

**CITY OF PHARR, TEXAS**  
**AUDITED ANNUAL FINANCIAL REPORT**  
**For The Year Ended September 30, 2004**

**Juan Nuñez**  
**Certified Public Accountant**

**CITY OF PHARR, TEXAS**  
**AUDITED ANNUAL FINANCIAL REPORT**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2004**

**TABLE OF CONTENTS**

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

(Continued)

**CITY OF PHARR, TEXAS**  
AUDITED ANNUAL FINANCIAL REPORT  
FOR THE YEAR ENDED SEPTEMBER 30, 2004

**TABLE OF CONTENTS (CONTINUED)**

|                                                                                                                                                                                                         | <b><u>Page</u></b> | <b><u>Exhibit</u></b> |
|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------|-----------------------|
| <b><u>Required Supplementary Information</u></b>                                                                                                                                                        |                    |                       |
| General Fund – Budgetary Comparison Schedule                                                                                                                                                            | 63                 | E – 1                 |
| PEDC Special Revenue Fund – Budgetary Comparison Schedule                                                                                                                                               | 65                 | E - 2                 |
| <b><u>Combining Statements</u></b>                                                                                                                                                                      |                    |                       |
| Combining Balance Sheet – Nonmajor Governmental Funds                                                                                                                                                   | 66                 | F - 1                 |
| Combining Statement of Revenues, Expenditures, and Changes in Fund Balances – Nonmajor Governmental Funds                                                                                               | 68                 | F - 2                 |
| <br><b>FEDERAL AWARDS SECTION</b>                                                                                                                                                                       |                    |                       |
| Independent Auditor's Report on Compliance and on Internal Control Over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i> | 70                 |                       |
| Independent Auditor's Report on Compliance with Requirements Applicable to Each Major Program and Internal Control over Compliance in Accordance with OMB Circular A-133                                | 72                 |                       |
| Schedule of Findings and Questioned Costs                                                                                                                                                               | 74                 |                       |
| Schedule of Status of Prior Audit Findings                                                                                                                                                              | 92                 |                       |
| Schedule of Expenditures of Federal Awards                                                                                                                                                              | 93                 | G - 1                 |
| Notes to Schedule of Expenditures of Federal Awards                                                                                                                                                     | 95                 |                       |

1  
2  
3  
4  
5  
6  
7  
8  
9  
10  
11  
12  
13  
14  
15  
16  
17  
18  
19  
20  
21  
22  
23  
24  
25  
26  
27  
28  
29  
30  
31  
32  
33  
34  
35  
36  
37  
38  
39  
40  
41  
42  
43  
44  
45  
46  
47  
48  
49  
50  
51  
52  
53  
54  
55  
56  
57  
58  
59  
60  
61  
62  
63  
64  
65  
66  
67  
68  
69  
70  
71  
72  
73  
74  
75  
76  
77  
78  
79  
80  
81  
82  
83  
84  
85  
86  
87  
88  
89  
90  
91  
92  
93  
94  
95  
96  
97  
98  
99  
100

**CITY OF PHARR, TEXAS**  
**AUDITED ANNUAL FINANCIAL REPORT**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2004**

**BOARD OF COMMISSIONERS AND ADMINISTRATIVE STAFF**

**BOARD OF COMMISSIONERS**

**Leopoldo "Polo" Palacios, Jr. .... Mayor**

**Reynaldo Zuniga ..... Commissioner**

**Raul Martinez ..... Commissioner**

**Raul Gonzalez ..... Commissioner**

**Ricardo Medina ..... Commissioner**

**Carlos Villegas..... Commissioner**

**Irma Elizondo ..... Commissioner**

**ADMINISTRATIVE STAFF**

**Fred Sandoval..... City Manager**

**Ruben Luna..... Finance Director**

**Mary Muñoz..... City Clerk**





Twin Palm Plaza    ✦    1101 N. Cage Boulevard    ✦    Suite 8-A  
P.O. Box 978    ✦    Pharr, Texas 78577-0978    ✦    (956) 787-0521

**Independent Auditor's Report**

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

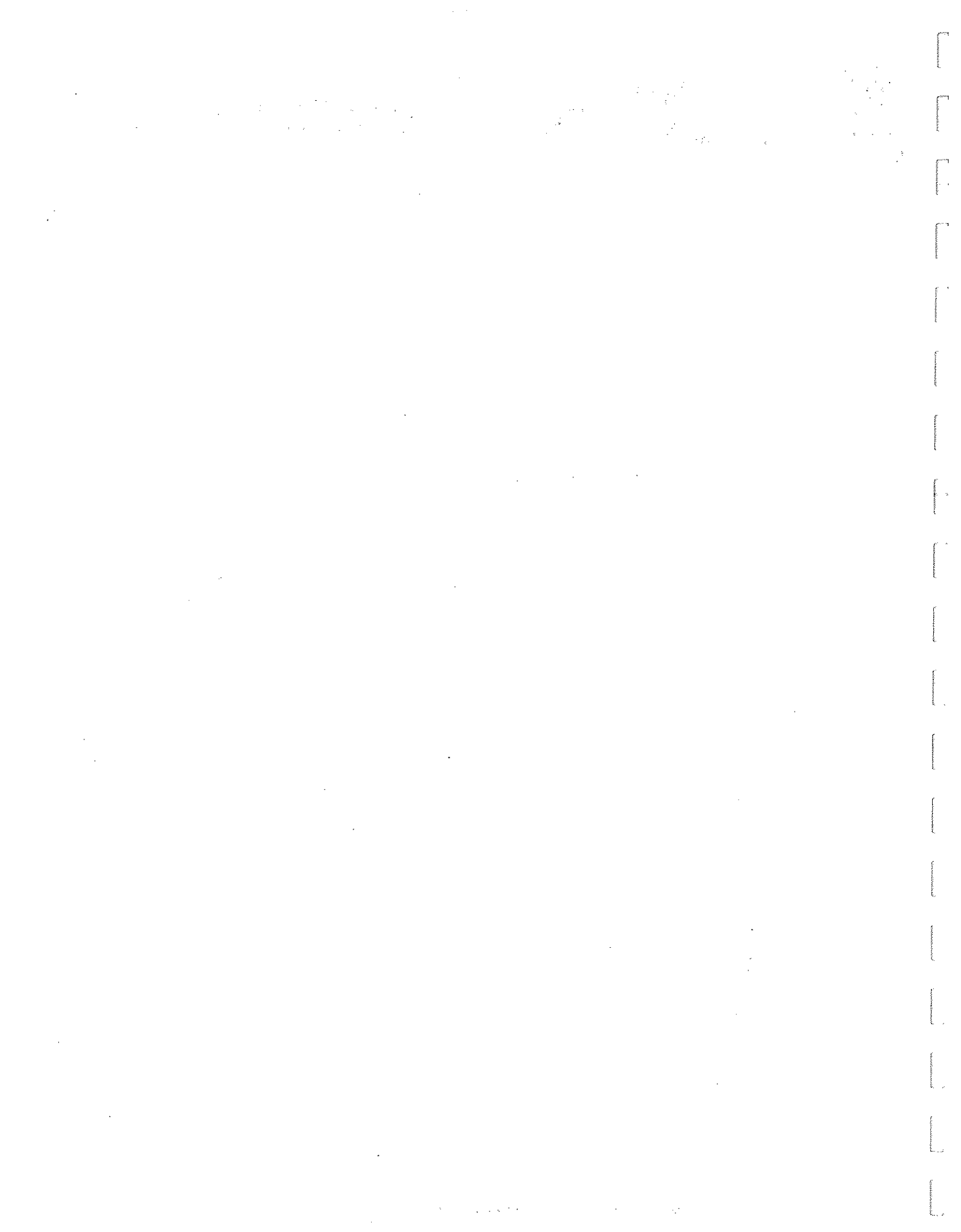
The Honorable Mayor and Other  
Members of the Board of Commissioners  
City of Pharr, Texas

Members of the Board:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Pharr, Texas (the City), as of and for the year ended September 30, 2004, which collectively comprise the City's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City, as of September 30, 2004, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.





The Honorable Mayor and Other  
Members of the Board of Commissioners  
June 14, 2005  
Page Two

In accordance with *Government Auditing Standards*, we have also issued our report dated June 14, 2005, on our consideration of the City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

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

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



Juan Nuñez  
Certified Public Accountant

June 14, 2005

1  
2  
3  
4  
5  
6  
7  
8  
9  
10  
11  
12  
13  
14  
15  
16  
17  
18  
19  
20  
21  
22  
23  
24  
25  
26  
27  
28  
29  
30  
31  
32  
33  
34  
35  
36  
37  
38  
39  
40  
41  
42  
43  
44  
45  
46  
47  
48  
49  
50  
51  
52  
53  
54  
55  
56  
57  
58  
59  
60  
61  
62  
63  
64  
65  
66  
67  
68  
69  
70  
71  
72  
73  
74  
75  
76  
77  
78  
79  
80  
81  
82  
83  
84  
85  
86  
87  
88  
89  
90  
91  
92  
93  
94  
95  
96  
97  
98  
99  
100

**CITY OF PHARR, TEXAS**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**

In this section of the Annual Financial and Compliance Report, we, the managers of City of Pharr, Texas (the City), discuss and analyze the City's financial performance for the fiscal year ended September 30, 2004. Please read it in conjunction with the Independents Auditor's Report on page 2, and the City's Basic Financial Statements which begin on page 12.

**FINANCIAL HIGHLIGHTS**

- The assets of the City exceeded its liabilities at the close of the most recent period by \$78,128,915(net assets). Of this amount \$12,147,205 (unrestricted net assets) may be used to meet the City's ongoing obligations. Compared to last year, the City's net assets increased by \$ 9,485,419 or 13.8%.
- As of the close of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$6,663,327. Approximately 33.9 percent of this total amount, \$2,257,242 is available for spending at the government's discretion (unreserved, undesignated fund balance). Compared to last year, the City's combined fund balances decreased by \$ 1,756,940 or 21%.
- At the end of the current fiscal year, unreserved fund balance for the general fund was \$1,433,117 or 6.0 percent of the total general fund expenditures.

**USING THIS ANNUAL REPORT**

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

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

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

(Continued)

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

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

**Reporting the City as a Whole**

***The Statement of Net Assets and the Statement of Activities***

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

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

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

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

- **Governmental activities**—Most of the City's basic services are reported here, including the instruction, counseling, co-curricular activities, food services, transportation, maintenance, community services, and general administration. Property taxes, tuition, fees, and state and federal grants finance most of these activities.
- **Business-type activities**—The City charges a fee to “customers” to help it cover all or most of the cost of water and sewer services it provides, usage of its international bridge, and usage of its golf course.
- **Component unit**—The City includes one separate legal entity in its report—the Pharr Economic Development Corporation, Inc. Although legally separate, this “component unit” is important because the City is financially accountable for it.

(Continued)

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

**Reporting the City's Most Significant Funds**

***Fund Financial Statements***

The fund financial statements begin on page 15 and provide detailed information about the most significant funds—not the City as a whole. Laws and contracts require the City to establish some funds, such as grants received from the U.S. Department of Housing and Urban Development. The City's administration establishes many other funds to help it control and manage money for particular purposes. The City's two kinds of funds—governmental and proprietary—use different accounting approaches.

- Governmental funds—Most of the City's basic services are reported in governmental funds. These use modified accrual accounting (a method that measures the receipt and disbursement of cash and all other financial assets that can be readily converted to cash) and report balances that are available for future spending. The governmental fund statements provide a detailed short-term view of the City's general operations and the basic services it provides. We describe the differences between governmental activities (reported in the Statement of Net Assets and the Statement of Activities) and governmental funds in reconciliation schedules following each of the fund financial statements.
  
- Proprietary funds—The City reports the activities for which it charges users (whether outside customers or other units of the City) in proprietary funds using the same accounting methods employed in the Statement of Net Assets and the Statement of Activities. In fact, the City's enterprise funds (one category of proprietary funds) are the business-type activities reported in the government-wide statements but containing more detail and additional information, such as cash flows. The internal service funds (the other category of proprietary funds) report activities that provide supplies and services for the City's other departments and activities—such as the City's Garage Fund.

**GOVERNMENT-WIDE FINANCIAL ANALYSIS**

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

Net assets of the City's governmental activities increased from \$27,753,867 to \$32,320,085. Unrestricted net assets – the part of net assets that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation, or other legal requirements – was \$3,982,688 at September 30, 2004. This increase in governmental net assets was largely the result of the inclusion of the blended component unit's net assets of \$ 4,334,413 at year's end.

In fiscal year 2004, net assets of our business-type activities increased by \$4,919,201, about 12 percent. This was the result of current year's operations.

(Continued)

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

**Table I**  
**City of Pharr, Texas**  
**Net Assets**  
 In thousands

|                                                 | Governmental Activities |                     | Business-type Activities |                     | Total               |                     |
|-------------------------------------------------|-------------------------|---------------------|--------------------------|---------------------|---------------------|---------------------|
|                                                 | 2004                    | 2003                | 2004                     | 2003                | 2004                | 2003                |
| Current and other assets                        | \$ 11,845,867           | \$13,347,200        | \$21,627,465             | \$22,723,713        | \$33,473,332        | \$36,070,913        |
| Capital assets                                  | 55,796,958              | 46,059,933          | 60,381,039               | 58,490,919          | 116,177,997         | 104,550,852         |
| <b>Total assets</b>                             | <b>67,642,825</b>       | <b>59,407,133</b>   | <b>82,008,504</b>        | <b>81,214,632</b>   | <b>149,651,329</b>  | <b>140,621,765</b>  |
| Long-term liabilities                           | 29,078,663              | 28,628,182          | 29,601,498               | 37,171,329          | 58,680,161          | 65,799,511          |
| Other Liabilities                               | 6,244,077               | 3,025,084           | 6,598,176                | 3,153,674           | 12,842,253          | 6,178,758           |
| <b>Total liabilities</b>                        | <b>35,322,740</b>       | <b>31,653,266</b>   | <b>36,199,674</b>        | <b>40,325,003</b>   | <b>71,522,414</b>   | <b>71,978,269</b>   |
| <b>Net Assets:</b>                              |                         |                     |                          |                     |                     |                     |
| Invested in capital Assets, net of related Debt | 26,339,002              | 17,431,751          | 28,366,541               | 21,319,590          | 54,705,543          | 38,751,341          |
| Restricted                                      | 1,998,395               | 5,054,270           | 9,277,772                | 4,349,407           | 11,276,167          | 9,403,677           |
| Unrestricted                                    | 3,982,688               | 5,267,846           | 8,164,517                | 15,220,632          | 12,147,205          | 20,488,478          |
| <b>Total net assets</b>                         | <b>\$ 32,320,085</b>    | <b>\$27,753,867</b> | <b>\$45,808,830</b>      | <b>\$40,889,629</b> | <b>\$78,128,915</b> | <b>\$68,643,496</b> |

(Continued)

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

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

|                                                    | Governmental<br>Activities |                     | Business-type<br>Activities |                     | Total               |                     |
|----------------------------------------------------|----------------------------|---------------------|-----------------------------|---------------------|---------------------|---------------------|
|                                                    | 2004                       | 2003                | 2004                        | 2003                | 2004                | 2003                |
| <b>Revenue:</b>                                    |                            |                     |                             |                     |                     |                     |
| <b>Program Revenues:</b>                           |                            |                     |                             |                     |                     |                     |
| Charges for Services                               | \$ 5,299,566               | \$ 4,549,216        | \$13,881,132                | \$12,586,135        | \$19,180,698        | \$17,135,351        |
| Operating grants and Contributions                 | 1,944,046                  | 79,102              | -                           | -                   | 1,944,046           | 79,102              |
| Capital grants and Contributions                   | 1,066,827                  | 3,348,532           | 2,935,935                   | -                   | 4,002,762           | 3,348,532           |
| <b>General Revenues:</b>                           |                            |                     |                             |                     |                     |                     |
| Ad valorem taxes                                   | 8,595,151                  | 7,238,891           | -                           | -                   | 8,595,151           | 7,238,891           |
| Other taxes                                        | 11,460,602                 | 7,650,107           | -                           | -                   | 11,460,602          | 7,650,107           |
| Grants and Contributions                           |                            |                     |                             |                     |                     |                     |
| Not restricted                                     | 748,437                    | 444,583             | -                           | -                   | 748,437             | 444,583             |
| Investment earnings                                | 161,763                    | 439,809             | 402,504                     | 564,205             | 564,267             | 1,004,014           |
| Miscellaneous                                      | 709,888                    | 273,042             | 35,186                      | 134,767             | 745,074             | 407,809             |
| <b>Total Revenues</b>                              | <b>29,986,280</b>          | <b>24,023,282</b>   | <b>17,254,757</b>           | <b>13,285,107</b>   | <b>47,241,037</b>   | <b>37,308,389</b>   |
| <b>Expenses:</b>                                   |                            |                     |                             |                     |                     |                     |
| General government and administration              | 4,818,038                  | 6,484,189           | -                           | -                   | 4,818,038           | 6,484,189           |
| Public safety                                      | 12,747,649                 | 10,330,667          | -                           | -                   | 12,747,649          | 10,330,667          |
| Public works                                       | 5,550,433                  | 3,612,609           | -                           | -                   | 5,550,433           | 3,612,609           |
| Culture and recreation                             | 3,155,803                  | 825,944             | -                           | -                   | 3,155,803           | 825,944             |
| Economic development and assistance                | 2,503,432                  | 105,230             | -                           | -                   | 2,503,432           | 105,230             |
| Interest on long-term debt                         | 1,536,703                  | 1,880,472           | -                           | -                   | 1,536,703           | 1,880,472           |
| Water and sewer                                    | -                          | -                   | 6,297,596                   | 5,084,938           | 6,297,596           | 5,084,938           |
| Toll bridge operations                             | -                          | -                   | 3,244,366                   | 2,070,567           | 3,244,366           | 2,070,567           |
| Golf course operations                             | -                          | -                   | 1,238,932                   | 964,572             | 1,238,932           | 964,572             |
| <b>Total Expenses</b>                              | <b>30,312,058</b>          | <b>23,239,111</b>   | <b>10,780,894</b>           | <b>8,120,077</b>    | <b>41,092,952</b>   | <b>31,359,188</b>   |
| Increase (decrease) in net assets before transfers | (325,778)                  | 784,171             | 6,473,863                   | 5,165,030           | 6,148,085           | 5,949,201           |
| Transfers                                          | 1,639,730                  | -                   | (1,639,730)                 | -                   | -                   | -                   |
| Net assets - October 1, 2003                       | 28,992,451                 | 26,349,266          | 40,713,638                  | 36,601,993          | 69,706,089          | 62,951,259          |
| Prior Period Adjustments                           | 2,013,682                  | 620,430             | 261,059                     | ( 877,394)          | 2,274,741           | ( 256,964)          |
| Net assets - September 30, 2004                    | <u>\$32,320,085</u>        | <u>\$27,753,867</u> | <u>\$45,808,830</u>         | <u>\$40,889,629</u> | <u>\$78,128,915</u> | <u>\$68,643,496</u> |

