)	-
Changes in net position	<u>-</u>	<u>(10,902)</u>	<u>(141,076)</u>	<u>(130,174)</u>
Total net position- beginning	3,329,205	3,329,205	3,329,205	-
Prior period adjustment	<u>-</u>	<u>-</u>	<u>105,871</u>	<u>105,871</u>
Total net position - ending	<u>\$ 3,329,205</u>	<u>\$ 3,318,303</u>	<u>\$ 3,294,000</u>	<u>\$ (24,303)</u>

CITY OF PHARR, TEXAS
GARAGE FUND
SCHEDULE OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)
FOR THE YEAR ENDED SEPTEMBER 30, 2012

	<u>Budgeted Amounts</u>		<u>Actual Budget Basis</u>	<u>Final Variance Budget Basis</u>
	<u>Original</u>	<u>Final</u>		
OPERATING REVENUES				
Charges for sales and services:				
Other	\$ -	\$ 489,650	\$ 521,217	\$ 31,567
Total operating revenues	<u>-</u>	<u>489,650</u>	<u>521,217</u>	<u>31,567</u>
OPERATING EXPENSES				
Personnel services	169,370	174,394	156,783	(17,611)
Supplies and Materials	10,690	7,980	6,728	(1,252)
Contractual Services	309,590	371,500	371,755	255
Depreciation	<u>-</u>	<u>-</u>	<u>29,003</u>	<u>29,003</u>
Total operating expenses	<u>489,650</u>	<u>553,874</u>	<u>564,269</u>	<u>10,395</u>
Operating income (loss)	<u>-</u>	<u>(64,224)</u>	<u>(43,052)</u>	<u>21,172</u>
NON OPERATING REVENUES/(EXPENSES):				
Other	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total nonoperating revenues/ (expenses)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Income before contributions and transfers	<u>-</u>	<u>(64,224)</u>	<u>(43,052)</u>	<u>21,172</u>
Transfers in	-	-	-	-
Transfers (out)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Changes in net position	<u>-</u>	<u>(64,224)</u>	<u>(43,052)</u>	<u>21,172</u>
Total net position - beginning	548,765	548,765	548,765	-
Prior period adjustment	<u>-</u>	<u>-</u>	<u>23,254</u>	<u>23,254</u>
Total net position - ending	<u>\$ 548,765</u>	<u>\$ 484,541</u>	<u>\$ 528,967</u>	<u>\$ 44,426</u>

Combining Financial Statements

INTERNAL SERVICE FUND

Internal Service Funds are used to account for the financing of goods or services provided by one department to other departments within the City on a cost-reimbursement basis.

City Garage Fund – This fund is used to account for fleet maintenance and maintains an inventory of parts for the City-owned vehicles.

**CITY OF PHARR, TEXAS
INTERNAL SERVICE FUNDS
COMBINING STATEMENT OF NET POSITION
SEPTEMBER 30, 2012**

		<u>City Garage</u>
<u>ASSETS</u>		
Current assets:		
Cash	\$	34,696
Inventories		11,228
Total current assets		<u>45,923</u>
Noncurrent assets:		
Capital assets (net of accumulated: depreciation):		
Buildings		451,817
Improvements other than buildings		69,464
Machinery and equipment		7,687
Total capital assets, net of accumulated depreciation		<u>528,967</u>
Total noncurrent assets		<u>528,967</u>
Total assets	\$	<u><u>574,891</u></u>
<u>LIABILITIES</u>		
Current liabilities:		
Accounts payable	\$	8,384
Due to other funds		6,325
Total current liabilities		<u>14,709</u>
Current liabilities payable from restricted assets:		
Matured accrued compensation		6,712
Total current liabilities payable from restricted assets		<u>6,712</u>
Noncurrent liabilities:		
Accrued compensation		24,503
Total noncurrent liabilities		<u>24,503</u>
Total liabilities		<u>45,923</u>
<u>NET POSITION</u>		
Net assets:		
Invested in capital assets, net of related debt		528,967
Total net position	\$	<u><u>528,967</u></u>

**CITY OF PHARR, TEXAS
INTERNAL SERVICE FUNDS
COMBINING STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
FOR THE YEAR ENDED SEPTEMBER 30, 2012**

		City Garage
Operating revenues:		
Charges for sales and services:		
Other	\$	521,217
Total operating revenues		521,217
Operating expenses:		
Personnel services		156,783
Supplies and Materials		6,728
Contractual Services		371,755
Depreciation		29,003
Total operating expenses		564,269
Operating income (loss)		(43,052)
Nonoperating revenues (expenses):		
Total nonoperating revenues (expenses)		-
Income before contributions and transfers		(43,052)
Transfers in		-
Transfers out		-
Changes in net position		(43,052)
Total net position- beginning		548,765
Prior period adjustment		23,254
Total net position - ending	\$	528,967

**CITY OF PHARR, TEXAS
INTERNAL SERVICE FUNDS
COMBINING STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED SEPTEMBER 30, 2012**

		<u>City Garage</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers	\$	521,217
Payments to suppliers		(3,907)
Payments to employees		(154,404)
Payments for contractual services		(375,988)
Net cash flow from operating activities		<u>(13,082)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Transfers in from other funds		<u>1,672</u>
Net cash provided (used) by noncapital and related financing activities		<u>1,672</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Net cash provided (used) by capital and related financing activities		<u>-</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Net cash provided (used) by investing activities		<u>-</u>
Net increase/(decrease) in cash		(11,410)
Cash beginning of fiscal year		<u>46,107</u>
Cash end of fiscal year	\$	<u><u>34,697</u></u>
Reconciliation of operating income to net cash provided (used) by operating activities:		
Operating income	\$	<u>(43,052)</u>
Adjustments to reconcile operating income to net cash provided (used) by operating activities:		
Depreciation		29,003
(Increase) Decrease in Inventories		2,821
Increase (Decrease) in Accounts Payable		(4,234)
Increase (Decrease) in Accrued Compensation		2,380
Total adjustments		<u>29,970</u>
Net cash provided by operating activities	\$	<u><u>(13,082)</u></u>



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STATISTICAL SECTION

This part of the City of Pharr's comprehensive annual financial report presents detailed information as a context for understanding what the information in the financial statements, note disclosures, and required supplementary information says about the City of Pharr's overall financial health.

	<u>Page</u>
Financial Trends	
These schedules contain trend information to help the reader understand how the City's financial performance and well-being have changed over time.	-105-
Revenue Capacity	
These schedules contain information to help the reader assess the City's most significant local revenue source, the property tax.	-110-
Debt Capacity	
These schedules present information to help the reader assess the afford-ability of the City's current levels of outstanding debt and the City's ability to issue additional debt in the future.	-111-
Demographic and Economic Information	
These schedules offer demographic and economic indicators to help the reader understand the environment within which the City's financial activities take place	-119-
Operating Information	
These schedules contain service and infrastructure data to help the reader understand how the information in the City's financial report relates to the services the City provides and the activities it performs.	-122-

City of Pharr, Texas
Net Position by Component
Last Nine Fiscal Years¹
(Accrual Basis of Accounting)
(amount expressed in thousands)

	Fiscal Year								
	2004	2005	2006	2007	2008	2009	2010	2011	2012
Governmental activities									
Net Invested in capital assets	\$ 26,339	\$ 28,230	\$ 28,849	\$ 40,172	\$ 50,941	\$ 50,764	\$ 53,417	\$ 56,408	\$ 36,205
Restricted	1,998	6,490	6,763	14,781	8,115	7,904	5,234	7,159	23,652
Unrestricted	3,983	5,147	8,067	2,620	4,822	13,275	18,999	16,463	18,274
Total governmental activities net position	\$ 32,320	\$ 39,867	\$ 43,679	\$ 57,573	\$ 63,878	\$ 71,943	\$ 77,650	\$ 80,030	\$ 78,131
Business-type activities									
Net Invested in capital assets	\$ 28,366	\$ 38,635	\$ 38,336	\$ 46,566	\$ 59,224	\$ 78,359	\$ 82,609	\$ 82,300	\$ 82,757
Restricted	9,278	2,943	1,950	3,018	5,762	7,759	7,375	10,195	8,529
Unrestricted	8,165	3,390	11,401	4,593	2,568	2,572	9,691	12,435	15,940
Total business-type activities net position	\$ 45,809	\$ 44,968	\$ 51,687	\$ 54,177	\$ 67,354	\$ 88,690	\$ 99,675	\$ 104,930	\$ 107,226
Primary government									
Net Invested in capital assets	\$ 54,705	\$ 66,865	\$ 67,185	\$ 86,738	\$ 110,165	\$ 129,123	\$ 136,026	\$ 138,708	\$ 118,962
Restricted	11,276	9,433	8,713	17,799	13,877	15,663	12,609	17,354	32,181
Unrestricted	12,148	8,537	19,468	7,213	7,390	15,847	28,690	28,898	34,214
Total primary government net position	\$ 78,129	\$ 84,835	\$ 95,366	\$ 111,750	\$ 131,432	\$ 160,633	\$ 177,325	\$ 184,960	\$ 185,357

(1) Fiscal Year 2003 was the initial year of implementation of GASB Statement No. 34.