(Continued)

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

The cost of all governmental activities this year was \$ 30.31 million. However, as shown in the Statement of Activities on pages 13 and 14, the amount that our taxpayers ultimately financed for these activities through City taxes was only \$ 8.22 million because some of the costs were paid by those who directly benefited from the programs (\$ 5.3 million) or by other governments and organizations that subsidized certain programs with grants and contributions (\$ 3.01 million) or by sales and use taxes and franchise taxes (\$ 10.8 million).

At the end of the year, the City's proprietary funds had total unrestricted net assets of \$ 8,164,517. The Utility Fund and Toll Bridge Fund had unrestricted net assets of \$ 4,317,891 and \$ 6,420,345, respectively. The Golf Course Fund ended the year with an unrestricted net assets deficit of \$ 2,573,719.

The City's total revenues "increased by 26.60 percent (\$ 9.93 million)." The total cost of all programs and services increased by 31.04 percent (\$ 9.73 million).

## **THE CITY'S FUNDS**

As the City completed the year, its governmental funds (as presented in the balance sheet on pages 15–16) reported a combined fund balance of \$ 6.7 million, which is below last year's total of \$ 8.4 million. Included in this year's total change in fund balance is an increase of \$ 0.6 million in the City's General Fund. The primary reason for the General Fund's gain is largely due to a \$ 1.2 million increase in property tax revenues. Sales and use taxes also increase by \$ 1.1 million

### **General Fund Budgetary Highlights**

The General Fund budget was increased (in thousands) by \$ 392 from the original budget to the final budget (an increase of 0.2%). These increases can be summarized as follows:

- \$ 107 in increases in general government
- \$ 218 in increases in public safety
- \$ 50 in increases in culture and recreation
- \$ 17 in increases in conservation and development

Of this increase, \$ 530 was to be funded out of increases in estimated revenues. Although expenditures were greater than budgetary estimates, actual revenues were also greater than budgetary estimates. Also proceeds from capital leases were greater than budgetary estimates, thus eliminating the need to draw upon existing fund balance.

The City's General Fund balance of \$4.47 million reported on pages 18–19 differs from the General Fund's budgetary fund balance of \$3.87 million reported in the budgetary comparison schedule on pages 63 and 64. This is principally due to cost savings and added revenues described above.

(Continued)



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

**CAPITAL ASSET AND DEBT ADMINISTRATION**

**Capital Assets**

At the end of September 30, 2004, the City had \$ 168.24 million invested in a broad range of capital assets for its governmental and business-type activities. This investment in capital assets includes land, buildings, improvements, machinery and equipment, park facilities, street, roads, and bridges, storm drainage, sanitary sewer system and water system. The total increase in the City's investment in capital assets for the current fiscal year was 10.5 percent (a 17.4 percent increase for governmental activities and a 4.2 percent increase for business-type activities.)

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

**Governmental Activities**

|                                                                                                               |     |
|---------------------------------------------------------------------------------------------------------------|-----|
| Police Department and Municipal Library, paid for with proceeds of general obligation bonds issued in FY 2001 | 812 |
|---------------------------------------------------------------------------------------------------------------|-----|

|                                                                                                                            |       |
|----------------------------------------------------------------------------------------------------------------------------|-------|
| Park and street improvements, paid for with proceeds of general obligation bonds issued in FY 2001 and General Fund monies | 1,943 |
|----------------------------------------------------------------------------------------------------------------------------|-------|

|                                                                                                 |       |
|-------------------------------------------------------------------------------------------------|-------|
| PEDC # 1 Subdivision Improvements, paid for with EDA grant and PEDC Special Revenue Fund monies | 1,509 |
|-------------------------------------------------------------------------------------------------|-------|

|                                                                                       |     |
|---------------------------------------------------------------------------------------|-----|
| Machinery and equipment, paid for with capital lease proceeds and General Fund monies | 574 |
|---------------------------------------------------------------------------------------|-----|

**Business-type Activities**

|                                                                                                            |       |
|------------------------------------------------------------------------------------------------------------|-------|
| Construction of 24 inch transmission water line improvements, paid with EDAP Grant and Utility Fund monies | 3,313 |
|------------------------------------------------------------------------------------------------------------|-------|

|                                                       |     |
|-------------------------------------------------------|-----|
| Waterline improvements, paid with Utility Fund monies | 157 |
|-------------------------------------------------------|-----|

|                                                           |    |
|-----------------------------------------------------------|----|
| Machinery and equipment, paid with capital lease proceeds | 86 |
|-----------------------------------------------------------|----|

|                                                            |    |
|------------------------------------------------------------|----|
| Machinery and equipment, paid with Toll Bridge Fund monies | 86 |
|------------------------------------------------------------|----|

|          |                 |
|----------|-----------------|
| Totaling | <u>\$ 8,480</u> |
|----------|-----------------|

(Continued)

1  
2  
3  
4  
5  
6  
7  
8  
9  
10  
11  
12  
13  
14  
15  
16  
17  
18  
19  
20  
21  
22  
23  
24  
25  
26  
27  
28  
29  
30  
31  
32  
33  
34  
35  
36  
37  
38  
39  
40  
41  
42  
43  
44  
45  
46  
47  
48  
49  
50  
51  
52  
53  
54  
55  
56  
57  
58  
59  
60  
61  
62  
63  
64  
65  
66  
67  
68  
69  
70  
71  
72  
73  
74  
75  
76  
77  
78  
79  
80  
81  
82  
83  
84  
85  
86  
87  
88  
89  
90  
91  
92  
93  
94  
95  
96  
97  
98  
99  
100

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

At the end of the current fiscal year, the City had a total long-term debt outstanding of \$ 61,093,161.

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

|                            | Governmental Activities |                     | Business-type Activities |                     | Totals              |                     |
|----------------------------|-------------------------|---------------------|--------------------------|---------------------|---------------------|---------------------|
|                            | 2004                    | 2003                | 2004                     | 2003                | 2004                | 2003                |
| Certificates of Obligation | \$23,330,000            | \$24,170,000        | \$ -                     | \$ -                | \$23,330,000        | \$24,170,000        |
| Revenue Bonds              | -                       | -                   | 31,707,000               | 36,882,000          | 31,707,000          | 36,882,000          |
| Other                      | 5,748,663               | 2,146,759           | 307,499                  | 289,329             | 6,056,162           | 2,436,088           |
| <b>Totals</b>              | <b>\$29,078,663</b>     | <b>\$26,316,759</b> | <b>\$32,014,499</b>      | <b>\$37,171,329</b> | <b>\$61,093,162</b> | <b>\$63,488,088</b> |

**Debt**

The City's total debt decreased by \$ 2,394,927 or 3.77% during the current fiscal year. Moody's Investors Service rated the bonds issued in fiscal year 2003, "Aaa". The City's other outstanding bonds underlying rating is "Baa2 Moody's and "AAA" by Standard & Poor's Rating Services.

Additional information on the City's long-term debt can be found in note 3F on pages 48-54 of the report.

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

- The unemployment rate for the City is currently 11.2 percent, which is a decrease from a rate of 13.1 percent a year ago. The state and national average unemployment rates are 6.1 percent and 5.5 percent, respectively.
- Appraisal values used in preparing the 2005 budget were up \$ 148.1 million, or 12.2 percent from the prior year. Improvements were up \$ 55.0 million.
- Due to the large increase in appraisal values, the City maintained the same tax rate (\$ 0.68312 per \$ 100 valuation).
- The 2005 General Fund operating budget was prepared using \$ 4,113,312 as the estimated unreserved fund balance at September 30, 2004. The actual unreserved fund balance for the General Fund was \$ 4,470,187; nevertheless, a \$ 4,270,965 fund balance is projected at September 30, 2005.

**CONTACTING THE CITY'S FINANCIAL MANAGEMENT**

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

1  
2  
3  
4  
5  
6  
7  
8  
9  
10  
11  
12  
13  
14  
15  
16  
17  
18  
19  
20  
21  
22  
23  
24  
25  
26  
27  
28  
29  
30  
31  
32  
33  
34  
35  
36  
37  
38  
39  
40  
41  
42  
43  
44  
45  
46  
47  
48  
49  
50  
51  
52  
53  
54  
55  
56  
57  
58  
59  
60  
61  
62  
63  
64  
65  
66  
67  
68  
69  
70  
71  
72  
73  
74  
75  
76  
77  
78  
79  
80  
81  
82  
83  
84  
85  
86  
87  
88  
89  
90  
91  
92  
93  
94  
95  
96  
97  
98  
99  
100

CITY OF PHARR, TEXAS  
STATEMENT OF NET ASSETS  
SEPTEMBER 30, 2004

EXHIBIT A-1

|                                                   | Primary Government         |                             | Total                |
|---------------------------------------------------|----------------------------|-----------------------------|----------------------|
|                                                   | Governmental<br>Activities | Business Type<br>Activities |                      |
| <b>ASSETS</b>                                     |                            |                             |                      |
| Cash and Cash Equivalents                         | \$ 3,935,848               | \$ 4,577,856                | \$ 8,513,704         |
| Investments - Current                             | 437,429                    | 433,436                     | 870,865              |
| Receivables (net of allowance for uncollectibles) | 7,210,941                  | 1,849,990                   | 9,060,931            |
| Internal Balances                                 | 203,524                    | (203,524)                   | -                    |
| Inventories                                       | 57,975                     | 83,999                      | 141,974              |
| Prepaid Items                                     | 150                        | 33,251                      | 33,401               |
| Deferred Charges                                  | -                          | 1,306,907                   | 1,306,907            |
| Capitalized Debt Issuance Costs                   | -                          | 211,100                     | 211,100              |
| Discount or (Premium) on Issuance of Debt         | -                          | 291,290                     | 291,290              |
| Restricted Assets:                                |                            |                             |                      |
| Temporarily Restricted:                           |                            |                             |                      |
| Temp. Restricted Assets-Cash and cash equivalents | -                          | 13,043,160                  | 13,043,160           |
| Capital Assets:                                   |                            |                             |                      |
| Land                                              | 4,025,818                  | 2,223,157                   | 6,248,975            |
| Infrastructure, net                               | 19,600,203                 | 27,117,513                  | 46,717,716           |
| Buildings, net                                    | 20,155,817                 | 20,699,840                  | 40,855,657           |
| Improvements other than Buildings, net            | 2,661,836                  | 779,214                     | 3,441,050            |
| Machinery and Equipment, net                      | 1,988,297                  | 5,180,549                   | 7,168,846            |
| Construction in Progress                          | 7,364,987                  | 4,380,766                   | 11,745,753           |
| Total Assets                                      | <u>67,642,825</u>          | <u>82,008,504</u>           | <u>149,651,329</u>   |
| <b>LIABILITIES</b>                                |                            |                             |                      |
| Accounts Payable and other current liabilities    | 5,175,055                  | 1,216,918                   | 6,391,973            |
| Intergovernmental Payable                         | 138,349                    | 18,037                      | 156,386              |
| Deferred Revenues                                 | 829,082                    | 448,569                     | 1,277,651            |
| Notes Payable - Current                           | -                          | 2,020                       | 2,020                |
| Other Current Liabilities                         | 101,591                    | 39,936                      | 141,527              |
| Payable from Restricted Assets                    | -                          | 4,874,716                   | 4,874,716            |
| Noncurrent Liabilities                            |                            |                             |                      |
| Due Within One Year                               | 1,743,953                  | 90,158                      | 1,834,111            |
| Due in More Than One Year                         | 27,334,710                 | 29,509,320                  | 56,844,030           |
| Total Liabilities                                 | <u>35,322,740</u>          | <u>36,199,674</u>           | <u>71,522,414</u>    |
| <b>NET ASSETS</b>                                 |                            |                             |                      |
| Invested in Capital Assets, Net of Related Debt   | 26,339,002                 | 28,366,541                  | 54,705,543           |
| Restricted for Debt Service                       | 1,048,317                  | 6,979,531                   | 8,027,848            |
| Restricted for Capital Projects                   | 320,698                    | 1,818,429                   | 2,139,127            |
| Restricted for Municipal Court                    | 629,380                    | -                           | 629,380              |
| Restricted for Other Purposes                     | -                          | 479,812                     | 479,812              |
| Unrestricted Net Assets                           | 3,982,688                  | 8,164,517                   | 12,147,205           |
| Total Net Assets                                  | <u>\$ 32,320,085</u>       | <u>\$ 45,808,830</u>        | <u>\$ 78,128,915</u> |

The accompanying notes are an integral part of this statement.

CITY OF PHARR, TEXAS  
STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED SEPTEMBER 30, 2004

|                                        | Expenses             | Program Revenues     |                                    |                                  |
|----------------------------------------|----------------------|----------------------|------------------------------------|----------------------------------|
|                                        |                      | Charges for Services | Operating Grants and Contributions | Capital Grants and Contributions |
| <b>Primary Government:</b>             |                      |                      |                                    |                                  |
| <b>GOVERNMENTAL ACTIVITIES:</b>        |                      |                      |                                    |                                  |
| Legislative                            | \$ 76,591            | \$ -                 | \$ -                               | \$ -                             |
| Judicial                               | 431,634              | 982,371              | -                                  | -                                |
| Executive                              | 1,138,797            | 316,346              | -                                  | -                                |
| Elections                              | 37,461               | -                    | -                                  | -                                |
| Financial Administration               | 1,051,567            | 316,346              | -                                  | -                                |
| Planning and Code Enforcement          | 663,979              | 72,111               | -                                  | -                                |
| Non-Departmental                       | 1,418,009            | -                    | -                                  | -                                |
| Police                                 | 8,233,293            | 53,897               | 391,743                            | -                                |
| Fire Protection                        | 3,752,154            | 1,800                | 65,636                             | -                                |
| Traffic Safety                         | 762,202              | -                    | -                                  | -                                |
| Highways and Streets                   | 2,139,592            | -                    | 426,103                            | -                                |
| Sanitation                             | 3,410,841            | 3,068,703            | -                                  | -                                |
| Parks                                  | 2,112,875            | 468,285              | 18,526                             | -                                |
| Libraries                              | 1,042,928            | 19,707               | 4,571                              | -                                |
| Economic Development and Assistance    | 2,503,432            | -                    | 926,310                            | 1,066,827                        |
| Debt Service - Bond Interest           | 1,536,703            | -                    | 111,157                            | -                                |
| <b>Total Governmental Activities:</b>  | <b>30,312,058</b>    | <b>5,299,566</b>     | <b>1,944,046</b>                   | <b>1,066,827</b>                 |
| <b>BUSINESS-TYPE ACTIVITIES:</b>       |                      |                      |                                    |                                  |
| Utility                                | 6,297,596            | 6,475,283            | -                                  | 2,935,935                        |
| Toll Bridge                            | 3,244,366            | 6,669,284            | -                                  | -                                |
| Golf Course                            | 1,238,932            | 736,565              | -                                  | -                                |
| <b>Total Business-Type Activities:</b> | <b>10,780,894</b>    | <b>13,881,132</b>    | <b>-</b>                           | <b>2,935,935</b>                 |
| <b>TOTAL PRIMARY GOVERNMENT:</b>       | <b>\$ 41,092,952</b> | <b>\$ 19,180,698</b> | <b>\$ 1,944,046</b>                | <b>\$ 4,002,762</b>              |

**General Revenues:**

**Taxes:**

- Property Taxes, Levied for General Purposes
- Property Taxes, Levied for Debt Service
- Sales and Use Taxes
- Franchise Taxes
- Other Taxes
- Penalty and Interest
- Grants and Contributions Not Restricted
- Miscellaneous Revenue
- Investment Earnings
- Transfers In (Out)
- Total General Revenues and Transfers**

**Change in Net Assets**

- Net Assets--Beginning
- Prior Period Adjustment
- Net Assets--Ending

The accompanying notes are an integral part of this statement.

Net (Expense) Revenue and  
Changes in Net Assets

| Primary Government         |                             |               |
|----------------------------|-----------------------------|---------------|
| Governmental<br>Activities | Business-type<br>Activities | Total         |
| \$ (76,591)                | \$ -                        | \$ (76,591)   |
| 550,737                    | -                           | 550,737       |
| (822,451)                  | -                           | (822,451)     |
| (37,461)                   | -                           | (37,461)      |
| (735,221)                  | -                           | (735,221)     |
| (591,868)                  | -                           | (591,868)     |
| (1,418,009)                | -                           | (1,418,009)   |
| (7,787,653)                | -                           | (7,787,653)   |
| (3,684,718)                | -                           | (3,684,718)   |
| (762,202)                  | -                           | (762,202)     |
| (1,713,489)                | -                           | (1,713,489)   |
| (342,138)                  | -                           | (342,138)     |
| (1,626,064)                | -                           | (1,626,064)   |
| (1,018,650)                | -                           | (1,018,650)   |
| (510,295)                  | -                           | (510,295)     |
| (1,425,546)                | -                           | (1,425,546)   |
| (22,001,619)               | -                           | (22,001,619)  |
| -                          | 3,113,622                   | 3,113,622     |
| -                          | 3,424,918                   | 3,424,918     |
| -                          | (502,367)                   | (502,367)     |
| -                          | 6,036,173                   | 6,036,173     |
| (22,001,619)               | 6,036,173                   | (15,965,446)  |
| 7,173,339                  | -                           | 7,173,339     |
| 1,045,531                  | -                           | 1,045,531     |
| 9,297,373                  | -                           | 9,297,373     |
| 1,539,359                  | -                           | 1,539,359     |
| 623,870                    | -                           | 623,870       |
| 376,281                    | -                           | 376,281       |
| 748,437                    | -                           | 748,437       |
| 709,888                    | 35,186                      | 745,074       |
| 161,763                    | 402,504                     | 564,267       |
| 1,639,730                  | (1,639,730)                 | -             |
| 23,315,571                 | (1,202,040)                 | 22,113,531    |
| 1,313,952                  | 4,834,133                   | 6,148,085     |
| 28,992,451                 | 40,713,638                  | 69,706,089    |
| 2,013,682                  | 261,059                     | 2,274,741     |
| \$ 32,320,085              | \$ 45,808,830               | \$ 78,128,915 |

CITY OF PHARR, TEXAS  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
SEPTEMBER 30, 2004

|                                                   | General<br>Fund      | Major<br>Special<br>Revenue Fund | Capital<br>Projects |
|---------------------------------------------------|----------------------|----------------------------------|---------------------|
| <b>ASSETS</b>                                     |                      |                                  |                     |
| Cash and Cash Equivalents                         | \$ 1,401,465         | \$ 341,344                       | \$ 1,546,558        |
| Investments - Current                             | 437,429              | -                                | -                   |
| Taxes Receivable                                  | 2,256,240            | -                                | -                   |
| Allowance for Uncollectible Taxes (credit)        | (180,499)            | -                                | -                   |
| Receivables (net of allowance for uncollectibles) | 1,960,036            | 730,865                          | 300                 |
| Intergovernmental Receivables                     | 1,703,268            | 129,997                          | -                   |
| Due from Other Funds                              | 3,027,595            | 399,586                          | 73,726              |
| Inventories                                       | 47,281               | -                                | -                   |
| Prepaid Items                                     | -                    | 150                              | -                   |
| Advances to other Funds                           | 2,360,409            | -                                | -                   |
| <b>Total Assets</b>                               | <b>\$ 13,013,224</b> | <b>\$ 1,601,942</b>              | <b>\$ 1,620,584</b> |
| <b>LIABILITIES AND FUND BALANCES</b>              |                      |                                  |                     |
| <b>Liabilities:</b>                               |                      |                                  |                     |
| Accounts Payable                                  | \$ 671,306           | \$ 239,274                       | \$ 125,510          |
| Wages and Salaries Payable                        | 670,724              | 11,396                           | -                   |
| Intergovernmental Payable                         | 138,349              | -                                | -                   |
| Due to Other Funds                                | 4,300,571            | 816,255                          | 1,174,376           |
| Deferred Revenues                                 | 2,675,496            | -                                | -                   |
| Other Current Liabilities                         | 86,591               | -                                | -                   |
| <b>Total Liabilities</b>                          | <b>\$ 8,543,037</b>  | <b>\$ 1,066,925</b>              | <b>\$ 1,299,886</b> |
| <b>Fund Balances:</b>                             |                      |                                  |                     |
| <b>Reserved For:</b>                              |                      |                                  |                     |
| Debt Service                                      | \$ -                 | \$ -                             | \$ -                |
| Capital Projects                                  | -                    | -                                | 320,698             |
| Inventories                                       | 47,281               | -                                | -                   |
| Municipal Court                                   | 629,380              | -                                | -                   |
| Advance to Other Funds                            | 2,360,409            | -                                | -                   |
| <b>Unreserved and Undesignated:</b>               |                      |                                  |                     |
| Reported in the General Fund                      | 1,433,117            | -                                | -                   |
| Reported in the Special Revenue Fund              | -                    | 535,017                          | -                   |
| <b>Total Fund Balances</b>                        | <b>\$ 4,470,187</b>  | <b>\$ 535,017</b>                | <b>\$ 320,698</b>   |
| <b>Total Liabilities and Fund Balances</b>        | <b>\$ 13,013,224</b> | <b>\$ 1,601,942</b>              | <b>\$ 1,620,584</b> |

The accompanying notes are an integral part of this statement.



| Other<br>Funds      | Total<br>Governmental<br>Funds |
|---------------------|--------------------------------|
| \$ 613,021          | \$ 3,902,388                   |
| -                   | 437,429                        |
| 397,043             | 2,653,283                      |
| (31,763)            | (212,262)                      |
| 239,394             | 2,930,595                      |
| 6,060               | 1,839,325                      |
| 910,318             | 4,411,225                      |
| -                   | 47,281                         |
| -                   | 150                            |
| -                   | 2,360,409                      |
| <u>\$ 2,134,073</u> | <u>\$ 18,369,823</u>           |
| <br>                |                                |
| \$ 25,308           | \$ 1,061,398                   |
| -                   | 682,120                        |
| -                   | 138,349                        |
| 161,734             | 6,452,936                      |
| 594,606             | 3,270,102                      |
| 15,000              | 101,591                        |
| <u>\$ 796,648</u>   | <u>\$ 11,706,496</u>           |
| <br>                |                                |
| \$ 1,048,317        | \$ 1,048,317                   |
| -                   | 320,698                        |
| -                   | 47,281                         |
| -                   | 629,380                        |
| -                   | 2,360,409                      |
| -                   | 1,433,117                      |
| 289,108             | 824,125                        |
| <u>\$ 1,337,425</u> | <u>\$ 6,663,327</u>            |
| <br>                |                                |
| <u>\$ 2,134,073</u> | <u>\$ 18,369,823</u>           |

1  
2  
3  
4  
5  
6  
7  
8  
9  
10  
11  
12  
13  
14  
15  
16  
17  
18  
19  
20  
21  
22  
23  
24  
25  
26  
27  
28  
29  
30  
31  
32  
33  
34  
35  
36  
37  
38  
39  
40  
41  
42  
43  
44  
45  
46  
47  
48  
49  
50  
51  
52  
53  
54  
55  
56  
57  
58  
59  
60  
61  
62  
63  
64  
65  
66  
67  
68  
69  
70  
71  
72  
73  
74  
75  
76  
77  
78  
79  
80  
81  
82  
83  
84  
85  
86  
87  
88  
89  
90  
91  
92  
93  
94  
95  
96  
97  
98  
99  
100

CITY OF PHARR, TEXAS  
 RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE  
 STATEMENT OF NET ASSETS  
 SEPTEMBER 30, 2004

|                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                         |           |                   |
|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------|-------------------|
| <b>Total Fund Balances - Governmental Funds</b>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                         | \$        | 6,663,327         |
| <p>The City uses internal service funds to charge the costs of certain activities, such as self-insurance and printing, to appropriate functions in other governmental funds. The assets and liabilities of the internal service funds are included in governmental activities in the statement of net assets. The net effect of this consolidation is to</p>                                                                                                                                                                                                                                           |           |                   |
|                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                         |           | 845,211           |
| <p>Increase (decrease) net assets.</p>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                  |           |                   |
| <p>Capital assets used in governmental activities are not financial resources and therefore are not reported in governmental funds. At the beginning of the year, the cost of these assets was \$ 77,353,114 and the accumulated depreciation was 26,198,229. In addition, long-term liabilities, including bonds payable, are not due and payable in the current period, and, therefore are not reported as liabilities in the funds. The net effect of including the beginning balances for capital assets (net of depreciation) and long-term debt in the governmental activities is to increase</p> |           |                   |
|                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                         |           | 19,275,753        |
| <p>(decrease) net assets.</p>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                           |           |                   |
| <p>Current year capital outlays and long-term debt principal payments are expenditures in the fund financial statements, but they should be shown as increases in capital assets and reductions in long-term debt in the government-wide financial statements. The net effect of including the 2003 capital outlays and debt principal payments is to</p>                                                                                                                                                                                                                                               |           |                   |
|                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                         |           | 5,502,768         |
| <p>increase (decrease) net assets.</p>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                  |           |                   |
| <p>The 2003 depreciation expense increases accumulated depreciation. The net effect of the current year's depreciation is to decrease net assets.</p>                                                                                                                                                                                                                                                                                                                                                                                                                                                   |           |                   |
|                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                         |           | (2,432,269)       |
| <p>Various other reclassifications and eliminations are necessary to convert from the modified accrual basis of accounting to accrual basis of accounting. These include recognizing deferred revenue as revenue, eliminating interfund transactions reclassifying the proceeds of bond sales as an increase in bonds payable, and recognizing the liabilities associated with maturing long-term debt and interest. The net effect of these reclassifications and recognitions is to increase (decrease) net</p>                                                                                       |           |                   |
|                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                         |           | 2,465,295         |
| <p>assets.</p>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                          |           |                   |
| <b>Net Assets of Governmental Activities</b>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                            | <b>\$</b> | <b>32,320,085</b> |

The accompanying notes 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, 2004

|                                                              | General<br>Fund | Major<br>Special<br>Revenue Fund | Capital<br>Projects |
|--------------------------------------------------------------|-----------------|----------------------------------|---------------------|
| <b>REVENUES:</b>                                             |                 |                                  |                     |
| Taxes:                                                       |                 |                                  |                     |
| Property Taxes                                               | \$ 7,069,538    | \$ -                             | \$ -                |
| General Sales and Use Taxes                                  | 6,973,030       | 2,324,343                        | -                   |
| Franchise Tax                                                | 1,539,359       | -                                | -                   |
| Other Taxes                                                  | 623,870         | -                                | -                   |
| Penalty and Interest on Taxes                                | 376,281         | -                                | -                   |
| Licenses and Permits                                         | 555,207         | -                                | -                   |
| Intergovernmental Revenue and Grants                         | 553,980         | 1,066,829                        | -                   |
| Charges for Services                                         | 3,646,693       | -                                | -                   |
| Fines                                                        | 1,055,976       | -                                | -                   |
| Investment Earnings                                          | 74,061          | 4,748                            | 68,990              |
| Rents and Royalties                                          | 41,695          | 407,173                          | -                   |
| Contributions & Donations from Private Sources               | 328,699         | -                                | -                   |
| Other Revenue                                                | 196,747         | 93,915                           | -                   |
| Total Revenues                                               | 23,035,136      | 3,897,008                        | 68,990              |
| <b>EXPENDITURES:</b>                                         |                 |                                  |                     |
| Current:                                                     |                 |                                  |                     |
| General Government:                                          |                 |                                  |                     |
| Legislative                                                  | 68,647          | -                                | -                   |
| Judicial                                                     | 408,831         | -                                | -                   |
| Executive                                                    | 1,021,445       | -                                | -                   |
| Elections                                                    | 33,645          | -                                | -                   |
| Financial Administration                                     | 943,094         | -                                | -                   |
| Planning and Code Enforcement                                | 604,967         | -                                | -                   |
| Non-Departmental                                             | 1,271,899       | -                                | -                   |
| Public Safety:                                               |                 |                                  |                     |
| Police                                                       | 7,046,407       | -                                | 226,883             |
| Fire Protection                                              | 3,436,197       | -                                | 1,887               |
| Traffic Safety                                               | 669,734         | -                                | -                   |
| Public Works                                                 |                 |                                  |                     |
| Highways and Streets                                         | 1,688,697       | -                                | -                   |
| Sanitation                                                   | 3,059,234       | -                                | -                   |
| Culture and Recreation:                                      |                 |                                  |                     |
| Parks                                                        | 2,182,918       | -                                | -                   |
| Libraries                                                    | 851,856         | -                                | 123,902             |
| Conservation and Development:                                |                 |                                  |                     |
| Economic Development and Assistance                          | 48,013          | 1,267,269                        | -                   |
| Debt Service:                                                |                 |                                  |                     |
| Principal-bonds/capital leases/loans                         | 202,567         | 467,030                          | -                   |
| Interest-bonds/capital leases/loans                          | 36,493          | 174,968                          | -                   |
| Capital Outlay:                                              |                 |                                  |                     |
| Construction                                                 | -               | 1,509,442                        | 2,424,647           |
| Total Expenditures                                           | 23,574,644      | 3,418,709                        | 2,777,319           |
| Excess (Deficiency) of Revenues Over (Under)<br>Expenditures | (539,508)       | 478,299                          | (2,708,329)         |
| <b>OTHER FINANCING SOURCES (USES):</b>                       |                 |                                  |                     |
| Proceeds from Capital Leases                                 | 311,823         | -                                | -                   |
| Transfers In                                                 | 985,000         | 309,460                          | -                   |
| Transfers Out (Use)                                          | (154,730)       | (507,159)                        | -                   |
| Total Other Financing Sources (Uses)                         | 1,142,093       | (197,699)                        | -                   |
| Net Change in Fund Balances                                  | 602,585         | 280,600                          | (2,708,329)         |
| Fund Balance - October 1 (Beginning)                         | 3,542,924       | -                                | 4,533,906           |
| Prior Period Adjustment                                      | 324,678         | 254,417                          | (1,504,879)         |
| Fund Balance - September 30 (Ending)                         | \$ 4,470,187    | \$ 535,017                       | \$ 320,698          |

The accompanying notes are an integral part of this statement.

| Other<br>Funds | Total<br>Governmental<br>Funds |
|----------------|--------------------------------|
| \$ 1,115,976   | \$ 8,185,514                   |
| -              | 9,297,373                      |
| -              | 1,539,359                      |
| -              | 623,870                        |
| -              | 376,281                        |
| -              | 555,207                        |
| 1,809,802      | 3,430,611                      |
| -              | 3,646,693                      |
| -              | 1,055,976                      |
| 13,964         | 161,763                        |
| -              | 448,868                        |
| -              | 328,699                        |
| 12,048         | 302,710                        |
| 2,951,790      | 29,952,924                     |
| -              | 68,647                         |
| -              | 408,831                        |
| -              | 1,021,445                      |
| -              | 33,645                         |
| -              | 943,094                        |
| -              | 604,967                        |
| -              | 1,271,899                      |
| 161,479        | 7,434,769                      |
| 15,457         | 3,453,541                      |
| -              | 669,734                        |
| 387,764        | 2,076,461                      |
| -              | 3,059,234                      |
| 10,080         | 2,192,998                      |
| -              | 975,758                        |
| 833,427        | 2,148,709                      |
| 1,020,000      | 1,689,597                      |
| 1,325,242      | 1,536,703                      |
| -              | 3,934,089                      |
| 3,753,449      | 33,524,121                     |
| (801,659)      | (3,571,197)                    |
| -              | 311,823                        |
| 1,007,159      | 2,301,619                      |
| -              | (661,889)                      |
| 1,007,159      | 1,951,553                      |
| 205,500        | (1,619,644)                    |
| 343,437        | 8,420,267                      |
| 788,488        | (137,296)                      |
| \$ 1,337,425   | \$ 6,663,327                   |