City of Pharr, Texas
Changes in Net Position
Last Nine Fiscal Years¹
(Accrual Basis of Accounting)
(amount expressed in thousands)

	Fiscal Year								
	2004	2005	2006	2007	2008	2009	2010	2011	2012
Expenses									
Governmental activities:									
General government	\$ 4,386	\$ 5,463	\$ 7,181	\$ 8,178	\$ 8,265	\$ 7,594	\$ 8,061	\$ 10,917	\$ 16,251
Public safety	13,179	14,069	15,000	16,504	18,495	19,177	19,775	21,546	22,427
Streets	2,140	2,276	2,361	2,442	2,114	2,268	3,102	3,757	4,490
Sanitation	3,411	3,519	3,227	3,518	4,537	2,312	2,008	2,749	2,699
Culture and recreation	3,156	3,248	3,253	3,340	3,831	3,563	3,890	3,239	4,133
Economic development	2,503	2,198	1,754	2,653	-	-	-	-	-
Debt service	1,537	1,478	1,365	1,433	1,122	1,041	885	736	1,293
Total governmental activities expenses	<u>30,312</u>	<u>32,251</u>	<u>34,141</u>	<u>38,068</u>	<u>38,364</u>	<u>35,955</u>	<u>37,721</u>	<u>42,944</u>	<u>51,293</u>
Business-type activities:									
Utility	6,298	6,885	7,576	7,879	9,291	9,125	9,140	10,382	11,829
Toll Bridge	3,244	3,830	3,156	3,454	3,300	2,975	3,428	3,082	3,137
Tierra Del Sol Golf Course	1,239	988	1,054	1,241	1,171	1,047	1,035	1,236	1,110
Total business-type activities expenses	<u>10,781</u>	<u>11,703</u>	<u>11,786</u>	<u>12,574</u>	<u>13,762</u>	<u>13,147</u>	<u>13,603</u>	<u>14,700</u>	<u>16,076</u>
Total primary government expenses	<u>\$ 41,093</u>	<u>\$ 43,954</u>	<u>\$ 45,927</u>	<u>\$ 50,642</u>	<u>\$ 52,126</u>	<u>\$ 49,102</u>	<u>\$ 51,324</u>	<u>\$ 57,644</u>	<u>\$ 67,369</u>
Program Revenues									
Governmental activities:									
Charges for services:									
General government	\$ 705	\$ 2,051	\$ 208	\$ 1,790	\$ 2,375	\$ 1,970	\$ 1,734	\$ 1,962	\$ 2,014
Public Safety	1,038	63	571	1,908	1,662	3,841	999	1,184	1,180
Streets	-	-	85	472	67	3	1,093	782	807
Sanitation	3,069	3,464	3,006	3,274	4,969	3,256	3,347	3,560	3,585
Culture and recreation	488	489	131	911	372	131	128	257	665
Economic development	-	-	-	-	-	-	-	-	-
Debt service	-	-	-	-	-	-	-	-	-
Operating grants and contributions	1,944	1,753	1,648	1,867	2,465	2,448	4,227	3,451	6,221
Capital grants and contributions	1,067	-	1,094	0	1,481	256	508	25	59
Total governmental activities program revenues	<u>8,311</u>	<u>7,820</u>	<u>6,743</u>	<u>10,222</u>	<u>13,391</u>	<u>11,905</u>	<u>12,036</u>	<u>11,221</u>	<u>14,531</u>
Business-type activities:									
Charges for services:									
Utility	6,475	7,645	11,200	10,851	12,483	12,461	11,892	13,553	13,814
Toll Bridge	6,669	7,611	7,714	8,058	8,281	9,301	10,660	10,415	11,002
Tierra Del Sol Golf Course	737	809	350	631	766	856	805	812	776
Operating grants and contributions	-	-	-	-	-	-	-	-	17
Capital grants and contributions	2,936	250	-	-	6,940	13,899	2,512	548	316
Total business-type activities program revenues	<u>16,817</u>	<u>16,315</u>	<u>19,264</u>	<u>19,540</u>	<u>28,470</u>	<u>36,517</u>	<u>25,869</u>	<u>25,328</u>	<u>25,926</u>
Total primary government program revenues	<u>\$ 25,128</u>	<u>\$ 24,135</u>	<u>\$ 26,007</u>	<u>\$ 29,762</u>	<u>\$ 41,861</u>	<u>\$ 48,422</u>	<u>\$ 37,905</u>	<u>\$ 36,549</u>	<u>\$ 40,456</u>

Net (expense)/revenue	\$ (22,001)	\$ (24,431)	\$ (27,398)	\$ (27,846)	\$ (24,973)	\$ (24,050)	\$ (25,685)	\$ (31,723)	\$ (36,762)
Governmental activities	6,036	4,612	7,478	6,966	14,708	23,370	12,266	10,628	9,850
Business-type activities	\$ (15,965)	\$ (19,819)	\$ (19,920)	\$ (20,880)	\$ (10,265)	\$ (680)	\$ (13,419)	\$ (21,095)	\$ (26,913)
Total primary government net expense									

General Revenues and Other Changes in

Net Assets

Governmental activities:	\$ 8,595	\$ 9,713	\$ 10,475	\$ 11,276	\$ 13,082	\$ 14,900	\$ 15,265	\$ 14,984	\$ 15,221
Taxes	9,297	10,043	11,346	11,160	11,305	10,558	10,289	11,838	12,801
Property taxes	2,163	2,283	2,543	2,912	3,087	2,807	3,152	2,844	2,232
Sales taxes	162	306	419	445	357	296	361	440	415
Other Taxes	1,459	2,657	3,854	2,159	365	458	105	763	1,048
Investment earnings	1,640	6,362	2,288	8,655	2,190	3,182	1,841	7,214	6,702
Grants, Donations, and Miscellaneous Transfers	23,316	31,364	30,925	36,607	30,386	32,201	31,013	38,083	38,420
Total governmental activities	35	610	1,011	866	1,451	877	1,008	795	705
Business-type activities:	403	10	-	495	218	107	131	135	22
Investment earnings	(1,640)	(6,362)	(2,288)	(8,655)	(2,190)	(3,182)	(1,841)	-	(6,702)
Grants, Donations, and Miscellaneous Transfers	(1,202)	(5,742)	(1,277)	(7,294)	(521)	(2,198)	(702)	930	(5,975)
Total business-type activities	\$ 22,114	\$ 25,622	\$ 29,648	\$ 29,313	\$ 29,865	\$ 30,003	\$ 30,311	\$ 39,013	\$ 32,445
Total primary government									

Change in Net Position

Governmental activities	\$ 1,315	\$ 6,933	\$ 3,527	\$ 8,761	\$ 5,413	\$ 8,151	\$ 5,328	\$ 6,360	\$ 1,658
Business-type activities	4,834	(1,130)	6,201	(328)	14,187	21,172	11,564	4,344	3,875
Total primary government	\$ 6,149	\$ 5,803	\$ 9,728	\$ 8,433	\$ 19,600	\$ 29,323	\$ 16,892	\$ 10,704	\$ 5,532

(1) Fiscal Year 2003 was the initial year of implementation of GASB Statement No. 34.

City of Pharr, Texas
Fund Balances of Governmental Funds
 Last Ten Fiscal Years
 (Modified Accrual Basis of Accounting)
 (amount expressed in thousands)

	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
General Fund										
Reserved, Nonspendable, Restricted	\$ 54	\$ 3,037	\$ 3,903	\$ 7,405	\$ 11,002	\$ 1,049	\$ 102	\$ 231	\$ 3,354	\$ 20,807
Unreserved, undesignated, unassigned	3,489	1,433	602	195	(6,402)	2,081	8,338	14,901	5,809	748
Designated, Committed, Assigned	-	-	1,327	-	-	756	-	-	8,054	9,046
Total general fund	\$ 3,543	\$ 4,470	\$ 5,832	\$ 7,600	\$ 4,600	\$ 3,886	\$ 8,440	\$ 15,132	\$ 17,217	\$ 30,601
All other governmental funds										
Reserved, Nonspendable,	\$ (15)	\$ 1,369	\$ 2,894	\$ 5,447	\$ 7,572	\$ 4,718	\$ 6,407	\$ 2,501	\$ -	\$ (1,611)
Restricted, reported in:										
Special revenue funds	-	-	-	-	-	-	-	-	387	1,339
Debt service fund	-	-	-	-	-	-	-	-	63	20
Economic Development fund	-	-	-	-	-	-	-	-	3,197	3,085
Unreserved, unassigned, reported in:										
Special revenue funds	2	824	3,573	142	2,425	3,238	1,333	1,086	(2,929)	-
Capital projects funds	4,534	-	-	(2,590)	(1,508)	-	-	1,251	-	-
Debt service funds	356	-	-	1,044	-	-	-	-	-	-
Assigned	-	-	-	-	-	-	-	-	1,943	17,392
Total all other governmental funds	\$ 4,877	\$ 2,193	\$ 6,467	\$ 4,043	\$ 8,489	\$ 7,956	\$ 7,740	\$ 4,838	\$ 2,661	\$ 20,224
Total governmental fund balances	\$ 8,421	\$ 6,663	\$ 12,299	\$ 11,642	\$ 13,089	\$ 11,842	\$ 16,180	\$ 19,970	\$ 19,878	\$ 50,825