1  
2  
3  
4  
5  
6  
7  
8  
9  
10  
11  
12  
13  
14  
15  
16  
17  
18  
19  
20  
21  
22  
23  
24  
25  
26  
27  
28  
29  
30  
31  
32  
33  
34  
35  
36  
37  
38  
39  
40  
41  
42  
43  
44  
45  
46  
47  
48  
49  
50  
51  
52  
53  
54  
55  
56  
57  
58  
59  
60  
61  
62  
63  
64  
65  
66  
67  
68  
69  
70  
71  
72  
73  
74  
75  
76  
77  
78  
79  
80  
81  
82  
83  
84  
85  
86  
87  
88  
89  
90  
91  
92  
93  
94  
95  
96  
97  
98  
99  
100

CITY OF PHARR, TEXAS  
 RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES,  
 AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES  
 FOR THE YEAR ENDED SEPTEMBER 30, 2004

|                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                       |           |                  |
|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------|------------------|
| <b>Total Net Change in Fund Balances - Governmental Funds</b>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                         | \$        | (1,619,644)      |
| <p>The city uses some internal service funds to charge the costs of certain activities primarily to the governmental funds. The net income (loss) of these internal service funds are reported with governmental activities. The net effect of this consolidation is to increase (decrease) net assets.</p>                                                                                                                                                                                                                                                                           |           |                  |
|                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                       |           | (194,534)        |
| <p>Current year capital outlays and long-term debt principal payments are expenditures in the fund financial statements, but they should be shown as increases in capital assets and reductions in long-term debt in the government-wide financial statements. The net effect of removing the 2003 capital outlays and debt principal payments is to increase (decrease) net assets.</p>                                                                                                                                                                                              |           |                  |
|                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                       |           | 5,502,768        |
| <p>Depreciation is not recognized as an expense in governmental funds since it does not require the use of current financial resources. The net effect of the current year's depreciation is to decrease net assets.</p>                                                                                                                                                                                                                                                                                                                                                              |           |                  |
|                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                       |           | (2,432,269)      |
| <p>Various other reclassifications and eliminations are necessary to convert from the modified accrual basis of accounting to accrual basis of accounting. These include recognizing deferred revenue as revenue, adjusting current year revenue to show the revenue earned from the current year's tax levy, eliminating interfund transactions reclassifying the proceeds of bond sales, and recognizing the liabilities associated with maturing long-term debt and interest. The net effect of these reclassifications and recognitions is to increase (decrease) net assets.</p> |           |                  |
|                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                       |           | 57,631           |
| <b>Change in Net Assets of Governmental Activities</b>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                | <b>\$</b> | <b>1,313,952</b> |

The accompanying notes are an integral part of this statement.

CITY OF PHARR, TEXAS  
STATEMENT OF NET ASSETS  
PROPRIETARY FUNDS  
SEPTEMBER 30, 2004

|                                                    | Business-Type Activities - |                        |
|----------------------------------------------------|----------------------------|------------------------|
|                                                    | Utility<br>Fund            | Toll<br>Bridge<br>Fund |
| <b>ASSETS</b>                                      |                            |                        |
| <b>Current Assets:</b>                             |                            |                        |
| Cash and Cash Equivalents                          | \$ 1,355,985               | \$ 3,188,048           |
| Investments - Current                              | -                          | 433,436                |
| Accounts Receivable-Net of Uncollectible Allowance | 1,799,459                  | 28,737                 |
| Due from Other Funds                               | 3,126,474                  | 199,702                |
| Inventories                                        | 46,562                     | -                      |
| Prepaid Items                                      | 33,251                     | -                      |
| Deferred Charges                                   | -                          | 1,306,907              |
| Capitalized Debt Issuance Costs                    | -                          | 173,600                |
| Discount and (Premium) on Issuance of Debt         | 34,714                     | 256,576                |
| Total Current Assets                               | 6,396,445                  | 5,587,006              |
| <b>Noncurrent Assets:</b>                          |                            |                        |
| <b>Restricted Assets:</b>                          |                            |                        |
| Temporarily Restricted Asset - Cash and cash equiv | 4,990,583                  | 8,052,577              |
| <b>Capital Assets:</b>                             |                            |                        |
| Land Purchase and Improvements                     | 404,170                    | 819,645                |
| Infrastructure                                     | 19,803,981                 | 16,777,449             |
| Accumulated Depreciation - Infrastructure          | (5,493,114)                | (3,970,803)            |
| Buildings                                          | 24,759,717                 | 2,958,583              |
| Accumulated Depreciation - Buildings               | (6,493,267)                | (702,439)              |
| Improvements other than Buildings                  | 36,330                     | 13,713                 |
| Accumulated Depreciation - Other Improvements      | (35,422)                   | (5,485)                |
| Machinery and Equipment                            | 8,737,886                  | 1,588,922              |
| Accumulated Depreciation - Machinery & Equipment   | (4,702,700)                | (756,699)              |
| Construction in Progress                           | 4,380,766                  | -                      |
| Total Noncurrent Assets                            | 46,388,930                 | 24,775,463             |
| Total Assets                                       | 52,785,375                 | 30,362,469             |

The accompanying notes are an integral part of this statement.



|                        |                              |                             | Governmental<br>Activities - |
|------------------------|------------------------------|-----------------------------|------------------------------|
| Golf<br>Course<br>Fund | Total<br>Enterprise<br>Funds | Internal<br>Service<br>Fund |                              |
| \$ 33,823              | \$ 4,577,856                 | \$ 33,460                   |                              |
| -                      | 433,436                      | -                           |                              |
| 21,794                 | 1,849,990                    | -                           |                              |
| 76,015                 | 3,402,191                    | 53,547                      |                              |
| 37,437                 | 83,999                       | 10,694                      |                              |
| -                      | 33,251                       | -                           |                              |
| -                      | 1,306,907                    | -                           |                              |
| 37,500                 | 211,100                      | -                           |                              |
| -                      | 291,290                      | -                           |                              |
| 206,569                | 12,190,020                   | 97,701                      |                              |
| -                      | 13,043,160                   | -                           |                              |
| 999,342                | 2,223,157                    | -                           |                              |
| -                      | 36,581,430                   | -                           |                              |
| -                      | (9,463,917)                  | -                           |                              |
| 210,000                | 27,928,300                   | 694,000                     |                              |
| (32,754)               | (7,228,460)                  | (122,833)                   |                              |
| 908,801                | 958,844                      | 307,880                     |                              |
| (138,723)              | (179,630)                    | (140,172)                   |                              |
| 553,081                | 10,879,889                   | 870,130                     |                              |
| (239,941)              | (5,699,340)                  | (598,787)                   |                              |
| -                      | 4,380,766                    | -                           |                              |
| 2,259,806              | 73,424,199                   | 1,010,218                   |                              |
| 2,466,375              | 85,614,219                   | 1,107,919                   |                              |

CITY OF PHARR, TEXAS  
STATEMENT OF NET ASSETS  
PROPRIETARY FUNDS  
SEPTEMBER 30, 2004

|                                                    | Business-Type Activities - |                        |
|----------------------------------------------------|----------------------------|------------------------|
|                                                    | Utility<br>Fund            | Toll<br>Bridge<br>Fund |
| <b>LIABILITIES</b>                                 |                            |                        |
| Current Liabilities:                               |                            |                        |
| Accounts Payable                                   | 197,031                    | 110,813                |
| Wages and Salaries Payable                         | 71,149                     | 28,790                 |
| Compensated Absences Payable                       | 567,874                    | 138,922                |
| Intergovernmental Payable                          | 17,604                     | -                      |
| Due to Other Funds                                 | 905,064                    | 23,135                 |
| Deferred Revenue                                   | 448,569                    | -                      |
| Notes Payable - Current                            | -                          | -                      |
| Capital Leases Payable - Current                   | 46,563                     | -                      |
| Other Current Liabilities                          | 39,936                     | -                      |
| Advance from Other Funds                           | -                          | -                      |
| Payable from Restricted Assets:                    |                            |                        |
| Payable from Restricted Assets-Accounts Payable    | 471,169                    | -                      |
| Payable from Restricted Assets-Water Meter Deposit | 1,890,850                  | -                      |
| Payable from Restricted Assets-Curr Port of LT Deb | 1,278,000                  | 1,135,000              |
| Payable from Restricted Assets-Accrued Interest    | 18,388                     | 81,309                 |
| <b>Total Current Liabilities</b>                   | <b>5,952,197</b>           | <b>1,517,969</b>       |
| NonCurrent Liabilities:                            |                            |                        |
| Bonds Payable - Non-Current:                       |                            |                        |
| Revenue Bonds Payable                              | 11,689,000                 | 17,605,000             |
| Capital Leases Payable - Noncurrent                | 73,716                     | -                      |
| <b>Total Noncurrent Liabilities</b>                | <b>11,762,716</b>          | <b>17,605,000</b>      |
| <b>Total Liabilities</b>                           | <b>17,714,913</b>          | <b>19,122,969</b>      |
| <b>NET ASSETS</b>                                  |                            |                        |
| Investments in Capital Assets, Net of Debt         | 28,311,068                 | (2,017,114)            |
| Restricted for Debt Service                        | 802,405                    | 6,177,126              |
| Restricted for Capital Projects                    | 1,639,098                  | 179,331                |
| Restricted for Other Purposes                      | -                          | 479,812                |
| Unrestricted Net Assets                            | 4,317,891                  | 6,420,345              |
| <b>Total Net Assets</b>                            | <b>\$ 35,070,462</b>       | <b>\$ 11,239,500</b>   |

The accompanying notes are an integral part of this statement.

| Governmental<br>Activities - |                              |                             |
|------------------------------|------------------------------|-----------------------------|
| Golf<br>Course<br>Fund       | Total<br>Enterprise<br>Funds | Internal<br>Service<br>Fund |
| 22,297                       | 330,141                      | 45,307                      |
| 14,244                       | 114,183                      | 6,626                       |
| 65,798                       | 772,594                      | 42,054                      |
| 433                          | 18,037                       | -                           |
| 317,107                      | 1,245,306                    | 168,721                     |
| -                            | 448,569                      | -                           |
| 2,020                        | 2,020                        | -                           |
| 43,595                       | 90,158                       | -                           |
| -                            | 39,936                       | -                           |
| 2,360,409                    | 2,360,409                    | -                           |
| -                            | 471,169                      | -                           |
| -                            | 1,890,850                    | -                           |
| -                            | 2,413,000                    | -                           |
| -                            | 99,697                       | -                           |
| 2,825,903                    | 10,296,069                   | 262,708                     |
| -                            | 29,294,000                   | -                           |
| 141,604                      | 215,320                      | -                           |
| 141,604                      | 29,509,320                   | -                           |
| 2,967,507                    | 39,805,389                   | 262,708                     |
| 2,072,587                    | 28,366,541                   | 1,010,218                   |
| -                            | 6,979,531                    | -                           |
| -                            | 1,818,429                    | -                           |
| -                            | 479,812                      | -                           |
| (2,573,719)                  | 8,164,517                    | (165,007)                   |
| \$ (501,132)                 | \$ 45,808,830                | \$ 845,211                  |

CITY OF PHARR, TEXAS  
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS  
PROPRIETARY FUNDS  
FOR THE YEAR ENDED SEPTEMBER 30, 2004

|                                                | Business-Type Activities - |                        |
|------------------------------------------------|----------------------------|------------------------|
|                                                | Utility<br>Fund            | Toll<br>Bridge<br>Fund |
| <b>OPERATING REVENUES:</b>                     |                            |                        |
| Charges for Water Services                     | \$ 4,151,487               | \$ -                   |
| Charges for Sewerage Service                   | 2,323,796                  | -                      |
| Charges for Services-Toll Bridge               | -                          | 6,669,284              |
| Charges for Services-Golf Course               | -                          | -                      |
| Charges for Services-City Garage               | -                          | -                      |
| Total Operating Revenues                       | 6,475,283                  | 6,669,284              |
| <b>OPERATING EXPENSES:</b>                     |                            |                        |
| Personal Services - Salaries and Wages         | 1,612,725                  | 641,391                |
| Personal Services - Employee Benefits          | 519,703                    | 187,115                |
| Purchased Professional & Technical Services    | 274,459                    | 275,043                |
| Purchased Property Services                    | 355,123                    | 154,554                |
| Other Operating Expenses                       | 331,632                    | 299,063                |
| Supplies                                       | 1,216,876                  | 129,697                |
| Depreciation                                   | 1,324,160                  | 606,456                |
| Total Operating Expenses                       | 5,634,678                  | 2,293,319              |
| Operating Income (Loss)                        | 840,605                    | 4,375,965              |
| <b>NON-OPERATING REVENUES (EXPENSES):</b>      |                            |                        |
| Investment Earnings                            | 130,453                    | 270,381                |
| Other Non-Operating Revenues                   | 35,186                     | -                      |
| Interest Expense - Non-Operating               | (646,010)                  | (793,130)              |
| Non-operating Expenses                         | (16,908)                   | (157,917)              |
| Total Non-operating Revenue (Expenses)         | (497,279)                  | (680,666)              |
| Income (Loss) Before Contributions & Transfers | 343,326                    | 3,695,299              |
| Capital Contributions                          | 2,935,935                  | -                      |
| Transfers Out                                  | (135,000)                  | (1,504,730)            |
| Change in Net Assets                           | 3,144,261                  | 2,190,569              |
| Total Net Assets - October 1 (Beginning)       | 32,119,794                 | 8,540,590              |
| Prior Period Adjustment                        | (193,593)                  | 508,341                |
| Total Net Assets - September 30 (Ending)       | \$ 35,070,462              | \$ 11,239,500          |

The accompanying notes are an integral part of this statement.

| Golf Course Fund    | Total Enterprise Funds | Governmental Activities - |
|---------------------|------------------------|---------------------------|
|                     |                        | Internal Service Fund     |
| \$ -                | \$ 4,151,487           | \$ -                      |
| -                   | 2,323,796              | -                         |
| -                   | 6,669,284              | -                         |
| 736,565             | 736,565                | -                         |
| -                   | -                      | 625,308                   |
| <u>736,565</u>      | <u>13,881,132</u>      | <u>625,308</u>            |
| 335,602             | 2,589,718              | 130,762                   |
| 110,665             | 817,483                | 42,982                    |
| 157,545             | 707,047                | -                         |
| 134,058             | 643,735                | 207,974                   |
| 273,358             | 904,053                | 1,299                     |
| 133,053             | 1,479,626              | 339,666                   |
| 79,281              | 2,009,897              | 97,368                    |
| <u>1,223,562</u>    | <u>9,151,559</u>       | <u>820,051</u>            |
| <u>(486,997)</u>    | <u>4,729,573</u>       | <u>(194,743)</u>          |
| 1,670               | 402,504                | 255                       |
| -                   | 35,186                 | (46)                      |
| (12,870)            | (1,452,010)            | -                         |
| (2,500)             | (177,325)              | -                         |
| <u>(13,700)</u>     | <u>(1,191,645)</u>     | <u>209</u>                |
| <u>(500,697)</u>    | <u>3,537,928</u>       | <u>(194,534)</u>          |
| -                   | 2,935,935              | -                         |
| -                   | (1,639,730)            | -                         |
| <u>(500,697)</u>    | <u>4,834,133</u>       | <u>(194,534)</u>          |
| 53,254              | 40,713,638             | 1,039,745                 |
| (53,689)            | 261,059                | -                         |
| <u>\$ (501,132)</u> | <u>\$ 45,808,830</u>   | <u>\$ 845,211</u>         |

CITY OF PHARR, TEXAS  
STATEMENT OF CASH FLOWS  
PROPRIETARY FUNDS  
FOR THE YEAR ENDED SEPTEMBER 30, 2004

|                                                                           | Business-Type Activities |                        |
|---------------------------------------------------------------------------|--------------------------|------------------------|
|                                                                           | Utility<br>Fund          | Toll<br>Bridge<br>Fund |
| <b><u>Cash Flows from Operating Activities:</u></b>                       |                          |                        |
| Cash Received from Users                                                  | \$ 6,199,929             | \$ 7,386,724           |
| Cash Received from Interfund Service Provided                             | -                        | -                      |
| Cash Payments to Employees for Services                                   | (1,293,600)              | (532,321)              |
| Cash Payments to Suppliers                                                | (2,275,347)              | (974,673)              |
| Net Cash Provided by (Used for) Operating Activities                      | <u>2,630,982</u>         | <u>5,879,730</u>       |
| <b><u>Cash Flows from Non-Capital Financing Activities:</u></b>           |                          |                        |
| Proceeds from others                                                      | 35,186                   | -                      |
| Operating Transfer Out                                                    | (135,000)                | (1,504,730)            |
| Net Cash Provided by (Used for) Non-Capital Financing Activities          | <u>(99,814)</u>          | <u>(1,504,730)</u>     |
| <b><u>Cash Flows from Capital &amp; Related Financing Activities:</u></b> |                          |                        |
| Proceeds from capital leases                                              | 90,708                   | -                      |
| Principal and Interest Paid                                               | (1,876,696)              | (2,111,540)            |
| Acquisition or Construction of Capital Assets                             | (3,689,364)              | (85,899)               |
| Capital Contributions                                                     | 2,935,935                | -                      |
| Net Cash Provided by (Used for) Capital & Related Financing Activities    | <u>(2,539,417)</u>       | <u>(2,197,439)</u>     |
| <b><u>Cash Flows from Investing Activities:</u></b>                       |                          |                        |
| Interest on Investments                                                   | 130,453                  | 270,381                |
| Net Increase(Decrease) in Cash and Cash Equivalents                       | 122,204                  | 2,447,942              |
| Cash and Cash Equivalents at Beginning of the Year:                       | 6,224,364                | 9,226,119              |
| Cash and Cash Equivalents at the End of the Year:                         | <u>\$ 6,346,568</u>      | <u>\$ 11,674,061</u>   |