City of Pharr, Texas
Changes in Fund Balances of Governmental Funds
Last Ten Fiscal Years
(Modified Accrual Basis of Accounting)
(amount expressed in thousands)

	Fiscal Year									
	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Revenues										
Taxes	\$ 15,051	\$ 20,022	\$ 21,929	\$ 24,350	\$ 25,972	\$ 27,370	\$ 28,215	\$ 28,707	\$ 29,814	\$ 31,391
Licenses and permits	688	555	681	1,468	886	685	682	550	762	664
Intergovernmental	3,606	3,431	2,296	1,178	1,751	2,455	2,448	4,579	3,451	6,221
Charges for services	3,558	3,647	3,971	4,287	5,073	6,382	4,468	5,226	5,010	5,525
Fines	761	1,056	1,415	968	800	880	1,122	1,107	914	977
Investment earnings	440	162	306	419	445	349	296	361	440	415
Miscellaneous	1,318	1,079	1,481	2,127	1,970	644	254	533	375	692
Total Revenues	25,422	29,952	32,079	34,797	36,897	38,765	37,486	41,064	40,766	45,885
Expenditures										
General government	16,536	8,287	6,985	14,218	12,943	6,034	6,220	6,609	14,398	13,336
Public safety	9,767	11,558	13,452	15,391	15,642	19,392	18,846	18,522	19,963	22,058
Highways and streets	1,287	2,076	5,351	2,542	2,121	4,443	2,499	4,012	4,404	7,401
Sanitation	2,235	3,059	-	3,021	3,483	4,306	2,318	2,423	2,555	2,654
Culture and recreation	752	3,168	3,323	977	3,422	5,661	3,472	3,664	6,010	5,524
Economic development	933	2,149	2,109	3,120	5,757	2,067	2,165	1,360	1,538	2,677
Debt service - Principal	1,768	1,690	1,554	1,912	3,904	3,371	3,335	1,781	1,635	2,588
Debt service - Interest	1,401	1,537	1,657	891	1,225	1,009	978	819	712	1,156
Total expenditures	34,679	33,524	34,431	42,072	48,497	46,283	39,833	39,191	51,215	57,393
Excess of revenues over (under) expenditures	(9,257)	(3,572)	(2,352)	(7,275)	(11,600)	(7,518)	(2,347)	1,872	(10,449)	(11,508)
Other financing sources (uses)										
Transfers in	1,986	2,302	10,721	4,044	9,298	16,941	6,066	9,951	11,615	42,210
Transfers out	-	(662)	(4,359)	(1,756)	(669)	(14,415)	(2,882)	(8,110)	(4,393)	(35,508)
Proceeds from sale of assets	-	312	16,567	3,120	2,480	2,877	-	-	805	120
Issuance of debt	-	-	(15,149)	979	3,479	1,819	3,587	245	2,372	30,572
Total other financing sources (uses)	1,986	1,952	7,780	6,387	14,588	7,222	6,771	2,086	10,399	37,395
Net change in fund balances	\$ (7,271)	\$ (1,620)	\$ 5,428	\$ (888)	\$ 2,988	\$ (297)	\$ 4,424	\$ 3,959	\$ (50)	\$ 25,887
Debt service as a percentage of noncapital expenditures	10.1%	10.7%	10.3%	7.1%	11.8%	10.5%	12.1%	7.1%	4.8%	7.0%

City of Pharr, Texas
Assessed Value and Estimated Value of Taxable Property
Last Ten Fiscal Years
(amounts expressed in thousands)

<u>Fiscal Year Ended</u>	<u>Tax Year</u>	<u>Residential Property</u>	<u>Commercial Property</u>	<u>Industrial Property</u>	<u>Minerals</u>	<u>Other</u>	<u>Total Assessed</u>	<u>Less: Ag Loss & Tax Exempt Real Property</u>	<u>Total Taxable Assessed Value</u>	<u>Total Direct Tax Rate</u>	<u>Estimated Actual Taxable Value</u>	<u>Assessed Value¹ as a Percentage of Actual Value</u>
2003	2002	862,278	231,716	9,865	38,843	121,315	1,264,018	236,264	1,027,754	0.683	1,027,754	122.99%
2004	2003	1,029,748	283,257	10,850	41,693	130,142	1,495,690	292,485	1,203,205	0.683	1,203,205	124.31%
2005	2004	1,142,164	310,068	12,810	49,042	165,457	1,679,541	328,030	1,351,511	0.683	1,351,511	124.27%
2006	2005	1,217,836	327,593	13,845	52,742	162,458	1,774,474	332,328	1,442,146	0.683	1,442,146	123.04%
2007	2006	1,383,161	362,968	14,996	54,079	172,167	1,987,371	332,328	1,655,043	0.683	1,655,043	120.08%
2008	2007	1,549,417	397,886	14,537	51,312	195,896	2,209,035	412,202	1,796,833	0.683	1,796,833	122.94%
2009	2008	1,831,559	496,061	15,957	52,232	213,847	2,609,655	506,079	2,103,576	0.680	2,103,576	124.06%
2010	2009	1,852,609	528,963	16,672	49,303	242,187	2,689,735	527,968	2,161,766	0.680	2,161,766	124.42%
2011	2010	1,903,835	561,456	14,999	16,865	265,722	2,762,876	591,022	2,171,854	0.680	2,171,854	127.21%
2012	2011	1,913,524	574,336	13,337	11,027	256,980	2,769,204	604,760	2,164,444	0.680	2,164,444	127.94%

Source: Hidalgo County Central Appraisal District

Note: Assessed values are determined as of August 1, and relate to taxes levied on the first day of the following fiscal year. Assessed value is equal to 100% of estimated value. All property is assessed the same rate regardless of real or personal property, commercial, residential, or industrial.

¹Includes tax-exempt property.

City of Pharr, Texas
Property Tax Rates and Tax Levies
Direct and Overlapping² Governments
Last Ten Fiscal Years

Fiscal Year Ending	City of Pharr Tax Rate			Overlapping Tax Rates						Total		
	Drainage District #1			Hidalgo County			P.S.J.A ISD					
	Operating	Debt Service	Total	Operating	Debt Service	Total	Operating	Debt Service	Total			
2003	0.596	0.087	0.683	0.044	-	0.044	0.527	0.063	0.590	1.500	0.122	1.622
2004	0.602	0.081	0.683	0.044	-	0.044	0.526	0.064	0.590	1.500	0.112	1.612
2005	0.593	0.090	0.683	0.044	-	0.044	0.527	0.063	0.590	1.500	0.114	1.614
2006	0.593	0.090	0.683	0.041	-	0.041	0.520	0.070	0.590	1.500	0.114	1.614
2007	0.596	0.087	0.683	0.040	0.009	0.049	0.516	0.075	0.591	1.040	0.171	1.211
2008	0.603	0.079	0.682	0.042	0.028	0.070	0.519	0.071	0.590	1.040	0.231	1.271
2009	0.602	0.078	0.680	0.045	0.028	0.073	0.513	0.077	0.590	1.040	0.261	1.301
2010	0.602	0.078	0.680	0.045	0.028	0.073	0.511	0.079	0.590	1.040	0.171	1.211
2011	0.602	0.078	0.680	0.044	0.029	0.073	0.523	0.068	0.590	1.170	0.189	1.359
2012	\$ 0.603	\$ 0.077	\$ 0.680	0.045	0.030	0.075	\$ 0.524	\$ 0.067	\$ 0.590	\$ 1.170	\$ 0.189	\$ 1.359

Fiscal Year Ending	Overlapping Tax Rates			Total
	South Texas ISD			
	Operating	Debt Service	Total	
2003	0.039	-	0.039	0.174
2004	0.039	-	0.039	0.165
2005	0.039	-	0.039	0.159
2006	0.039	-	0.039	0.155
2007	0.049	-	0.049	0.154
2008	0.049	-	0.049	0.149
2009	0.049	-	0.049	0.149
2010	0.049	-	0.049	0.154
2011	0.049	-	0.049	0.151
2012	\$ 0.049	\$ -	\$ 0.049	\$ 0.151

Fiscal Year Ending	Overlapping Tax Rates			Total
	South Texas College			
	Operating	Debt Service	Total	
2003	0.110	0.064	0.174	3.152
2004	0.110	0.055	0.165	3.132
2005	0.110	0.049	0.159	3.128
2006	0.110	0.045	0.155	3.122
2007	0.110	0.044	0.154	2.737
2008	0.110	0.040	0.149	2.811
2009	0.110	0.039	0.149	2.842
2010	0.110	0.044	0.154	2.757
2011	0.110	0.041	0.151	2.902
2012	\$ 0.110	\$ 0.041	\$ 0.151	\$ 2.904

Source: City of Pharr Tax Assessor/Collector, Hidalgo County Tax Office, Pharr-San Juan-Alamo Independent School District, TEA Financial Audit Reports

¹Tax rate is per \$100 of taxable assessed value

²Overlapping rates are those of local and county governments that apply to property owners within the City of Pharr. Not all overlapping rates apply to all City of Pharr property owners (e.g., the rates for special districts apply only to the proportion of the government's property owners whose property is located within the geographic boundaries of the special district.

**City of Pharr, Texas
Principal Property Taxpayers
Fiscal Year End 2012 and 2002
(amounts expressed in thousands)**

<u>Taxpayer</u>	<u>2012</u>			<u>2002</u>		
	<u>Taxable Assessed Value</u>	<u>Rank</u>	<u>Percentage of Total Taxable Assessed Value</u>	<u>Taxable Assessed Value</u>	<u>Rank</u>	<u>Percentage of Total Taxable Assessed Value</u>
HEB Grocery Company LP	\$ 15,592	1	0.72%	\$ -		-
H E Butt Grocery Company	-		-	5,040	7	0.52%
Capote Farms LTD	13,837	2	0.64%	-		-
Wilder Corporation of Delaware	12,995	3	0.60%	12,346	2	1.27%
AEP Texas Central Company	11,847	4	0.55%	-		-
Frank Smith Toyota-Isuzu	10,793	5	0.50%	-		-
McAllen LEVCAL, LLC	9,123	6	0.42%	-		-
OXY USA, Inc	9,074	7	0.42%	-		-
FJRS Investments LTD	8,389	8	0.39%	-		-
Wayne Windle Enterprises Et Al	8,249	9	0.38%	-		-
Regal Beloit	7,382	10	0.34%	-		-
Central Power & Light	-		-	12,585	1	1.30%
Southwestern Bell Tele	-		-	10,797	3	1.11%
Totalfinaelf E&P USA, Inc.	-		-	7,073	4	0.73%
Spigel, Stanley	-		-	6,602	5	0.68%
Home Depot, The	-		-	5,827	6	0.60%
Westbrae Enterprises, Inc	-		-	4,135	8	0.43%
Park Place Venture One, LTD	-		-	4,085	9	0.42%
Matt's Cash & Carry	-		-	4,070	10	0.42%
Totals	\$ 107,281		5.0%	\$ 72,561		7.5%
Assessed Taxable Value	\$ 2,164,444			\$ 969,755		

City of Pharr, Texas
Property Tax Levies and Collections
Last Ten Fiscal Years
(amounts expressed in thousands)

Fiscal Year Ended	Tax Year	Total Tax Levy* for Fiscal Year	Collections within the Fiscal Year of the Levy		Delinquent Collections in Subsequent Years	Total Collections to Date	
			Amount	Percentage of Levy		Amount	Percentage of Levy
2003	2002	\$ 7,092	\$ 6,323	89.2%	\$ 708	\$ 7,031	99.1%
2004	2003	8,220	7,423	90.3%	723	8,146	99.1%
2005	2004	9,233	8,335	90.3%	804	9,139	99.0%
2006	2005	9,831	8,980	91.3%	747	9,727	98.9%
2007	2006	11,014	10,094	91.6%	802	10,896	98.9%
2008	2007	12,275	11,231	91.5%	902	12,133	98.8%
2009	2008	14,567	13,391	91.9%	967	14,358	98.6%
2010	2009	14,824	13,673	92.2%	860	14,532	98.0%
2011	2010	14,674	13,559	92.4%	706	14,265	97.2%
2012	2011	\$ 14,576	\$ 13,771	94.5%	\$ -	\$ 13,771	94.5%

*Tax Levy including modifications throughout the year

Sources: City of Pharr Tax Assessor/Collector
Hidalgo County Tax Assessor/Collector

City of Pharr, Texas
Ratios of Outstanding Debt by Type
Last Ten Fiscal Years
(amounts expressed in thousands, except per capita amount)

Fiscal Year	Governmental Activities				Business-Type Activities				Total Primary Government	Percentage of Personal Income ¹	Per Capita ¹
	General Obligation Bonds	Certificates of Obligation	Notes	Capital Leases	Utility & Toll Bridge Bonds/Notes	Capital Leases	Notes				
2003	\$ -	\$ 24,170	\$ 1,785	\$ 632	\$ 36,882	\$ 289	\$ -	\$ 63,758	0.06%	\$ 1,171	
2004	-	23,330	5,278	471	31,707	305	2	61,093	0.06%	1,076	
2005	16,110	7,085	4,683	698	21,444	86	-	50,106	0.08%	849	
2006	16,025	6,070	5,746	1,544	20,042	246	-	49,673	0.08%	810	
2007	15,935	5,000	4,962	1,550	61,711	815	5,995	95,968	0.04%	1,492	
2008	15,840	3,885	2,801	3,550	66,975	337	4,590	97,978	0.04%	1,483	
2009	15,130	3,330	731	2,503	64,510	1,016	3,125	90,345	0.04%	1,351	
2010	14,395	2,745	270	1,621	61,345	713	1,595	82,684	0.03%	1,230	
2011	15,750	-	-	2,738	58,415	952	-	77,855	0.04%	1,106	
2012	\$ 21,940	\$ -	\$ -	\$ 3,405	\$ 55,385	\$ 537	\$ -	\$ 81,266	0.04%	\$ 1,121	

Note: Details regarding the city's outstanding debt can be found in the notes to the financial statements.

¹See the Schedule of Demographic and Economic Statistics for personal income and population data.

City of Pharr, Texas
Ratios of General Bonded Debt Outstanding
Last Ten Fiscal Years
(amounts expressed in thousands, except per capita amount)

<u>Fiscal Year</u>	<u>General Obligation Bonds</u>	<u>Percentage of Estimated Actual Taxable Value¹ of Property</u>	<u>Per Capita²</u>
2003	\$ -	0.00%	\$ -
2004	-	0.00%	-
2005	16,110	1.15%	273
2006	16,025	1.08%	261
2007	15,935	0.96%	248
2008	15,840	0.86%	240
2009	15,130	0.70%	226
2010	14,395	0.54%	214
2011	15,750	0.57%	224
2012	\$ 21,940	0.79%	\$ 303

Note: Details regarding the city's outstanding debt can be found in the notes to the financial statements.

¹See the Schedule of Assessed Value and Estimated Actual Value of Taxable Property for property value data.

² Population data can be found in the Schedule of Demographic and Economic Statistics

City of Pharr, Texas
Direct and Overlapping Governmental Activities Debt
As of September 30, 2012
(amounts expressed in thousands)

<u>Governmental Unit</u>	<u>Debt Outstanding</u>	<u>Estimated Percentage Applicable¹</u>	<u>Estimated Share of Overlapping Debt</u>
Debt repaid with property taxes:			
Hidalgo County	\$ 204,494	8.2%	\$ 16,756
Hidalgo Irrigation District #1	-	8.2%	-
South Texas College	57,821	37.0%	21,394
South Texas ISD	54,297	0.0%	-
Pharr, San Juan, Alamo Independent School District	369,925	53.2%	<u>196,931</u>
Overlapping debt			235,080
City of Pharr direct debt	21,940	100.0%	<u>21,940</u>
Total direct and overlapping debt			<u>\$ 257,020</u>

Sources: Assessed value data used to estimate applicable percentages provided by the County Board of Equalization and Assessment.
Debt outstanding data provided by the county. Data as of 12/31/2010.

Note: Overlapping governments are those that coincide, at least in part, with the geographic boundaries of the city. This schedule estimates the portion of the outstanding debt of those overlapping governments that is borne by the residents and businesses of the city of Pharr. This process recognizes that, when considering the government's ability to issue and repay long-term debt, the entire debt burden borne by the residents and businesses should be taken into account. However, this does not imply that every taxpayer is a resident, and therefore responsible for repaying the debt, of each overlapping government.

¹The percentage of overlapping debt applicable is estimated using taxable assessed property values. Applicable percentages were estimated by determining the portion of the county's taxable assessed value that is within the governments boundaries and dividing it by the county's total taxable assessed value.