The accompanying notes are an integral part of this statement.

| Golf<br>Course<br>Fund | Total<br>Enterprise<br>Funds | Governmental<br>Activities - |
|------------------------|------------------------------|------------------------------|
|                        |                              | Internal<br>Service<br>Fund  |
| \$ 741,129             | \$ 14,327,782                | \$ -                         |
| -                      | -                            | 746,377                      |
| (309,059)              | (2,134,980)                  | (106,082)                    |
| (585,153)              | (3,835,173)                  | (577,790)                    |
| (153,083)              | 8,357,629                    | 62,505                       |
| -                      | 35,186                       | -                            |
| -                      | (1,639,730)                  | -                            |
| -                      | (1,604,544)                  | -                            |
| 206,692                | 297,400                      | -                            |
| (85,694)               | (4,073,930)                  | -                            |
| (76,684)               | (3,851,947)                  | -                            |
| -                      | 2,935,935                    | -                            |
| 44,314                 | (4,692,542)                  | -                            |
| 1,670                  | 402,504                      | 209                          |
| (107,099)              | 2,463,047                    | 62,714                       |
| 140,922                | 15,591,405                   | (29,254)                     |
| \$ 33,823              | \$ 18,054,452                | \$ 33,460                    |

CITY OF PHARR, TEXAS  
STATEMENT OF CASH FLOWS  
PROPRIETARY FUNDS  
FOR THE YEAR ENDED SEPTEMBER 30, 2004

|                                                                                                       | Business-Type Activities |                        |
|-------------------------------------------------------------------------------------------------------|--------------------------|------------------------|
|                                                                                                       | Utility<br>Fund          | Toll<br>Bridge<br>Fund |
| <u>Reconciliation of Operating Income (Loss) to Net Cash</u>                                          |                          |                        |
| <u>Provided By (Used For) Operating Activities:</u>                                                   |                          |                        |
| Operating Income (Loss):                                                                              | \$ 840,605               | \$ 4,375,965           |
| Adjustments to Reconcile Operating Income<br>to Net Cash Provided by (Used For) Operating Activities: |                          |                        |
| Depreciation                                                                                          | 1,324,160                | 606,456                |
| Effect of Increases and Decreases in Current<br>Assets and Liabilities:                               |                          |                        |
| Decrease (increase) in Receivables                                                                    | (373,806)                | 528,590                |
| Decrease (increase) in Interfund Receivables                                                          | 63,869                   | 60,020                 |
| Decrease (increase) in Inventories & Prepaid Items                                                    | 34,583                   | 128,830                |
| Increase (decrease) in Accounts Payable                                                               | 503,385                  | 94,536                 |
| Increase (decrease) in Wages & Compensated                                                            | 319,125                  | 109,070                |
| Increase (decrease) in Interfund Payable                                                              | (295,980)                | (23,737)               |
| Increase (decrease) in Intergovernmental Payable                                                      | (110)                    | -                      |
| Increase (decrease) in Other Current Liabilities                                                      | 9,402                    | -                      |
| Increase (decrease) in Water Meter Deposits                                                           | 205,749                  | -                      |
| Net Cash Provided by (Used for)<br>Operating Activities                                               | <u>\$ 2,630,982</u>      | <u>\$ 5,879,730</u>    |

The accompanying notes are an integral part of this statement.



| Golf<br>Course<br>Fund | Total<br>Enterprise<br>Funds | Governmental<br>Activities - |
|------------------------|------------------------------|------------------------------|
|                        |                              | Internal<br>Service<br>Fund  |
| \$ (486,997)           | \$ 4,729,573                 | \$ (194,743)                 |
| 79,281                 | 2,009,897                    | 97,368                       |
| (10,718)               | 144,066                      | -                            |
| (10,402)               | 113,487                      | 124,605                      |
| 25,684                 | 189,097                      | (3,536)                      |
| (10,184)               | 587,737                      | 2,681                        |
| 26,543                 | 454,738                      | 24,680                       |
| 233,763                | (85,954)                     | 11,450                       |
| (53)                   | (163)                        | -                            |
| -                      | 9,402                        | -                            |
| -                      | 205,749                      | -                            |
| <u>\$ (153,083)</u>    | <u>\$ 8,357,629</u>          | <u>\$ 62,505</u>             |

**CITY OF PHARR, TEXAS**  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED SEPTEMBER 30, 2004

**Note 1**    **Summary of Significant Accounting Policies**

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

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

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

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

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

**A. Reporting Entity**

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

(Continued)

**CITY OF PHARR, TEXAS**  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED SEPTEMBER 30, 2004

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

**Blended Component Unit:**

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

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

**B. Government-wide and fund financial statements**

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the nonfiduciary activities of the primary government and its component unit. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by tax and intergovernmental revenues, are reported separately from business-type activities, which rely, to a significant extent, on fees and charges for support. Likewise, the primary government is reported separately from certain legally separate component units for which the Primary Government is financially accountable.

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

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

(Continued)

**CITY OF PHARR, TEXAS**  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED SEPTEMBER 30, 2004

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

**C. Measurement focus, basis of accounting, and financial statement presentation**

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenues as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

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

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

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

**CITY OF PHARR, TEXAS**  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED SEPTEMBER 30, 2004

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

segregated into invested in capital assets, net of related debt, restricted net assets, and unrestricted net assets. Proprietary Funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the enterprise and internal service funds are charges to customers for sales and services. Operating expenses for enterprise and internal service funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses. When both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first, then unrestricted resources, as they are needed.

The City reports the following major governmental funds:

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

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

The Capital Projects Fund (Major Fund #3) accounts for proceeds from long-term debt financing and revenues and expenditures related to authorized construction and other capital asset acquisitions.

The City reports the following major proprietary funds:

The Utility Fund (Major Fund #4) is used to account for the operation of providing water and sewer services to the residents of the City.

The Toll Bridge Fund (Major Fund #5) is used to account for the operations of the City's international toll bridge.

The Golf Course Fund (Major Fund #6) is used to account for the operations of the City's golf course.

Additionally, the City reports the following fund types:

Governmental Funds:

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

(Continued)

**CITY OF PHARR, TEXAS**  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED SEPTEMBER 30, 2004

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

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

**Proprietary Funds:**

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

**Fiduciary Funds:**

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

**D. Assets, liabilities, and net assets or equity**

**1. Deposits and investments**

The City's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from date of acquisition. Investments for the City are reported at fair value.

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

**2. Receivables and payables**

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from

(Continued)

**CITY OF PHARR, TEXAS**  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED SEPTEMBER 30, 2004

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

other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the noncurrent portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds". Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances".

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

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

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

Tax collections are prorated between the general fund and debt service fund based on the tax rate approved by the Board. For the year ended September 30, 2004, the rates were \$0.59622 and \$0.08690, respectively, per \$100 of assessed value.

Delinquent taxes are prorated between maintenance and debt service based on rates adopted for the year of the levy. Allowances for uncollectible tax receivables within the general and debt service funds are based on historical experience in collecting property taxes. Uncollectible personal property taxes are periodically reviewed and written off, but the City is prohibited from writing off real property taxes without specific statutory authority from the Texas Legislature. The property tax receivable allowance is equal to 8 percent of outstanding property taxes at September 30, 2004.

(Continued)

**CITY OF PHARR, TEXAS**  
 NOTES TO THE FINANCIAL STATEMENTS  
 FOR THE YEAR ENDED SEPTEMBER 30, 2004

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

**3. Inventories**

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

**4. Restricted Assets**

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

**5. Capital assets**

Capital assets, which include land, buildings, furniture, and equipment, are reported in the applicable governmental activities column in the government-wide financial statements. Capital assets are defined by the City as assets with an initial, individual cost of \$5,000 or more and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

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

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

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

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

(Continued)



**CITY OF PHARR, TEXAS**  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED SEPTEMBER 30, 2004

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

**6. Compensated absences**

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

**7. Arbitrage payable**

The Federal Tax Reform Act of 1986 requires issuers of tax-exempt debt to make payments to the United States Treasury for investment income received at yields that exceed the issuer's tax exempt borrowing rates. The Treasury requires payment for each issue every five years. The estimated liability is updated annually for all tax-exempt issuances or changes in yields until such time payment of the calculated liability is due. The City had no arbitrage liability as of September 30, 2004.

**8. Long-term obligations**

In the government-wide financial statements and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

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

(Continued)

**CITY OF PHARR, TEXAS**  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED SEPTEMBER 30, 2004

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

**9. Fund equity**

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

**10. Comparative data / reclassifications**

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

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

**A. Budgetary Data**

The Board of Commissioners (the Board) adopts an "appropriated budget" for the General Fund and Debt Service Fund. The City is required to present the adopted and final amended budgeted revenues and expenditures for each of these funds. The City compares the final amended budget to actual revenues and expenditures. The General Fund Budget report appears on Exhibit E-1.

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

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

(Continued)

**CITY OF PHARR, TEXAS**  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED SEPTEMBER 30, 2004

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

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

**B. Excess of Expenditures Over Appropriations**

For the year ended September 30, 2004, expenditures of the General Fund exceeded appropriations in the public safety, public works, culture and recreation, conservation and development, and debt service functions by \$ 400,627, \$ 678,298, \$ 686,206, \$ 30,623, and \$ 221, 279, respectively. Expenditures of PEDC's Special Revenue Fund exceeded appropriations in the debt service and capital outlay functions by \$ 57,363 and \$ 1,388,442, respectively.

**C. Deficit Fund Equity**

As of September 30, 2004, the City's Golf Course Enterprise Fund has a deficit balance of \$501,132 in net assets. The City plans to designate fund balance in the General Fund in the amount of \$502,000 to cover the deficit in this fund.

(Continued)

**CITY OF PHARR, TEXAS**  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED SEPTEMBER 30, 2004

**Note 3**    **Detailed Notes on All Funds**

**A. Deposits and investments**

At September 30, 2004, the carrying amount of the City's deposits (cash and certificates of deposit), including the blended component unit, was \$22,631,228 and the bank balance was \$22,427,729. The City's cash deposits at September 30, 2004 and during the year ended September 30, 2004 were entirely covered by FDIC insurance or by pledged collateral held by the City's agent bank in the City's name.

**Temporary Investments**

The City is required by Government Code Chapter 2256, The Public Funds Investment Act, to adopt, implement, and publicize an investment policy. That policy must address the following areas: (1) safety of principal and liquidity, (2) portfolio diversification, (3) allowable investments, (4) acceptable risk levels, (5) expected rates of return, (6) maximum allowable stated maturity of portfolio investments, (7) maximum average dollar-weighted maturity allowed based on the stated maturity date for the portfolio, (8) investment staff quality and capabilities, (9) and bid solicitation preferences for certificates of deposit. Statutes authorize the City to invest in (1) obligations of the U.S. Treasury, certain U.S. agencies, and the State of Texas; (2) certificates of deposit, (3) certain municipal securities, (4) money market savings accounts, (5) repurchase agreements, (6) bankers acceptances, (7) Mutual Funds, (8) investment pools, (9) guaranteed investment contracts, (10) and common trust funds. The Act also requires the City to have independent auditors perform test procedures related to investment practice as provided by the Act. The City is not in substantial compliance with the requirement of the Act and with local policies.

The City's temporary investments at September 30, 2004 consisted of certificates of obligations in the amount of \$870,865. Investments held at a financial institution can be categorized according to three levels of risk. These three levels of risk are:

Category 1 - Investments that are insured or registered, or securities held by the City or by its agent in the City's name.

Category 2 - Investments that are uninsured and unregistered, with securities held by the financial institution's trust department or agent in the City's name.

Category 3 - Uninsured and unregistered investments, with securities held by the financial institution, its trust department, or agent, but not in the City's name.

Based on these three levels of risk, all of the City's investments are classified as Category 2.

(Continued)

**CITY OF PHARR, TEXAS**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2004**

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

**B. Receivables**

Receivables as of September 30, 2004, for the City's individual major funds and nonmajor, internal service, and fiduciary funds in the aggregate, including the applicable allowance for uncollectible accounts, are as follows:

|                                       | General      | Major<br>Special<br>Revenue | Capital<br>Projects | Utility      | Toll<br>Bridge | Golf<br>Course | Nonmajor<br>and other<br>Funds | Total        |
|---------------------------------------|--------------|-----------------------------|---------------------|--------------|----------------|----------------|--------------------------------|--------------|
| Taxes                                 | \$ 2,256,240 | \$ -                        | \$ -                | \$ -         | \$ -           | \$ -           | \$ 397,043                     | \$ 2,653,283 |
| Accounts                              | 4,092,924    | -                           | 300                 | 1,421,175    | 28,737         | 21,794         | 1,172                          | 5,566,102    |
| Special Assessments                   | -            | -                           | -                   | 448,107      | -              | -              | -                              | 448,107      |
| Notes                                 | -            | 730,865                     | -                   | -            | -              | -              | 238,222                        | 969,087      |
| Intergovernmental                     | 1,703,268    | 129,997                     | -                   | -            | -              | -              | 6,060                          | 1,839,325    |
| Gross receivables                     | 8,052,432    | 860,862                     | 300                 | 1,869,282    | 28,737         | 21,794         | 642,497                        | 11,475,904   |
| Less: allowance<br>for Uncollectibles | (2,313,387)  | -                           | -                   | ( 69,823)    | -              | -              | ( 31,763)                      | (2,414,973)  |
| Net total receivable                  | \$ 5,739,045 | \$860,862                   | \$ 300              | \$ 1,799,459 | \$ 28,737      | \$ 21,794      | \$ 610,734                     | \$ 9,060,931 |

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

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

|                                                          | Unavailable  | Unearned   |
|----------------------------------------------------------|--------------|------------|
| Delinquent property taxes receivable (general fund)      | \$ 2,075,741 | \$ -       |
| Delinquent property taxes receivable (debt service fund) | 365,280      | -          |
| Notes receivable                                         | -            | 229,326    |
| Advance funding                                          | -            | 599,755    |
| Total deferred/unearned revenue for governmental funds   | \$ 2,441,021 | \$ 829,081 |

**C. Capital assets**

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

(Continued)

**CITY OF PHARR, TEXAS**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2004**

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

Capital asset activity for the governmental activities for the year ended September 30, 2004 was as follows:

|                                                     | Beginning<br>Balance | Increase            | Decrease              | Adjustments         | Ending<br>Balance    |
|-----------------------------------------------------|----------------------|---------------------|-----------------------|---------------------|----------------------|
| <b>Governmental Activities:</b>                     |                      |                     |                       |                     |                      |
| <b>Capital assets, not being depreciated:</b>       |                      |                     |                       |                     |                      |
| <b>Primary Government:</b>                          |                      |                     |                       |                     |                      |
| Land                                                | \$ 2,352,454         | \$ -                | \$ -                  | \$ -                | \$ 2,352,454         |
| Construction in progress                            | 7,686,095            | 2,755,385           | ( 6,512,318)          | 1,224,893           | 5,154,055            |
| <b>Component Unit:</b>                              |                      |                     |                       |                     |                      |
| Land                                                | -                    | -                   | -                     | 1,673,364           | 1,673,364            |
| Construction in progress                            | -                    | 1,509,442           | -                     | 701,490             | 2,210,932            |
| <b>Total capital assets, not being depreciated</b>  | <b>10,038,549</b>    | <b>4,264,827</b>    | <b>( 6,512,318)</b>   | <b>3,599,747</b>    | <b>11,390,805</b>    |
| <b>Capital assets, being depreciated:</b>           |                      |                     |                       |                     |                      |
| <b>Primary Government:</b>                          |                      |                     |                       |                     |                      |
| Buildings                                           | 17,100,747           | 6,512,318           | -                     | -                   | 23,613,065           |
| Improvements other than buildings                   | 1,657,420            | -                   | -                     | -                   | 1,657,420            |
| Machinery & equipment                               | 2,960,652            | 574,403             | -                     | -                   | 3,535,055            |
| Infrastructure                                      | 40,901,897           | -                   | -                     | -                   | 40,901,897           |
| <b>Component Unit:</b>                              |                      |                     |                       |                     |                      |
| Buildings                                           | -                    | -                   | -                     | 1,742,697           | 1,742,697            |
| Improvements other than buildings                   | -                    | -                   | -                     | 2,389,511           | 2,389,511            |
| Furniture & equipment                               | -                    | -                   | -                     | 58,798              | 58,798               |
| <b>Total capital assets being depreciated</b>       | <b>62,620,716</b>    | <b>7,086,721</b>    | <b>-</b>              | <b>4,191,006</b>    | <b>73,898,443</b>    |
| <b>Less accumulated depreciation for:</b>           |                      |                     |                       |                     |                      |
| <b>Primary Government:</b>                          |                      |                     |                       |                     |                      |
| Buildings                                           | 4,681,110            | 287,660             | -                     | -                   | 4,968,770            |
| Improvements other than buildings                   | 1,049,036            | 68,110              | -                     | -                   | 1,117,146            |
| Machinery & equipment                               | 1,324,786            | 234,398             | -                     | -                   | 1,559,184            |
| Infrastructure                                      | 19,544,398           | 1,757,296           | -                     | -                   | 21,301,694           |
| <b>Component Unit:</b>                              |                      |                     |                       |                     |                      |
| Buildings                                           | -                    | 58,090              | -                     | 173,085             | 231,175              |
| Improvements other than buildings                   | -                    | 79,650              | -                     | 188,299             | 267,949              |
| Furniture & equipment                               | -                    | 44,433              | -                     | 1,939               | 46,372               |
| <b>Total accumulated Depreciation</b>               | <b>26,599,330</b>    | <b>2,529,637</b>    | <b>-</b>              | <b>363,323</b>      | <b>29,492,290</b>    |
| <b>Total capital assets, being depreciated, net</b> | <b>36,021,386</b>    | <b>4,557,084</b>    | <b>-</b>              | <b>3,827,683</b>    | <b>44,406,153</b>    |
| <b>Governmental activities Capital assets, net</b>  | <b>\$ 46,059,935</b> | <b>\$ 8,821,911</b> | <b>\$( 6,512,318)</b> | <b>\$ 7,427,430</b> | <b>\$ 55,796,958</b> |