City of Pharr, Texas
Legal Debt Margin Information
 Last Ten Fiscal Years
 (amounts expressed in thousands)

	Fiscal Year									
	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Debt Limit	\$ 105,919	\$ 123,907	\$ 139,673	\$ 148,988	\$ 166,146	\$ 184,767	\$ 260,966	\$ 268,973	\$ 276,288	\$ 276,920
Total net debt applicable to limit	24,170	23,330	23,195	22,095	20,935	19,725	15,130	14,395	15,750	21,940
Legal debt margin	\$ 81,749	\$ 100,577	\$ 116,478	\$ 126,893	\$ 145,211	\$ 165,042	\$ 245,836	\$ 254,578	\$ 260,538	\$ 254,980
Total net debt applicable to the limit as a percentage of debt limit	22.8%	18.8%	16.6%	14.8%	12.6%	10.7%	5.8%	5.4%	5.70%	7.9%

Legal Debt Margin Calculation for Fiscal Year 2012

Assessed Value	\$ 2,164,444
Add Back: exempt property	<u>604,760</u>
Total Assessed Value	\$ 2,769,204
Debt limit (10% of total assessed value)	276,920
Debt applicable to limit:	
General obligation bonds	<u>21,940</u>
Legal debt margin	<u>\$ 254,980</u>

Note: Under state finance law, the City of Pharr's outstanding general obligation debt should not exceed 10 percent of total assessed property value. By law, the general obligation debt subject to the limitation may be offset by amounts set aside for repaying general obligation bonds.

City of Pharr, Texas
Pledged Revenue Coverage
Last Ten Fiscal Years
(amounts expressed in thousands)

Water & Sewer Revenue Bonds

<u>Fiscal Year</u>	<u>Utility Sewer Charges and Other</u>	<u>Less: Operating Expenses</u>	<u>Net Available Revenue</u>	<u>Debt Service</u>		<u>Coverage</u>
				<u>Principal</u>	<u>Interest</u>	
2003	\$ 6,193	\$ 3,762	\$ 2,431	\$ 1,106	\$ 725	1.33
2004	6,605	4,311	2,294	1,231	646	1.22
2005	7,829	4,881	2,948	1,291	604	1.56
2006	11,594	5,695	5,899	937	542	3.99
2007	11,954	5,427	6,527	851	595	4.51
2008	13,820	5,910	7,910	2,265	1,872	1.91
2009	13,259	5,714	7,545	2,330	1,807	1.82
2010	12,473	5,750	6,723	2,385	1,749	1.63
2011	14,122	6,946	7,176	2,465	1,670	1.74
2012	\$ 14,265	\$ 7,465	\$ 6,800	\$ 2,540	\$ 1,598	1.64

Note: Details regarding the government's outstanding debt can be found in the notes to the financial statements. Utility charges and other revenues include only utility service charges, investment earnings, and tap fees. Operating expenses do not include interest or depreciation. Historical information taken from prior financial reports.

City of Pharr, Texas
Demographic and Economic Statistics
Last Ten Fiscal Years

Fiscal Year	Population¹	Median Household Income	Per Capita Personal Income	Median Age	Education Level in Years of Formal Schooling²	School Enrollment³	Unemployment Rate
2003	54,452	38,967	9,462	27.4	47.3%	25,210	8.6%
2004	56,752	38,967	9,462	27.4	47.3%	26,493	7.2%
2005	59,029	38,967	9,462	27.4	47.3%	27,338	5.8%
2006	61,360	38,967	9,462	27.8	47.3%	28,088	5.7%
2007	64,318	38,967	9,462	27.8	47.3%	28,868	5.5%
2008	66,078	38,967	9,462	27.8	47.3%	29,999	7.2%
2009	66,874	38,967	9,462	27.8	47.3%	30,618	11.2%
2010	67,217	28,000	11,421	27.1	58.1%	31,329	10.5%
2011	70,400	28,000	11,420	27.1	58.1%	31,508	10.7%
2012	72,513	30,486	12,328	27.3	59.7%	31,633	8.4%

Data Sources: U.S. Census, Texas Workforce Commission, U.S. Bureau of Labor Statistics, and PSJA ISD

¹Population data from 2003 to 2007 taken from Planning/Zoning department. 2010 population estimate based on percentage increase of US Census Bureau totals for 2008 and 2009. 2011 population estimate based on percentage increase of US Census Bureau totals for 2009 and 2010.

2012 population estimate based on percentage increase of US Census Bureau totals for 2010 and 2011.

²Represents population age 25 or greater that has graduated from high school.

³School Enrollment data for 2003 to 2012 includes enrollment for Pharr San Juan and Alamo School District.

**City of Pharr, Texas
Principal Employers
Fiscal Year Ending 2012 and 2003**

2012			
<u>Employer</u>	<u>Employees</u>	<u>Rank</u>	<u>Percentage of Total City Employment¹</u>
Pharr-San Juan-Alamo ISD	3,000	1	11.05%
Ticketmaster	800	2	2.95%
Valley View ISD	700	3	2.58%
Convergy's	650	4	2.39%
VDP Healthcare	417	5	1.54%
City of Pharr	400	6	1.47%
Royal Freight	380	7	1.40%
Lack's Valley Store Ltd	361	8	1.33%
HEB	290	9	1.07%
Atento Contact US Teleservices	280	10	1.03%
Total	<u>7,278</u>		<u>26.80%</u>

2003*			
<u>Employer</u>	<u>Employees</u>	<u>Rank</u>	<u>Percentage of Total City Employment</u>
Pharr-San Juan-Alamo ISD	Unknown	-	0.00%
Convergy's	Unknown	-	0.00%
Lack's	Unknown	-	0.00%
City of Pharr	Unknown	-	0.00%
Ticketmaster	Unknown	-	0.00%
Texas Department of Transportation	Unknown	-	0.00%
HEB Food Stores	Unknown	-	0.00%
Lowe's	Unknown	-	0.00%
Frank Smith Toyota	Unknown	-	0.00%
Home Depot	Unknown	-	0.00%
Total	<u>-</u>		<u>0.00%</u>

Source: EMSI Dec. 2012, Workforce Solutions Lower RGV

* Information was not tracked to provide stated information.

City of Pharr, Texas
Full-Time Equivalent City Government Employees by Function
Last Ten Fiscal Years

	Budgeted Full-time Equivalent Employees as of September 30, 2012									
	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>
GENERAL FUND										
City Manager	16.7	9.0	9.0	9.0	9.0	9.0	9.0	8.0	7.5	9.5
Finance	8.0	10.0	12.0	12.5	13.5	14.0	5.5	9.0	9.0	14.0
Police Department	124.5	130.0	134.0	146.0	155.0	167.0	161.0	160.0	172.0	174.5
Traffic Safety	13.0	13.0	16.0	13.0	16.0	17.0	16.0	16.0	16.0	17.0
Municipal Court	4.0	6.0	6.0	6.0	6.0	6.0	5.0	6.5	7.5	7.5
Fire Protection	53.0	54.0	57.0	57.0	65.0	68.0	66.0	65.0	74.0	73.0
Administrative Services	0.0	0.0	0.0	0.0	0.0	0.0	7.0	7.5	7.0	0.0
Street Maintenance	24.0	24.0	25.0	28.0	30.0	29.0	29.0	31.0	33.0	32.0
Information Technology	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	2.5	2.0
Municipal Library	18.0	23.0	23.0	25.0	26.0	26.0	26.0	22.5	22.5	22.5
Parks & Recreation	51.0	53.0	70.0	71.0	73.0	73.0	102.0	102.0	64.3	68.1
Planning & Community Dev	17.3	19.0	22.0	20.0	23.0	23.0	22.0	18.5	18.5	18.5
Engineer	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	4.0
Total General Fund	329.5	341.0	374.0	387.5	416.5	432.0	448.5	446.0	433.8	442.6
UTILITY FUND										
Administrative	8.0	8.0	9.0	9.5	10.5	11.0	12.5	9.5	9.0	9.0
Water Production	9.0	9.0	9.0	9.0	10.0	10.0	10.0	10.0	10.0	10.0
Water Distribution	0.1	21.0	23.0	25.0	26.0	26.0	23.0	23.5	24.0	26.5
Water Treatment Plant	11.0	11.0	11.0	11.0	13.0	13.0	13.0	13.0	13.0	17.0
Lift Station	4.0	4.0	4.0	4.0	4.0	4.0	3.0	1.0	1.0	0.0
Total Utility Fund	32.1	53.0	56.0	58.5	63.5	64.0	61.5	57.0	57.0	62.5
INTERNAL SERVICE FUND										
Chief Mechanic	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0
Laborers	3.0	3.0	3.0	4.0	4.0	4.0	4.0	3.0	3.0	3.0
Total Internal Svc Fund	4.0	4.0	4.0	5.0	5.0	5.0	5.0	4.0	4.0	4.0
OTHER										
Director	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0
Others	19.0	25.0	25.0	26.0	26.0	28.0	24.0	24.5	24.0	22.0
Total Int'l Bridge	20.0	26.0	26.0	27.0	27.0	29.0	25.0	25.5	25.0	23.0
OTHER										
CDBG	5.7	6.0	6.0	6.0	6.0	5.0	4.0	5.5	5.5	4.5
Golf Course	8.0	18.0	18.0	15.0	15.0	17.0	15.5	15.0	15.5	15.5
Events Center	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	6.4
Total Other	13.7	24.0	24.0	21.0	21.0	22.0	19.5	20.5	21.0	26.4
GRAND TOTAL	399.3	448.0	484.0	499.0	533.0	552.0	559.5	553.0	540.8	558.5

Source: City of Pharr Budget Reports

City of Pharr, Texas
Operating Indicators by Function
Last Ten Fiscal Years

Function	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Police										
Physical arrests	4,848	2,897	3,857	2,858	2,808	2,944	4,839	15,660	3,395	3,477
Parking & Traffic Violations	10,101	10,897	15,983	13,742	12,742	15,194	25,689	12,556	10,742	9,654
Fire										
Number of calls answered	2,189	1,737	1,624	1,701	1,794	2,238	2,148	2,144	2,018	1,850
Inspections	725	1,235	877	809	1,108	1,344	1,325	1,160	1,842	2,620
Highways and streets										
Street resurfacing (miles)	unknown	unknown	unknown	2	7	2	7	9	9	7
Potholes repaired	unknown	unknown	unknown	unknown	unknown	137	825	775	4000	1500
International Bridge										
Car Crossings	1,749,112	1,785,564	1,780,599	1,716,751	1,683,048	1,649,983	1,444,912	1,264,573	1,038,430	946,847
Truck Crossings	312,300	312,300	384,572	404,103	433,880	461,559	409,336	447,122	440,705	463,714
Culture and recreation										
Pharr Events Center	75	72	95	86	95	216	84	50	20	72
Other Community Center Events	306	269	231	206	268	597	414	378	329	703
Water										
New connections	614	867	832	1,204	638	324	220	278	428	304
Water mains breaks	unknown	unknown	unknown	3,948	4,156	578	445	711	768	~1365
Average daily consumption (millions of gallons)	5.0 MGD	4.7 MGD	6.1 MGD	6.6 MGD	5.6 MGD	6.5MGD	7.3 MGD	6.3 MGD	6.6 MGD	7.0 MGD
Wastewater										
Average daily sewage treatment (thousands of gallons)	5.0 MGD	5.0 MGD	5.0 MGD	5.0 MGD	5.0 MGD	4.94 MGD	4.8 MGD	4.76MGD	4.9 MGD	4.9MGD

Sources: Various City Departments

City of Pharr, Texas
Capital Asset Statistics by Function
Last Ten Fiscal Years

Function	Fiscal Year									
	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Public Safety										
Police:										
Stations	2	2	2	2	2	2	2	2	2	2
Patrol units	64	69	76	82	84	90	93	128	125	62
Fire stations	3	3	3	3	3	3	3	3	3	3
Highways and streets										
Streets (miles)	unknown	unknown	180	213	213	213	214	214	214	214
Streetlights	unknown	unknown	unknown	unknown	unknown	unknown	unknown	unknown	unknown	unknown
Traffic signals	unknown	unknown	47	51	51	51	55	56	58	61
Culture and recreation										
Parks Acreage (Developed)	41	41	41	57	57	57	57	57	57	79
Swimming pools	2	2	2	2	2	2	2	-	-	-
Tennis courts	2	2	2	2	2	2	2	2	2	2
Community and Convention Centers	4	4	4	4	4	4	4	4	4	4
Water										
Water mains (miles)	unknown	~170	~182	~190	191.6	~313.4	315	313	325	~304
Fire hydrants	1,730	1,750	1,820	1,918	2,010	2,030	1,896	1,946	1,946	~2,214
Maximum daily capacity (thousands of gallons)	10.0 MGD	10.0 MGD	10.0 MGD	10.0 MGD	10.0 MGD	8.28 MGD	12.01 MGD	9.9 MGD	10 MGD	10 MGD
Sewer										
Sanitary sewers (miles)	~186	~204	~224	~246	~262	~265	265	266	269	267
Storm sewers (miles)	unknown	unknown	unknown	unknown	unknown	57	82	94.43	97.2	Unknown
Maximum daily treatment capacity (thousands of gallons)	3.82 MGD	4.15 MGD	4.19 MGD	4.25 MGD	4.45 MGD	5.7 MGD	5.9 MGD	5.3 MGD	8 MGD	8 MGD

Sources: Various City Departments



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Single Audit Section

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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND
OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

To the City Commissioners
City of Pharr, Texas

We 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, 2012, which collectively comprise the City of Pharr, Texas's basic financial statements and have issued our report thereon dated January 31, 2013. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

Management of City of Pharr, Texas, is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered City of Pharr, Texas's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of City of Pharr, Texas's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City of Pharr, Texas's internal control over financial reporting.

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether City of Pharr, Texas's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and questioned costs as items 2012-1, 2012-2, and 2012-3.

We noted certain matters that we reported to management of Pharr, Texas, in a separate letter dated January 31, 2013.

City of Pharr, Texas's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit City of Pharr, Texas's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of management, City Council, others within the entity, 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 & Associates, PLLC
Certified Public Accountants
Pharr, Texas
January 31, 2013

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INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS
THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND ON
INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

To the City Commissioners
City of Pharr, Texas

Compliance

We have audited City of Pharr, Texas's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of City of Pharr, Texas's major federal programs for the year ended September 30, 2012. 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. Our responsibility is to express an opinion on City of Pharr, Texas's compliance based on our audit.

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

In our opinion, City of Pharr, Texas, complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended September 30, 2012. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as items 2012-1, 2012-2, and 2012-3.

Internal Control over Compliance

Management of City of Pharr, Texas, is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered City of Pharr, Texas's internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of City of Pharr, Texas's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over compliance that we consider to be significant deficiencies as described in the accompanying schedule of findings and questioned costs as items 2012-1, 2012-2, and 2012-3. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

City of Pharr, Texas's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit City of Pharr, Texas's responses and, accordingly, we express no opinion on the responses.

The purpose of this report is solely to describe the scope of our testing of compliance with the types of compliance requirements applicable to each of the City of Pharr, Texas's major programs and our testing of internal control over compliance and the results of our testing, and to provide an opinion on the City of Pharr, Texas's compliance but not to provide an opinion on the effectiveness of the City of Pharr, Texas's internal control over compliance. This report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the City of Pharr, Texas's compliance with requirements applicable to each major program and its internal control over compliance. Accordingly, this report is not suitable for any other purpose.

Oscar R. Gonzalez CPA & Associates PLLC
Oscar R. Gonzalez, CPA & Associates, PLLC
Certified Public Accountants
Pharr, Texas
January 31, 2013

CITY OF PHARR, TEXAS
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED SEPTEMBER 30, 2012

Federal Grantor/ Pass-Through Grantor/ Program Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
<u>U.S. DEPARTMENT OF HOMELAND SECURITY</u>			
Passed Through Governor's Division of Emergency Management:			
Operation Stonegarden	97.067	2008-SG-TB-0009	\$ 92,331
Staffing for Adequate Fire and Emergency Response	97.044	EMW-2008-FF-00717	158,749
Total Passed Through Governor's Division of Emergency Management			<u>251,080</u>
Total U.S. DEPARTMENT OF HOMELAND SECURITY			<u>251,080</u>
<u>U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT</u>			
Passed Through Direct Programs:			
Community Development Block Grant	14.218	B-06-MC-48-0507	28,291
Community Development Block Grant	14.218	B-07-MC-48-0507	10,173
Community Development Block Grant	14.218	B-08-MC-48-0507	3,610
Community Development Block Grant	14.218	B-09-MC-48-0507	204,616
Community Development Block Grant	14.218	B-10-MC-48-0507	619,787
Community Development Block Grant	14.218	B-11-MC-48-0507	461,447
Community Development Block Grant-Section 108 Program	14.248	B-10-MC-48-0507	1,726,068
Community Development Block Grant-R	14.225	B-08-MY-48-0507	15,040
Total Passed Through Direct Programs			<u>3,069,032</u>
Passed Through Texas General Land Office:			
Disaster Recovery Grant	14.228	DRS010140	1,067,845
Total Passed Through Texas General Land Office:			<u>1,067,845</u>
Total U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT			<u>4,136,877</u>
<u>U.S. DEPARTMENT OF JUSTICE</u>			
Passed Through Direct Programs:			
Bulletproof Vest Partnership Program	16.607	2010-BU-BX-100-53696	1,317
Bulletproof Vest Partnership Program	16.607	2011-BU-BX-110-59079	358
COPS Hiring Grant Program	16.710	2010-UM-WX-0306	240,974
SMART Policing Initiative	16.738	2011-DB-BX-0030	129,338
Total Passed Through Direct Programs			<u>371,987</u>
Passed Through Governor's Division of Criminal Justice:			
Pharr Border Gang Reduction Project	16.738	DJ-10-A10-22850-02	92,200
Human Trafficking Liaison Grant	16.575	VA-10-V30-24305-02	29,861
Total Passed Through Governor's Division of Criminal Justice			<u>122,061</u>
<u>AMERICAN RECOVERY AND REINVESTMENT ACT (ARRA)</u>			
Passed Through Direct Programs:			
ARRA - FY 2009 Justice Assistance Grant Program	16.804	2009-DJ-BX-0603	2,546
ARRA - FY 2010 Justice Assistance Grant Program	16.804	2010-DJ-BX-1368	2,795
ARRA - FY 2011 JAG Automatic Vehicle Location Project	16.804	2011-DJ-BX-3106	24,533
ARRA - Domestic Violence Coordinator Project	16.588	WF-11-V30-22994-02	29,665
ARRA - Pharr Multidisciplinary Intelligence-Based Team Project	16.809	2009-SS-B9-0074	233,570
Total ARRA Passed Through Direct Programs			<u>293,109</u>
Total AMERICAN RECOVERY AND REINVESTMENT ACT			<u>293,109</u>
Total U.S. DEPARTMENT OF JUSTICE			<u>787,157</u>