(Continued)

**CITY OF PHARR, TEXAS**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2004**

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

Capital asset activity for the business-type activities for the year ended September 30, 2004 was as follows:

|                                                     | Beginning<br>Balance | Increase            | Decrease    | Adjustments         | Ending<br>Balance    |
|-----------------------------------------------------|----------------------|---------------------|-------------|---------------------|----------------------|
| <b>Business-type Activities:</b>                    |                      |                     |             |                     |                      |
| <b>Capital assets, not being depreciated:</b>       |                      |                     |             |                     |                      |
| <b>Primary Government:</b>                          |                      |                     |             |                     |                      |
| Land                                                | \$ 2,223,157         | \$ -                | \$ -        | \$ -                | \$ 2,223,157         |
| Construction in progress                            | 910,094              | 3,470,672           | -           | -                   | 4,380,766            |
| <b>Component Unit:</b>                              |                      |                     |             |                     |                      |
| Land                                                | -                    | -                   | -           | -                   | -                    |
| Construction in progress                            | -                    | -                   | -           | -                   | -                    |
| <b>Total capital assets, not being depreciated</b>  | <b>3,133,251</b>     | <b>3,470,672</b>    | <b>-</b>    | <b>-</b>            | <b>6,603,923</b>     |
| <b>Capital assets, being depreciated:</b>           |                      |                     |             |                     |                      |
| <b>Primary Government:</b>                          |                      |                     |             |                     |                      |
| Buildings                                           | 25,392,494           | -                   | -           | -                   | 25,392,494           |
| Improvements other than buildings                   | 3,495,960            | -                   | -           | ( 1,310)            | 3,494,650            |
| Machinery & equipment                               | 10,982,553           | 249,177             | -           | ( 351,841)          | 10,879,889           |
| Infrastructure                                      | 36,581,430           | -                   | -           | -                   | 36,581,430           |
| <b>Component Unit:</b>                              |                      |                     |             |                     |                      |
| Buildings                                           | -                    | -                   | -           | -                   | -                    |
| Improvements other than buildings                   | -                    | -                   | -           | -                   | -                    |
| Machinery & equipment                               | -                    | -                   | -           | -                   | -                    |
| <b>Total capital assets being depreciated</b>       | <b>76,452,437</b>    | <b>249,177</b>      | <b>-</b>    | <b>( 353,151)</b>   | <b>76,348,463</b>    |
| <b>Less accumulated depreciation for:</b>           |                      |                     |             |                     |                      |
| <b>Primary Government:</b>                          |                      |                     |             |                     |                      |
| Buildings                                           | 6,035,680            | 566,169             | -           | -                   | 6,601,849            |
| Improvements other than buildings                   | 714,984              | 91,256              | -           | -                   | 806,240              |
| Machinery & equipment                               | 5,192,702            | 524,880             | -           | ( 18,241)           | 5,699,341            |
| Infrastructure                                      | 8,636,325            | 827,592             | -           | -                   | 9,463,917            |
| <b>Component Unit:</b>                              |                      |                     |             |                     |                      |
| Buildings                                           | -                    | -                   | -           | -                   | -                    |
| Improvements other than buildings                   | -                    | -                   | -           | -                   | -                    |
| Machinery & equipment                               | -                    | -                   | -           | -                   | -                    |
| <b>Total accumulated Depreciation</b>               | <b>20,579,691</b>    | <b>2,009,897</b>    | <b>-</b>    | <b>( 18,241)</b>    | <b>22,571,347</b>    |
| <b>Total capital assets, being depreciated, net</b> | <b>55,872,746</b>    | <b>( 1,760,720)</b> | <b>-</b>    | <b>( 334,910)</b>   | <b>53,777,116</b>    |
| <b>Business-type activities Capital assets, net</b> | <b>\$ 59,005,997</b> | <b>\$ 1,709,952</b> | <b>\$ -</b> | <b>\$( 334,910)</b> | <b>\$ 60,381,039</b> |

(Continued)

1  
2  
3  
4  
5  
6  
7  
8  
9  
10  
11  
12  
13  
14  
15  
16  
17  
18  
19  
20  
21  
22  
23  
24  
25  
26  
27  
28  
29  
30  
31  
32  
33  
34  
35  
36  
37  
38  
39  
40  
41  
42  
43  
44  
45  
46  
47  
48  
49  
50  
51  
52  
53  
54  
55  
56  
57  
58  
59  
60  
61  
62  
63  
64  
65  
66  
67  
68  
69  
70  
71  
72  
73  
74  
75  
76  
77  
78  
79  
80  
81  
82  
83  
84  
85  
86  
87  
88  
89  
90  
91  
92  
93  
94  
95  
96  
97  
98  
99  
100



**CITY OF PHARR, TEXAS**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2004**

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

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

|                                                       |                     |
|-------------------------------------------------------|---------------------|
| Governmental Activities:                              |                     |
| General Government                                    | \$ 407,405          |
| Public Safety                                         | 1,059,495           |
| Public Works                                          | 480,130             |
| Culture and Recreation                                | 284,575             |
| Conservation and Development                          | 200,662             |
| Total depreciation expense – governmental activities  | <u>2,432,267</u>    |
|                                                       |                     |
| Business-type Activities:                             |                     |
| Utility                                               | 1,324,160           |
| Bridge                                                | 606,456             |
| Golf Course                                           | <u>79,281</u>       |
|                                                       |                     |
| Total depreciation expense – business-type activities | <u>\$ 2,009,897</u> |

**Construction and Improvement Commitments**

At September 30, 2004, the City has contractual commitments of approximately \$493,955 related to renovations/additions to the municipal library. The financing source for this renovation/addition will be Series 2001 Bond proceeds. The City also has contractual commitment of approximately \$ 544,808 related to the construction of transmission water line improvements. The financing source for this construction will be the Texas Water Development Board's grant and loan. PEDC has a contractual commitment of approximately \$ 254,309 related to PEDC #1 Subdivision improvements. The financing source for this construction will be PEDC's sales and use tax revenues.

(Continued)

**CITY OF PHARR, TEXAS**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2004**

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

**D. Interfund balances and transfers**

Interfund balances at September 30, 2004 consisted of the following amounts:

**Due to/from other funds:**

|                                                                   |                     |
|-------------------------------------------------------------------|---------------------|
| <b>Due to General Fund From:</b>                                  |                     |
| General Fund (Major Fund #1)                                      | \$ 894,989          |
| PEDC Special Revenue Governmental Fund (Major Fund #2)            | 221,187             |
| Capital Projects Governmental Fund (Major Fund #3)                | 1,135,535           |
| Nonmajor Governmental Funds                                       | 102,939             |
| Utility Enterprise Fund (Major Fund #4)                           | 238,101             |
| Toll Bridge Enterprise Fund (Major Fund #5)                       | 17,023              |
| Golf Course Enterprise Fund (Major Fund #6)                       | 310,858             |
| Internal Service Fund                                             | 106,963             |
| <b>Total Due to General Fund (Major Fund #1) From Other Funds</b> | <b>\$ 3,027,595</b> |

|                                                                            |                   |
|----------------------------------------------------------------------------|-------------------|
| <b>Due to PEDC Special Revenue Governmental Fund (Major Fund #2) From:</b> |                   |
| General Fund (Major Fund #1)                                               | \$ 399,586        |
| Nonmajor Governmental Funds                                                | -                 |
| <b>Total Due to Major Fund #2 From Other Funds</b>                         | <b>\$ 399,586</b> |

|                                                                        |                  |
|------------------------------------------------------------------------|------------------|
| <b>Due to Capital Projects Governmental Fund (Major Fund #3) From:</b> |                  |
| General Fund (Major Fund #1)                                           | \$ 73,726        |
| Nonmajor Governmental Funds                                            | -                |
| <b>Total Due to Major Fund #3 From Other Funds</b>                     | <b>\$ 73,726</b> |

|                                                                  |                   |
|------------------------------------------------------------------|-------------------|
| <b>Due to Nonmajor Governmental Funds From:</b>                  |                   |
| General Fund (Major Fund #1)                                     | \$ 207,335        |
| PEDC Special Revenue Governmental Fund (Major Fund #2)           | 595,068           |
| Capital Project Governmental Fund (Major Fund #3)                | 38,841            |
| Nonmajor Governmental Funds                                      | 58,795            |
| Utility Enterprise Fund (Major Fund #4)                          | 10,279            |
| <b>Total Due to Nonmajor Governmental Funds From Other Funds</b> | <b>\$ 910,318</b> |

|                                                             |                     |
|-------------------------------------------------------------|---------------------|
| <b>Due to Utility Enterprise Fund (Major Fund #4) From:</b> |                     |
| Utility Enterprise Fund (Major Fund #4)                     | \$ 647,770          |
| General Fund (Major Fund #1)                                | 2,407,800           |
| Toll Bridge Enterprise Fund (Major Fund #5)                 | 5,280               |
| Golf Course Enterprise Fund (Major Fund #6)                 | 4,588               |
| Internal Service Fund                                       | 81,036              |
| <b>Total Due to Major Fund #4 From Other Funds</b>          | <b>\$ 3,126,474</b> |

|                                                                 |                   |
|-----------------------------------------------------------------|-------------------|
| <b>Due to Toll Bridge Enterprise Fund (Major Fund #5) From:</b> |                   |
| General Fund (Major Fund #1)                                    | \$ 198,042        |
| Golf Course Enterprise Fund (Major Fund #6)                     | 1,660             |
| Internal Service Fund                                           | -                 |
| <b>Total Due to Major Fund #5 From Other Funds</b>              | <b>\$ 199,702</b> |

(Continued)

**CITY OF PHARR, TEXAS**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2004**

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

|                                                          |                  |
|----------------------------------------------------------|------------------|
| Due to Golf Course Enterprise Fund (Major Fund #6) From: |                  |
| General Fund (Major Fund #1)                             | \$ 74,519        |
| Toll Bridge Enterprise Fund (Major Fund #5)              | 774              |
| Internal Service Fund                                    | 722              |
| <b>Total Due to Major Fund #6 From Other Funds</b>       | <b>\$ 76,015</b> |

|                                                            |                  |
|------------------------------------------------------------|------------------|
| Due to Internal Service Fund from:                         |                  |
| General Fund (Major Fund #1)                               | \$ 44,574        |
| Utility Enterprise Fund (Major Fund #4)                    | 8,914            |
| Toll Bridge Enterprise Fund (Major Fund #5)                | 59               |
| Golf Course Enterprise Fund (Major Fund #6)                | -                |
| <b>Total Due to Internal Service Fund From Other Funds</b> | <b>\$ 53,547</b> |

**Advances to/from other funds:**

|                                                              |                     |
|--------------------------------------------------------------|---------------------|
| Advance to Golf Course Enterprise Fund (Major Fund #6) from: |                     |
| General Fund (Major Fund #1)                                 | \$ 2,360,409        |
|                                                              |                     |
| Nonmajor Governmental Funds                                  |                     |
| Total Advances to Major Fund #6 From Other Funds             | <b>\$ 2,360,409</b> |

Interfund transfers for the year ended September 30, 2004, consisted of the following individual amounts:

**Transfers to/from Other Funds:**

|                                                                            |                   |
|----------------------------------------------------------------------------|-------------------|
| Transfers to General Fund (Major Fund #1) from:                            |                   |
| Utility Enterprise Fund (Major Fund #4)                                    | \$ 135,000        |
| Toll Bridge Enterprise Fund (Major Fund #5)                                | 850,000           |
| <b>Total Transferred to General Fund (Major Fund #31) From Other Funds</b> | <b>\$ 985,000</b> |

**Transfers to Nonmajor Governmental Fund from:**

|                                                             |                     |
|-------------------------------------------------------------|---------------------|
| PEDC Special Revenue Governmental Fund (Major Fund #2)      | \$ 507,159          |
| Toll Bridge Enterprise Fund (Major Fund #5)                 | 500,000             |
| <b>Total Transferred to Nonmajor Funds From Other Funds</b> | <b>\$ 1,007,159</b> |

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

|                                                            |                   |
|------------------------------------------------------------|-------------------|
| General Fund (Major Fund #1)                               | \$ 154,730        |
| Nonmajor Governmental Funds                                | 154,730           |
| <b>Total Transferred to Major Fund #2 From Other Funds</b> | <b>\$ 309,460</b> |

(Continued)

**CITY OF PHARR, TEXAS**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2004**

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

**E. Operating Leases**

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

**F. Long-term debt**

Long-term debt and obligations at September 30, 2004 are comprised of the following issues:

**Governmental Activities:**

**Bonds:**

**Primary Government:**

|                                                                                                                                                                                                                      |              |
|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------|
| \$11,780,000 Combination Tax and Limited Pledge Revenue Certificates of Obligation, Series 1998; due in annual installments ranging from \$510,000 to \$965,000 through August 15, 2018; interest at 4.75% to 5.30%. | \$ 9,960,000 |
|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------|

|                                                                                                                                                                                                           |           |
|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------|
| \$2,165,000 Combination Tax and Limited Pledge Revenue Certificates of Obligation, Series 1999; due in annual installments ranging from \$85,000 to \$165,000 through August 15, 2019; interest at 5.53%. | 1,820,000 |
|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------|

|                                                                                                                                                                                                                        |            |
|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------|
| \$12,035,000 Combination Tax and Limited Pledge Revenue Certificates of Obligation, Series 2001; due in annual installments ranging from \$335,000 to \$1,570,000 through August 15, 2021, interest at 4.50% to 5.50%. | 11,550,000 |
|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------|

|                         |            |
|-------------------------|------------|
| <b>Subtotal – bonds</b> | 23,330,000 |
|-------------------------|------------|

**Capital Leases:**

**Primary Government:**

|                                                                                                                     |     |
|---------------------------------------------------------------------------------------------------------------------|-----|
| \$3,144 lease; due in monthly installments of \$119, including interest, through March 1, 2005; interest at 21.63%. | 674 |
|---------------------------------------------------------------------------------------------------------------------|-----|

|                                                                                                                    |        |
|--------------------------------------------------------------------------------------------------------------------|--------|
| \$32,000 lease; due in monthly installments of \$608, including interest, through June 1, 2007; interest at 5.26%. | 18,633 |
|--------------------------------------------------------------------------------------------------------------------|--------|

(Continued)

**CITY OF PHARR, TEXAS**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2004**

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

|                                                                                                                           |                  |
|---------------------------------------------------------------------------------------------------------------------------|------------------|
| \$30,000 lease; due in monthly installments of \$570, including interest, through June 10, 2007; interest at 5.26%.       | \$        17,468 |
| \$163,514 lease; due in monthly installments of \$4,850, including interest, through May 16, 2006; interest at 4.55%.     | 88,733           |
| \$154,300 lease; due in monthly installments of \$2,895, including interest, through May 22, 2007; interest at 4.75%.     | 86,834           |
| \$311,823 lease; due in monthly installments of \$7,283, including interest, through January 24, 2009; interest at 3.07%. | 258,672          |
| <b>Subtotal – leases</b>                                                                                                  | <b>471,014</b>   |