CITY OF PHARR, TEXAS
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED SEPTEMBER 30, 2012 - continued

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	112SA1599	33,398
Total U.S. DEPARTMENT OF TREASURY			<u>33,398</u>
<u>U.S. DEPARTMENT OF AGRICULTURE</u>			
Passed Through The Lower Rio Grande Valley Development Council:			
Intermediary Relending Program	10.767	TX-R-20110117	60,000
Total Passed Through The Lower Rio Grande Valley Development Council:		0002-21	<u>60,000</u>
Total U.S. DEPARTMENT OF AGRICULTURE			<u>60,000</u>
<u>U.S. GENERAL SERVICES ADMINISTRATION</u>			
Passed Through Texas Facilities Commission			
Donation of Federal Surplus Personal Property (non-monetary)	39.003	13480	34,188
Total U.S. GENERAL SERVICES ADMINISTRATION			<u>34,188</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS			<u>\$ 5,302,700</u>

CITY OF PHARR, TEXAS
SCHEDULE OF EXPENDITURES OF STATE AWARDS
FOR THE YEAR ENDED SEPTEMBER 30, 2012

<u>Grantor/ Program Title</u>	<u>Grant Number</u>	<u>Expenditures</u>
<u>TEXAS STATE LIBRARY AND ARCHIVES COMMISSION</u>		
E-rate Grant		11,000
Total TEXAS STATE LIBRARY AND ARCHIVES COMMISSION		<u>11,000</u>
<u>OFFICE OF THE ATTORNEY GENERAL</u>		
Victim Coordinator Liaison Grant	1226711	39,328
Total TEXAS INFRASTRUCTURE FUNDS BOARD		<u>39,328</u>
<u>TEXAS DEPARTMENT OF MOTOR VEHICLES</u>		
South Texas Auto Theft Enforcement Task Force	SA-T01-10041-12	48,979
Total TEXAS DEPARTMENT OF TRANSPORTATION		<u>48,979</u>
<u>TEXAS WATER DEVELOPMENT BOARD</u>		
Regional Water and Wastewater Facilities Planning	1004831080	17,388
Total TEXAS WATER DEVELOPMENT BOARD		<u>17,388</u>
<u>TEXAS FOREST SERVICE</u>		
TIFMAS Grant Assistance Program	1121	53
Total TEXAS FOREST SERVICE		<u>53</u>
<u>LOWER RIO GRANDE VALLEY DEVELOPMENT COUNCIL</u>		
Regional Solid Waste Grant Program	11-21-G02	60,614
Total LOWER RIO GRANDE VALLEY DEVELOPMENT COUNCIL		<u>60,614</u>
TOTAL EXPENDITURES OF STATE AWARDS		<u>177,362</u>
TOTAL EXPENDITURES OF FEDERAL & STATE AWARDS		<u>\$ 5,445,874</u>

City of Pharr, Texas
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS
Year Ended September 30, 2012

1. General Statement

The accompanying Schedule of Expenditures of Federal and State Awards presents the activity of all federal and state award programs of the City of Pharr, Texas, for the year ended September 30, 2012. The reporting entity consists of the primary government, organizations for which the primary government is not accountable, but for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statement misleading or incomplete.

Financial accountability exists if a primary government appoints a voting majority of an organization's governing board and is either able to impose its will on that organization or there is potential for the organization to provide specific financial benefits to, or impose specific financial burdens on, the primary government. A primary government may also be financially accountable for governmental organizations with a separately elected governing board, a governing board appointed by another government, or a jointly appointed board that is fiscally dependent on the primary government.

In accordance with Governmental Accounting Standards Board requirements, the City has reviewed other entities and activities for possible inclusion in the reporting entity and determined that there are none; however, federal financial assistance passed through other governmental agencies is included on the schedule.

2. Measurement Focus and Basis of Accounting

The federal and state grant funds were accounted for in the Grant Fund, a governmental fund type, and in an enterprise fund. The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. The governmental fund types are accounted for using a current financial resources measurement focus. With the governmental fund type measurement focus, only current assets and current liabilities generally are included on the balance sheet. Operating statements of these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in net current assets.

The modified accrual basis of accounting is used for the governmental fund types. This basis of accounting recognizes revenues in the accounting period in which they become susceptible to accrual, i.e., both measurable and available, and expenditures in the accounting period in which the fund liability is incurred, if measurable, except for certain compensated absences and claims and judgments, which are recognized when the obligations are expected to be liquidated with expendable available financial resources.

Enterprise funds are used to account for those operations that are financed and operated in a manner similar to private business or where the governing body has decided that the determination of revenues earned, costs incurred, and/or net income is necessary for management accountability. Enterprise funds are accounted for on the flow of economic resources measurement focus and use the accrual basis of accounting. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred.

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

3. Basis of Presentation

The accompanying schedule of expenditures of federal and state awards includes the federal and state grant activity of the City of Pharr, Texas and is presented on the modified accrual basis of accounting (excluding Federal CFDA # 66.202 which is based on the accrual basis of accounting). The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of State, Local Governments, and Non-Profit Organizations and the State of Texas Single Audit Circular. Therefore, some amounts presented in this schedule may differ from amounts presented in, or use in the preparation of the basic financial statements.

CITY OF PHARR, TEXAS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED SEPTEMBER 30, 2012

SECTION I - SUMMARY OF AUDITOR RESULTS - CURRENT FISCAL YEAR

A. Summary of Auditor's Results

1. Financial Statements

Type of auditor's report issued UNQUALIFIED

Internal control over financial reporting:

- One or more material weakness identified? YES X NO
- One or more significant deficiencies identified that are not considered to be material weaknesses? YES X NO

Noncompliance material to financial statements notes? YES X NO

2. Federal Awards

Internal control over major programs:

- One or more material weakness identified? YES X NO
- One or more significant deficiencies identified that are not considered to be material weaknesses? X YES NO

Type of auditor's report issued on compliance for major programs: UNQUALIFIED

Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133? X YES NO

Identification of major programs:

<u>CFDA Numbers</u>	<u>Name of Federal Program or Cluster</u>
14.218	Community Development Block Grant
14.228	Disaster Recovery Grant
14.248	Section 108 Loan Guarantee Program

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

Auditee qualified as low-risk auditee? X YES NO

SECTION I - SUMMARY OF AUDITOR RESULTS - CURRENT FISCAL YEAR - Continued

A. Summary of Auditor's Results - Continued

B. Financial Statement Findings

None.

C. Federal Award Findings and Questioned Costs

Major Program: 14.218 Community Development Block Grant

Schedule Reference: (2012-1): Time and Effort

Criteria: *OMB Circular A-87: Cost Principles for State, Local, and Indian Tribal Governments* requires there be proper support for salaries and wages paid to employees working under the grant. For employees working solely on the grant it requires there be semi-annual certifications signed by the employee and the supervisor. It also requires personnel activity reports (timesheets) for employees who work under multiple activities.

Statement of Condition: During the audit we found semi-annual certifications were not prepared by employees working under the grant.

Cause of Condition: Employees did not complete semi-annual certifications.

Effect of Condition: Through various other methods we were able to determine that employees did work under the grant during the year and we believe these costs are allowable.

Recommendation: We recommend the employees administering this grant become familiar with requirements under *OMB Circular A-87: Cost Principles for State, Local, and Indian Tribal Governments*.