**Notes Payable:**

**Primary Government:**

|                                                                                                                                                                                                |           |
|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------|
| \$2,165,000 note payable to the U.S. Department of Housing and Urban Development; due in annual installment of variable amounts, including interest, through August 1, 2011; interest at 6.43% | 1,605,000 |
|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------|

**Component Unit:**

|                                                                                                                                                                                                                                                                                                                                              |         |
|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------|
| \$650,000 note payable to Texas Economic Bank; dated July 14, 1995, interest per annum at the Wall Street Journal Prime Rate (4.75% at September 30, 2004); payable in monthly installments of \$5,798, including interest; maturity date of July 14, 2010; collateralized by first lien on economic development sales and use tax receipts. | 379,293 |
|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------|

|                                                                                                                                                                                                                                                                        |        |
|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------|
| \$200,000 note payable to Will U. and Dorothy Wallace; dated June 6, 1997; interest at the rate of 8.25% per annum; payable in monthly installments of \$2,443, including interest; maturity date of September 1, 2007; collateralized by real estate in Pharr, Texas. | 77,685 |
|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------|

|                                                                                                                                                                                                                                                                                                                                          |           |
|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------|
| \$2,942,996 note payable to Lone Star National Bank; dated August 3, 2001; interest at the rate per annum of 85% of the Wall Street Journal Prime Rate (4.0375% at September 30, 2004); payable in monthly installments of \$27,700, including interest; maturity date of August 3, 2016; collateralized by real estate in Pharr, Texas. | 2,196,203 |
|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------|

(Continued)

**CITY OF PHARR, TEXAS**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2004**

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

\$465,000 note payable to Lone Star National Bank; dated April 12, 2002; interest rate per annum at the Wall Street Journal Prime Rate (4.75% at September 30, 2004); payable in monthly installments of \$3,925, including interest; maturity date of April 12, 2007; collateralized by real estate in Pharr, Texas. \$    383,209

\$200,000 note payable to First National Bank; dated September 16, 2002; interest at the rate of 1% per annum above the Wall Street Journal Prime Rate (5.75% at September 30, 2004); payable in monthly installments of \$2,204, including interest; maturity date of September 16, 2012; collateralized by real estate in Pharr, Texas. 162,135

\$580,000 note payable to First National Bank; dated October 9, 2002; interest at the rate of 1% per annum above the Wall Street Journal Prime Rate (5.75% at September 30, 2004); payable in monthly installments of \$6,391, including interest; maturity date of October 9, 2012; collateralized by real estate in Pharr, Texas. 474,124

**Subtotal – Notes Payable** 5,277,649

**Total Governmental Activities** 29,2078,663

**Business-type Activities:**

**Revenue Bonds:**

\$720,000 Waterworks and Sewer System Junior Lien Revenue Bonds, Series 1987; due in annual installments ranging from \$50,000 to \$65,000 through September 1, 2007; interest at 0.00% to 7.40% 180,000

\$3,260,000 Waterworks and Sewer System Junior Lien Revenue Bonds, Series 1988; due in annual installments ranging from \$185,000 to \$195,000 through September 1, 2013; interest at 0.00% to 8.05% 1,685,000

\$4,435,000 International Toll Bridge Combination Tax and Revenue Certificates of Obligation, Series 1994; due in annual installments ranging from \$210,000 to \$225,000 through August 15, 2006; interest at 6.20% to 6.30%. 435,000

(Continued)

**CITY OF PHARR, TEXAS**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2004**

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

|                                                                                                                                                                                                     |                   |
|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------|
| \$2,570,000 Waterworks and Sewer System Revenue Bonds, Series 1996; due in annual installments ranging from \$115,000 to \$205,000 through September 1, 2016; interest at 5.10% to 5.75%.           | \$    1,840,000   |
| \$978,000 Waterworks and Sewer System Revenue Bonds, Series 1996-A; due in annual installments ranging from \$40,000 to \$78,000 through September 30, 2017; interest at 6.14% to 6.74%.            | 743,000           |
| \$4,380,000 Waterworks and Sewer System Current Refunding Bonds, Series 1997; due in annual installments ranging from \$120,000 to \$485,000 through September 1, 2006; interest at 4.55% to 4.65%. | 605,000           |
| \$630,000 Waterworks and Sewer System Revenue Bonds, Series 1997-B; due in annual installments ranging from \$25,000 to \$55,000 through September 1, 2017; interest at 5.77% to 6.52%.             | 490,000           |
| \$4,230,000 Waterworks and Sewer System Revenue Bonds, Series 1997-C; due in annual installments ranging from \$210,000 to \$400,000 through September 1, 2017; interest at 3.70% to 4.35%.         | 3,975,000         |
| \$1,651,000 Waterworks and Sewer System Revenue Bonds, Series 1998; due in annual installments ranging from \$63,000 to \$133,000 through September 1, 2018; interest at 6.00%.                     | 1,319,000         |
| \$2,160,000 Waterworks and Sewer System Revenue Bonds, Series 1998-A; due in annual installments ranging from \$65,000 to \$180,000 through September 1, 2023; interest at 6.00%.                   | 2,130,000         |
| \$18,465,000 General Obligation and Revenue Refunding Bonds, Series 2003; due in annual installments ranging from \$410,000 to \$2,135,000 through August 15, 2015; interest at 2.375% to 4.250%.   | <u>18,305,000</u> |
| <b>Subtotal – Bonds</b>                                                                                                                                                                             | <u>31,707,000</u> |

(Continued)

**CITY OF PHARR, TEXAS**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2004**

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

**Capital Leases:**

|                                                                                                                                                                                                      |                |
|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------|
| \$51,771 lease; due in monthly installments of \$1,534, including interest, through September 1, 2006; interest at 4.25%.                                                                            | \$     36,645  |
| \$19,672 lease; due in monthly installments of \$583, including interest, through April 16, 2006; interest at 4.55%.                                                                                 | 10,676         |
| \$87,950 lease; due in monthly installments of \$2,054, including interest, through January 24, 2009; interest at 3.07%.                                                                             | 72,959         |
| \$25,510 lease; due in monthly installments of \$763, including interest, through October 24, 2004; interest at 4.90%.                                                                               | 1,518          |
| \$193,130 lease; due in one remaining monthly installment of \$5,764, including interest, on October 15, 2004; interest of 5.00%.                                                                    | 5,764          |
| \$206,691 lease; due in monthly installments of \$3,766, including interest, through November 15, 2007 and on final payment of \$56,000, including interest on December 15, 2007; interest at 5.50%. | 177,917        |
| <b>Subtotal – leases</b>                                                                                                                                                                             | <b>305,479</b> |

**Notes Payable:**

|                                                                                                                                                      |                      |
|------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------|
| \$16,778 note payable to First National Bank; due in monthly installments of \$511, including interest, through December 5, 2004; interest at 6.084% | 2,020                |
| <b>Subtotal – Notes Payable</b>                                                                                                                      | <b>2,020</b>         |
| <b>Total Business Type Activities</b>                                                                                                                | <b>32,014,499</b>    |
| <b>Total Long-term liabilities</b>                                                                                                                   | <b>\$ 61,093,162</b> |

As of September 3, 2004, the City is in compliance with all bond covenants on outstanding general obligation and revenue bonded debt.

(Continued)



**CITY OF PHARR, TEXAS**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2004**

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

The annual requirements to amortize all debt outstanding as of September 30, 2004, excluding obligations associated with compensated absences and post-retirement benefits, are as follows:

|             | <b>Governmental Activities</b> |                     | <b>Business-Type Activities</b> |                     | <b>Government-Wide</b> |                     |
|-------------|--------------------------------|---------------------|---------------------------------|---------------------|------------------------|---------------------|
|             | <b>Principal</b>               | <b>Interest</b>     | <b>Principal</b>                | <b>Interest</b>     | <b>Principal</b>       | <b>Interest</b>     |
| 2005        | \$ 1,738,952                   | \$ 1,444,877        | \$ 2,505,179                    | \$ 1,432,985        | \$ 4,244,131           | \$ 2,877,862        |
| 2006        | 1,840,212                      | 1,363,015           | 2,730,747                       | 1,329,560           | 4,570,959              | 2,692,575           |
| 2007        | 2,136,644                      | 1,269,033           | 2,667,175                       | 1,044,084           | 4,803,819              | 2,313,117           |
| 2008        | 1,813,413                      | 1,174,551           | 2,682,179                       | 969,606             | 4,495,592              | 2,144,157           |
| 2009        | 1,879,477                      | 1,086,619           | 2,708,219                       | 888,829             | 4,587,696              | 1,975,448           |
| 2010 – 2014 | 8,419,965                      | 4,136,421           | 14,763,000                      | 2,900,377           | 23,182,965             | 7,036,798           |
| 2015 – 2019 | 8,190,000                      | 2,105,801           | 3,298,000                       | 559,904             | 11,488,000             | 2,665,705           |
| 2020 – 2024 | 3,060,000                      | 246,800             | 660,000                         | 98,355              | 3,720,000              | 345,155             |
|             | <u>\$29,078,663</u>            | <u>\$12,827,117</u> | <u>\$32,014,499</u>             | <u>\$ 9,223,700</u> | <u>\$61,093,162</u>    | <u>\$22,050,817</u> |

**Prior- Year Defeasance of Debt**

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

|             |               |
|-------------|---------------|
| Series 1991 | \$ 500,000    |
| Series 1993 | \$ 13,000,000 |
| Series 1994 | \$ 2,800,000  |

(Continued)

**CITY OF PHARR, TEXAS**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2004**

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

**Changes in Long-term Debt**

The following is a summary of changes in Long-Term Debt of the City for the year ended September 30, 2004:

|                                  | Beginning<br>Balance | Additions           | Reductions          | Ending<br>Balance    | Due Within<br>One Year |
|----------------------------------|----------------------|---------------------|---------------------|----------------------|------------------------|
| <b>Governmental activities:</b>  |                      |                     |                     |                      |                        |
| Bonds payable:                   |                      |                     |                     |                      |                        |
| Certificates of Obligation       | \$ 24,170,000        | \$ -                | \$ 840,000          | \$ 23,330,000        | \$ 930,000             |
| Total bonds payable              | 24,170,000           | -                   | 840,000             | 23,330,000           | 930,000                |
| Notes payable                    | 1,785,000            | 4,139,678           | 647,029             | 5,277,649            | 195,000                |
| Capital leases                   | 361,759              | 311,823             | 202,568             | 471,014              | 180,352                |
| Compensated absences             | 2,333,481            | 776,714             | -                   | 3,110,195            | -                      |
| <b>Governmental activities</b>   |                      |                     |                     |                      |                        |
| <b>Long-term liabilities</b>     | <u>\$ 28,650,240</u> | <u>\$ 5,228,215</u> | <u>\$ 1,689,597</u> | <u>\$ 32,188,858</u> | <u>\$ 1,305,352</u>    |
| <b>Business-type activities:</b> |                      |                     |                     |                      |                        |
| Bonds payable:                   |                      |                     |                     |                      |                        |
| Revenue bonds                    | \$ 34,062,000        | \$ -                | \$ 2,355,000        | \$ 31,707,000        | \$ 2,413,000           |
| Less deferred amounts:           |                      |                     |                     |                      |                        |
| Issuance/premium/discount        | ( 1,334,621)         | ( 507,928)          | -                   | ( 1,842,549)         | -                      |
| Loss on refunding                | -                    | -                   | -                   | -                    | -                      |
| Total bonds payable              | 32,727,379           | ( 507,928)          | 2,355,000           | 29,864,451           | 2,413,000              |
| Notes payable                    | 7,846                | -                   | 5,826               | 2,020                | 2,020                  |
| Capital leases                   | 281,483              | 297,400             | 273,404             | 305,479              | 90,158                 |
| Compensated absences             | 409,069              | 363,525             | -                   | 772,594              | -                      |
| <b>Business-type activities</b>  |                      |                     |                     |                      |                        |
| <b>Long-term liabilities</b>     | <u>\$ 33,425,777</u> | <u>\$ 152,997</u>   | <u>\$ 2,634,230</u> | <u>\$ 30,944,544</u> | <u>\$ 2,505,178</u>    |

Internal service funds predominately serve the governmental funds. Accordingly, long-term liabilities for them are included as part of the above totals for the governmental activities. At year end, \$42,054 of compensated absences of internal service fund was included in the above amounts.

(Continued)

**CITY OF PHARR, TEXAS**  
 NOTES TO THE FINANCIAL STATEMENTS  
 FOR THE YEAR ENDED SEPTEMBER 30, 2004

**Note 4    Other Information**

**A. Risk management**

**General:**

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

**Self-Insured Worker's Compensation:**

On October 1, 2002, the City established its self-funding Worker's Compensation Program. Expenditures/expenses related to worker's compensation are accounted for in the City's applicable governmental and enterprise funds. The accrued liability at September 30, 2004 is accounted for in the City's General Long-Term Debt Account Group.

The City has maintained a self-insured retention of \$400,000 per occurrence and no aggregate retention since becoming self-funded. The City currently purchases excess coverage to statutory limits and aggregate excess insurance from Midwest Employers Casualty Company, a commercial insurer licensed or eligible to do business in Texas in accordance with the Texas Insurance Code. Claims administration was provided by ICON Benefit Administrators for the period beginning October 1, 2003 through September 30, 2004.

The accrued liability for Workers' Compensation self-insurance of \$269,408 includes incurred by not reported claims at September 30, 2004. This liability is based on the requirements of GASB Statement No. 10, which requires that a liability for claims be reported if information prior to the issuance of the financial statements indicates that it is probable that a liability has been incurred as of the date of the financial statements, and the amount of loss can be reasonably estimated. Because actual claim liabilities depend on such complex factors as inflation, changes in legal doctrines, and damage awards, the process used in computing the liability does not result necessarily in an exact amount.

The following is a summary of the changes in the balances of claims liability amounts for workers' compensation for the years ended September 30, 2004 and September 30, 2003:

|                                                       | 2004       | 2003       |
|-------------------------------------------------------|------------|------------|
| Liability, beginning of period                        | \$ 293,684 | \$ 32,461  |
| Current year's claims                                 | 670,770    | 486,328    |
| Changes in the estimate for claims of prior period(s) | -          | ( 32,461)  |
| Payments on claims                                    | ( 695,045) | ( 192,644) |
| Liability, end of period                              | \$ 269,409 | \$ 293,684 |

(Continued)

**CITY OF PHARR, TEXAS**  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED SEPTEMBER 30, 2004

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

**B. Contingent liabilities**

**1. Litigation**

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

**2. Federally Assisted Program**

The City participates in a number of federally assisted grant programs. Although the City's grant programs have been audited in accordance with the provisions of the Single Audit Act Amendments of 1996 and OMB Circular A-133 through September 30, 2004, these programs are still subject to financial and compliance audits. The amount, if any, of expenditures which may be disallowed by the grantor agencies cannot be determined at this time, although the City expects such amounts, if any, to be immaterial.

**C. Employee retirement systems and pension plan**

**Plan Description:**

The City (Primary Government), including PEDC, provides pension benefits for all of its full-time employees through a non-traditional, joint contributory, hybrid defined benefit plan in the state-wide Texas Municipal Retirement System (TMRS), one of 794 administered by TMRS, an agent multiple-employer public employee retirement system.

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

(Continued)

**CITY OF PHARR, TEXAS**  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED SEPTEMBER 30, 2004

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

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

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

|                                     |         |
|-------------------------------------|---------|
| Deposit Rate:                       | 6%      |
| Matching Ratio (City to Employees): | 2 to 1  |
| A member is vested after            | 5 years |

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

**Contributions:**

Under the state law governing TMRS, the actuary annually determines the City contribution rate. This rate consists of the normal cost contribution rate and the prior service cost contribution rate, both of which are calculated to be a level percent of payroll from year to year. The normal cost contribution rate finances the currently accruing monetary credits due to the City matching percent, which are the obligation of the City as of an employee's retirement date, not at the time the employee's contributions are made. The normal cost contribution rate is the actuarially determined percent of payroll necessary to satisfy the obligation of the City to each employee at the time his/her retirement becomes effective. The prior service contribution rate amortizes the unfunded (overfunded) actuarial liability (asset) over the remainder of the plan's 25-year amortization period. The unit credit actuarial cost method is used for determining the City contribution rate. Both the employees and the City make contributions monthly. Since the City needs to know its contribution rate in advance for budgetary purposes, there is a one-year delay between the actuarial valuation that serves as the basis for the rate and the calendar year when the rate goes into effect (i.e., December 31, 2003 valuation is effective for rates beginning January 2005).