Questioned Costs: None

Auditee's Response: We concur. Semi-annual certifications will be prepared for employees working solely under the grant.

Schedule Reference: (2012-2): Cash Management

Criteria: Grant draw down requests should be performed only after expenditures have occurred and should be requested only for the amount paid for grant expenditures.

Statement of Condition: During the audit we found a draw down was requested for \$25,000 more than was paid by the program for grants expenditures. In addition, the city reviewed draw downs and found an additional \$17,700 that was requested in excess of expenditures. The draw downs requested incorrectly totaled \$42,700.

Cause of Condition: A grant to a local entity was reduced from \$50,000 to \$25,000 and this caused the incorrect draw down to be requested.

Effect of Condition: The city will have to repay \$42,700 to HUD.

Recommendation: We recommend that employees administering this grant carefully review all draw down requests before making them to ensure the draw down amount is supported by invoices.

Questioned Costs: \$42,700.

Auditee's Response: We concur. The City will implement better internal controls to administer the draw downs appropriately.

SECTION I - SUMMARY OF AUDITOR RESULTS - CURRENT FISCAL YEAR - Continued

C. Federal Award Findings and Questioned Costs - Continued

Major Program: 14.228 Disaster Recovery Grant

Schedule Reference: (2012-3): Cash Management

Criteria: Grant draw down requests should be performed after grant expenditures are made.

Statement of Condition: During the audit we found that draw downs for the grant had not been made throughout the year. As of September 30, 2012, \$1,047,191 was spent but not drawn down.

Cause of Condition: Grant draw downs were not requested.

Effect of Condition: The city could have received reimbursement for these expenses sooner.

Recommendation: We recommend that employees administering this grant review expenditures incurred and perform draw downs more frequently.

Questioned Costs: None.

Auditee's Response: We concur. The City will implement better internal controls to review expenditures periodically and request draw downs on a timely manner.

SECTION II - SUMMARY OF AUDITOR RESULTS - PRIOR FISCAL YEAR

A. Financial Statement Findings - Prior Fiscal Year

Schedule Reference: (2011-1): Fixed Assets

Criteria: Fixed assets are required by Generally Accepted Accounting Principles to be depreciated using the straight line method over their estimated useful lives.

Condition: Accumulated depreciation was found to be incorrectly calculated by the Incode accounting software. In some instances, depreciation was never taken from the date of purchase on various assets.

Cause: Over the years, amounts were overridden in the fixed asset module of Incode that caused the software to miscalculate accumulated depreciation and depreciation expense.

Effect of Condition: Accumulated depreciation and depreciation expense were adjusted to reflect the correct amounts.

Recommendation: We recommend the city review fixed asset depreciation expense and accumulated depreciation and correct the errors for each individual asset so depreciation can be correctly calculated in future years.

Auditee's Response: We concur. Fixed asset depreciation and accumulated depreciation errors for each individual asset will be reviewed in the upcoming fiscal year.

Status: Corrected.

Schedule Reference: (2011-2): Bridge Revenues

Criteria: All revenue should be deposited and pesos should not be exchanged for dollars before depositing revenues into the bank.

Condition: During the audit we found that pesos collected were being exchanged for dollars by employees for personal use with management approval and for city administrative uses. In addition, we also found that the amount of dollars and pesos collected and deposited ties to the TOD reports generated by the cashiers overall but not at the currency level. Part of the reason for this were the exchanges made and a second reason is that toll collectors classify pesos collected as dollars because the transaction is easier to perform.

Cause: This was a long standing policy that was in effect since the bridge opened.

Effect of Condition: Since the city has a flat exchange rate of 16 pesos to one dollar and exchange rates are usually lower than this, the city lost on potential profits from the exchanges.

Recommendation: We recommend that all money collected be deposited as collected and that no exchanges take place even if they are for administrative purposes. We recommend that a peso petty cash fund be implemented for administrative expenses to ensure that all revenues collected are properly deposited. We also recommend that TOD reports be compared to the actual daily deposits and that any discrepancies of amounts collected between currencies be reconciled. In addition, we recommend that toll collectors enter pesos as pesos and dollars as dollars in their system to avoid discrepancies between currencies collected and deposited.

Auditee's Response: We concur. The policy of allowing employees to exchange small amounts of dollars to peso's will no longer be allowed. If needed, a small peso petty cash account will be created.

Status: Corrected.

Schedule Reference: (2011-3): Municipal Court Fines

Criteria: The municipal court should be able to account for all traffic citations even if they have been voided.

Condition: During the audit we found that not all citations can be accounted for.

SECTION II - SUMMARY OF AUDITOR RESULTS - PRIOR FISCAL YEAR-Continued

Cause: Procedures are not in place to ensure all citations are accounted for.

Effect of Condition: As a result, there is no way of knowing whether all valid citations were delivered to the court or whether missing citations were voided, lost or misused.

Recommendation: We recommend a policy be implemented so that all citations can be turned in to the court including voided ones. We also recommend the court reconcile citations to ensure all of them are being returned to the court.

Auditee's Response: We concur. All court personnel have been informed to begin a reconciling citations and identify any discrepancies on a monthly basis.

Status: Not corrected.

B. Federal Award Findings and Questioned Costs - Prior Fiscal year Major Program: 14.218 Community Development Block Grant

Schedule Reference: (2011-4): Time and Effort

Criteria: *OMB Circular A-87: Cost Principles for State, Local, and Indian Tribal Governments* requires there be proper support for salaries and wages paid to employees working under the grant. For employees working solely on the grant it requires there be semi-annual certifications signed by the employee and the supervisor. It also requires personnel activity reports (timesheets) for employees who work under multiple activities.

Statement of Condition: During the audit we found semi-annual certifications were not prepared for employees working solely under the grant. We also found an employee whose salary was based on an estimated percentage for which there were no personnel activity reports.

Cause of Condition: City staff did not have knowledge of this single audit requirement.

Effect of Condition: Through various other methods we were able to determine that employees did work under the grant during the year and we believe these costs are allowable.

Recommendation: We recommend the employees administering this grant become familiar with requirements under *OMB Circular A-87: Cost Principles for State, Local, and Indian Tribal Governments*.

Questioned Costs: None

Auditee's Response: We concur. Semi-annual certifications will be prepared for employees working solely under the grant.

Status: Not corrected.

Schedule Reference: (2011-5): Environmental Review

Criteria: The Community Development Block Grant requires that environmental reviews be conducted for projects paid with grant funds.

Statement of Condition: During the audit we found an environmental review was not conducted for the Sioux Road project.

Cause of Condition: The project funded through this grant was changed at the last minute and as a result an environmental review was not conducted.

Effect of Condition: The grant is not in compliance with this requirement.

Recommendation: We recommend that employees administering this grant carefully review all requirements and ensure they are met.

SECTION II - SUMMARY OF AUDITOR RESULTS - PRIOR FISCAL YEAR-Continued

Questioned Costs: None

Auditee's Response: We concur. Employees administering this grant will carefully review all requirements and ensure they are met.

Status: Corrected.

Schedule Reference: (2011-6): Earmarking

Criteria: The Community Development Block Grant states that "the amount of CDBG funds obligated during the program year for public services must not exceed 15% of the grant amount received for that year".

Statement of Condition: During the audit we found that about 18% of the grant amount received for the year was obligated for public services. The overage was estimated at \$36,764.

Cause of Condition: Grant funds were reallocated during the year and this requirement was not properly reviewed.

Effect of Condition: The grant is not in compliance with this requirement.

Recommendation: We recommend that employees administering this grant carefully review all requirements and ensure they are met.

Questioned Costs: None

Auditee's Response: We concur. Employees administering this grant will carefully review all requirements and ensure they are met.

Status: Corrected.

CITY OF PHARR, TEXAS
CORRECTIVE ACTION PLAN

Schedule Reference: (2012-1): Time and Effort

Semi-annual certifications will be prepared for employees working solely under the grant.
Anticipated Completion Date: Immediately

Schedule Reference: (2012-2): Cash Management

Proper internal controls will be implemented to ensure the correct draw downs requests.
Anticipated Completion Date: Immediately

Schedule Reference: (2012-3): Cash Management

Proper internal controls will be implemented to ensure that draw downs are made within a reasonable time after expenses are made.
Anticipated Completion Date: Immediately

Contact Persons responsible for corrective action:

Primary Government-City of Pharr, Texas

Fred Sandoval, City Manager
118 S Cage Blvd.
Pharr, Texas 78577
(956)-702-5300

Juan G. Guerra, CPA, Chief Financial Officer
118 S Cage Blvd.
Pharr, Texas 78577
(956)-702-5300

Component Units-Pharr Economic Development Corporation, Inc. (PEDC 4B), Pharr Public Facilities Corporation # 1

Fred Sandoval, City Manager/Executive Director
118 S Cage Blvd.
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