Continued)

**CITY OF PHARR, TEXAS**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2004**

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

| <b>City of Pharr, Texas</b>                                   |                |            |
|---------------------------------------------------------------|----------------|------------|
| <b>Schedule of Actuarial Liabilities and Funding Progress</b> |                |            |
| Actuarial Valuation Date                                      |                | 12/31/2003 |
| Actuarial Value of Assets                                     | (A) \$         | 16,442,520 |
| Actuarial Accrued Liability                                   | (B) \$         | 22,291,066 |
| Percentage Funded                                             | (C)=(A)/(B)    | 73.8%      |
| Unfunded (Over-funded) Actuarial<br>Accrued Liability (UAAL)  | (D)=(B)-(A) \$ | 5,848,546  |
| Annual Covered Payroll                                        | (E) \$         | 10,798,448 |
| UAAL as a Percentage of Covered Payroll                       | (D)/(E)        | 54.2%      |
| Net Pension Obligation (NPO) at<br>the Beginning of Period    | \$             | -          |
| Annual Pension Cost:                                          |                |            |
| Annual required contribution (ARC)                            | Plus           | 1,141,247  |
| Contributions Made                                            | Less           | 1,141,247  |
| NPO at the end of the period                                  | \$             | <u>-</u>   |

**Actuarial Assumptions**

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

The City is one of 794 municipalities having the benefit plan administered by TMRS. Each of the 794 municipalities have an annual, individual actuarial valuation performed. All assumptions for the 12-31-03 valuations are contained in the 2003 TMRS Comprehensive Annual Financial Report, a copy of which may be obtained by writing to P.O. Box 149153, Austin, Texas 78714-9153.

**D. Pharr Firemen's Relief and Retirement Fund**

The Pharr Firemen's Relief and Retirement Fund is a supplemental pension fund for the benefit of the City's volunteer firemen. In fiscal year 2004, the City contributed \$ 35,000 to this fund.

(Continued)

**CITY OF PHARR, TEXAS**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2004**

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

**E. Segment Information**

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

**1. Condensed Statement of Net Assets**

|                                                       | <u>Utility<br/>Fund</u> | <u>Toll Bridge<br/>Fund</u> | <u>Golf Course<br/>Fund</u> | <u>Total<br/>Enterprise<br/>Funds</u> |
|-------------------------------------------------------|-------------------------|-----------------------------|-----------------------------|---------------------------------------|
| <b>Assets:</b>                                        |                         |                             |                             |                                       |
| Current assets                                        | \$ 3,269,971            | \$ 5,387,304                | \$ 130,554                  | \$ 8,787,829                          |
| Due from other funds                                  | 3,126,474               | 199,702                     | 76,015                      | 3,402,191                             |
| Restricted assets                                     | 4,990,583               | 8,052,577                   | -                           | 13,043,160                            |
| Capital assets                                        | 41,398,347              | 16,722,886                  | 2,259,806                   | 60,381,039                            |
| <b>Total assets</b>                                   | <u>52,785,375</u>       | <u>30,362,469</u>           | <u>2,466,375</u>            | <u>85,614,219</u>                     |
| <b>Liabilities:</b>                                   |                         |                             |                             |                                       |
| Current liabilities                                   | 1,388,726               | 278,525                     | 148,387                     | 1,815,638                             |
| Due to other funds                                    | 905,064                 | 23,135                      | 317,107                     | 1,245,306                             |
| Advances from other funds                             | -                       | -                           | 2,360,409                   | 2,360,409                             |
| Current liabilities payable<br>from restricted assets | 3,658,407               | 1,216,309                   | -                           | 4,874,716                             |
| Noncurrent liabilities                                | 11,762,716              | 17,605,000                  | 141,604                     | 29,509,320                            |
| <b>Total liabilities</b>                              | <u>17,714,913</u>       | <u>19,122,969</u>           | <u>2,967,507</u>            | <u>39,805,389</u>                     |
| <b>Net assets:</b>                                    |                         |                             |                             |                                       |
| Investment in capital assets,<br>net of related debt  | 28,311,068              | ( 2,017,114)                | 2,072,587                   | 28,366,541                            |
| Restricted                                            | 2,441,503               | 6,836,269                   | -                           | 9,277,772                             |
| Unrestricted                                          | 4,317,891               | 6,420,345                   | ( 2,573,719)                | 8,164,517                             |
| <b>Ending net assets</b>                              | <u>\$ 35,070,462</u>    | <u>\$ 11,239,500</u>        | <u>\$ ( 501,132)</u>        | <u>\$ 45,808,830</u>                  |

(Continued)

1  
2  
3  
4  
5  
6  
7  
8  
9  
10  
11  
12  
13  
14  
15  
16  
17  
18  
19  
20  
21  
22  
23  
24  
25  
26  
27  
28  
29  
30  
31  
32  
33  
34  
35  
36  
37  
38  
39  
40  
41  
42  
43  
44  
45  
46  
47  
48  
49  
50  
51  
52  
53  
54  
55  
56  
57  
58  
59  
60  
61  
62  
63  
64  
65  
66  
67  
68  
69  
70  
71  
72  
73  
74  
75  
76  
77  
78  
79  
80  
81  
82  
83  
84  
85  
86  
87  
88  
89  
90  
91  
92  
93  
94  
95  
96  
97  
98  
99  
100



**CITY OF PHARR, TEXAS**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2004**

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

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

|                                     | <u>Utility<br/>Fund</u> | <u>Toll Bridge<br/>Fund</u> | <u>Golf Course<br/>Fund</u> | <u>Total<br/>Enterprise<br/>Funds</u> |
|-------------------------------------|-------------------------|-----------------------------|-----------------------------|---------------------------------------|
| Charges for Water Services          | \$ 4,151,487            | \$ -                        | \$ -                        | \$ 4,151,487                          |
| Charges for Sewage Service          | 2,323,796               | -                           | -                           | 2,323,796                             |
| Charges for Service-Toll Bridge     | -                       | 6,669,284                   | -                           | 6,669,284                             |
| Charges for Service-Golf Course     | -                       | -                           | 736,565                     | 736,565                               |
| Depreciation expense                | ( 1,324,160)            | ( 606,456)                  | ( 79,281)                   | ( 2,009,897)                          |
| Other operating expenses            | ( 4,310,518)            | ( 1,686,863)                | ( 1,144,281)                | ( 7,141,662)                          |
| Nonoperating revenue<br>(expenses): |                         |                             |                             |                                       |
| Investment earnings                 | 130,453                 | 270,381                     | 1,670                       | 402,504                               |
| Other revenues                      | 35,186                  | -                           | -                           | 35,186                                |
| Interest expenses                   | ( 646,010)              | ( 793,130)                  | ( 12,870)                   | ( 1,452,010)                          |
| Other expenses                      | ( 16,908)               | ( 157,917)                  | ( 2,500)                    | ( 177,325)                            |
| Capital contributions               | 2,935,935               | -                           | -                           | 2,935,935                             |
| Transfers out                       | ( 135,000)              | ( 1,504,730)                | -                           | ( 1,639,730)                          |
| Changes in net assets               | 3,144,261               | 2,190,569                   | ( 500,697)                  | 4,834,133                             |
| Beginning net assets                | 32,119,794              | 8,540,590                   | 53,254                      | 40,713,638                            |
| Prior period adjustments            | ( 193,593)              | 508,341                     | ( 53,689)                   | 261,059                               |
| Ending net assets                   | <u>\$ 35,070,462</u>    | <u>\$ 11,239,500</u>        | <u>\$ ( 501,132)</u>        | <u>\$ 45,808,830</u>                  |

(Continued)

**CITY OF PHARR, TEXAS**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2004**

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

**3. Condensed Statement of Cash Flows**

|                                          | <u>Utility<br/>Fund</u> | <u>Toll Bridge<br/>Fund</u> | <u>Golf Course<br/>Fund</u> | <u>Total<br/>Enterprise<br/>Fund</u> |
|------------------------------------------|-------------------------|-----------------------------|-----------------------------|--------------------------------------|
| Net cash provided (used) by:             |                         |                             |                             |                                      |
| Operating activities                     | \$ 2,630,982            | \$ 5,879,730                | \$ (153,083)                | \$ 8,357,629                         |
| Noncapital financing activities          | (99,814)                | (1,504,730)                 | -                           | (1,604,544)                          |
| Capital and related financing activities | (2,539,417)             | (2,197,439)                 | 44,314                      | (4,692,542)                          |
| Investing activities                     | 130,453                 | 270,381                     | 1,670                       | 402,504                              |
| Net increase (decrease)                  | 122,204                 | 2,447,942                   | (107,099)                   | 2,463,047                            |
| Beginning cash and cash equivalents      | 6,224,364               | 9,226,119                   | 140,922                     | 15,591,405                           |
| Ending cash and cash equivalents         | <u>\$ 6,346,568</u>     | <u>\$ 11,674,061</u>        | <u>\$ 33,823</u>            | <u>\$ 18,054,452</u>                 |

**F. Prior Period Adjustments**

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

| <u>Governmental Funds</u>                                                                                       | <u>General<br/>Fund</u> | <u>PEDC<br/>Special<br/>Revenue</u> | <u>Capital<br/>Project</u> | <u>Nonmajor<br/>Governmental<br/>Funds</u> | <u>Total<br/>Governmental</u> |
|-----------------------------------------------------------------------------------------------------------------|-------------------------|-------------------------------------|----------------------------|--------------------------------------------|-------------------------------|
| To increase prior years' revenues                                                                               | \$ 573,407              | -                                   | \$ -                       | \$ 619,618                                 | \$ 1,193,025                  |
| To increase prior years' expenditures                                                                           | (248,729)               | -                                   | (1,336,009)                | -                                          | (1,584,738)                   |
| PEDC's equity at beginning of year-<br>PEDC's operations were previously<br>not recognized in the City's book's | -                       | 254,417                             | -                          | -                                          | 254,417                       |
| To transfer I/S bank accounts<br>erroneously reflected in Capital<br>Projects Fund                              | -                       | -                                   | (168,870)                  | 168,870                                    | -                             |
|                                                                                                                 | <u>\$ 324,678</u>       | <u>\$ 254,417</u>                   | <u>\$ (1,504,879)</u>      | <u>\$ 788,488</u>                          | <u>\$ (137,296)</u>           |

(Continued)

**CITY OF PHARR, TEXAS**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2004**

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

| <u>Proprietary Funds</u>          | <u>Utility</u>       | <u>Toll<br/>Bridge</u> | <u>Golf<br/>Course</u> | <u>Internal<br/>Service</u> | <u>Total<br/>Proprietary</u> |
|-----------------------------------|----------------------|------------------------|------------------------|-----------------------------|------------------------------|
| To decrease prior years' revenues | \$ ( 249,857)        | -                      | \$ -                   | \$ -                        | \$ ( 249,857)                |
| To increase prior year's expenses | -                    | -                      | (53,689)               | -                           | (53,689)                     |
| To decrease prior years' expenses | 56,264               | 508,341                | -                      | -                           | 564,605                      |
|                                   | <u>\$ ( 193,593)</u> | <u>\$ 508,341</u>      | <u>\$ ( 53,689)</u>    | <u>\$ -</u>                 | <u>\$ 261,059</u>            |

| <u>Government-wide</u>                                                                | <u>Governmental<br/>Activities</u> | <u>Business-Type<br/>Activities</u> | <u>Total</u>        |
|---------------------------------------------------------------------------------------|------------------------------------|-------------------------------------|---------------------|
| To increase prior year's revenues                                                     | \$ 1,193,025                       | \$ -                                | \$ 1,193,025        |
| To decrease prior year's revenues                                                     | -                                  | ( 249,857)                          | ( 249,857)          |
| To increase prior year's expenses                                                     | (1,584,738)                        | ( 53,689)                           | ( 1,638,427)        |
| To decrease prior year's expenses                                                     | -                                  | 564,605                             | 564,605             |
| PEDC's equity, including fixed assets,<br>net of related debt at beginning<br>of year | 2,741,561                          | -                                   | 2,741,561           |
| PEDC's compensated absences at<br>9/30/03                                             | ( 42,482)                          | -                                   | ( 42,482)           |
| Worker's Compensation liability<br>at 9/30/03                                         | ( 293,684)                         | -                                   | ( 293,684)          |
|                                                                                       | <u>\$ 2,013,682</u>                | <u>\$ 261,059</u>                   | <u>\$ 2,274,741</u> |

CITY OF PHARR, TEXAS  
 STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE  
 BUDGET AND ACTUAL - GENERAL FUND  
 FOR THE YEAR ENDED SEPTEMBER 30, 2004

EXHIBIT E-1

|                                                                  | Budgeted Amounts  |                   | Actual Amounts    | Variance With                             |
|------------------------------------------------------------------|-------------------|-------------------|-------------------|-------------------------------------------|
|                                                                  | Original          | Final             | (GAAP BASIS)      | Final Budget<br>Positive or<br>(Negative) |
| <b>REVENUES:</b>                                                 |                   |                   |                   |                                           |
| Taxes:                                                           |                   |                   |                   |                                           |
| Property Taxes                                                   | \$ 6,977,463      | \$ 6,977,463      | \$ 7,069,538      | \$ 92,075                                 |
| General Sales and Use Taxes                                      | 6,150,000         | 6,400,000         | 6,973,030         | 573,030                                   |
| Franchise Tax                                                    | 1,420,000         | 1,420,000         | 1,539,359         | 119,359                                   |
| Other Taxes                                                      | 520,000           | 570,000           | 623,870           | 53,870                                    |
| Penalty and Interest on Taxes                                    | 325,000           | 325,000           | 376,281           | 51,281                                    |
| Licenses and Permits                                             | 534,000           | 567,500           | 555,207           | (12,293)                                  |
| Intergovernmental Revenue and Grants                             | 334,900           | 334,900           | 553,980           | 219,080                                   |
| Charges for Services                                             | 3,349,500         | 3,376,000         | 3,646,693         | 270,693                                   |
| Fines                                                            | 540,000           | 710,000           | 1,055,976         | 345,976                                   |
| Investment Earnings                                              | 35,000            | 35,000            | 74,061            | 39,061                                    |
| Rents and Royalties                                              | 18,600            | 18,600            | 41,695            | 23,095                                    |
| Contributions & Donations from Private Sources                   | -                 | -                 | 328,699           | 328,699                                   |
| Other Revenue                                                    | 279,000           | 279,000           | 196,747           | (82,253)                                  |
| <b>Total Revenues</b>                                            | <b>20,483,463</b> | <b>21,013,463</b> | <b>23,035,136</b> | <b>2,021,673</b>                          |
| <b>EXPENDITURES:</b>                                             |                   |                   |                   |                                           |
| Current:                                                         |                   |                   |                   |                                           |
| General Government:                                              |                   |                   |                   |                                           |
| Legislative                                                      | 67,000            | 67,000            | 68,647            | (1,647)                                   |
| Judicial                                                         | 288,492           | 303,492           | 408,831           | (105,339)                                 |
| Executive                                                        | 944,810           | 1,011,810         | 1,021,445         | (9,635)                                   |
| Elections                                                        | 22,000            | 22,000            | 33,645            | (11,645)                                  |
| Financial Administration                                         | 891,304           | 896,304           | 943,094           | (46,790)                                  |
| Planning and Code Enforcement                                    | 613,350           | 635,350           | 604,967           | 30,383                                    |
| Non-Departmental                                                 | 1,548,264         | 1,546,030         | 1,271,899         | 274,131                                   |
| Public Safety:                                                   |                   |                   |                   |                                           |
| Police                                                           | 6,622,234         | 6,829,389         | 7,046,407         | (217,018)                                 |
| Fire Protection                                                  | 3,269,755         | 3,280,834         | 3,436,197         | (155,363)                                 |
| Traffic Safety                                                   | 641,488           | 641,488           | 669,734           | (28,246)                                  |
| Public Works                                                     |                   |                   |                   |                                           |
| Highways and Streets                                             | 1,304,633         | 1,304,633         | 1,688,697         | (384,064)                                 |
| Sanitation                                                       | 2,765,000         | 2,765,000         | 3,059,234         | (294,234)                                 |
| Culture and Recreation:                                          |                   |                   |                   |                                           |
| Parks                                                            | 1,371,968         | 1,421,968         | 2,182,918         | (760,950)                                 |
| Libraries                                                        | 926,600           | 926,600           | 851,856           | 74,744                                    |
| Conservation and Development:                                    |                   |                   |                   |                                           |
| Economic Development and Assistance                              | -                 | 17,390            | 48,013            | (30,623)                                  |
| Debt Service:                                                    |                   |                   |                   |                                           |
| Principal-bonds/capital leases/loans                             | 17,781            | 17,781            | 202,567           | (184,786)                                 |
| Interest-bonds/capital leases/loans                              | -                 | -                 | 36,493            | (36,493)                                  |
| <b>Total Expenditures</b>                                        | <b>21,294,679</b> | <b>21,687,069</b> | <b>23,574,644</b> | <b>(1,887,575)</b>                        |
| <b>Excess (Deficiency) of Revenues Over (Under) Expenditures</b> | <b>(811,216)</b>  | <b>(673,606)</b>  | <b>(539,508)</b>  | <b>134,098</b>                            |
| <b>OTHER FINANCING SOURCES (USES):</b>                           |                   |                   |                   |                                           |
| Proceeds from Capital Leases                                     | -                 | -                 | 311,823           | 311,823                                   |
| Transfers In                                                     | 985,000           | 985,000           | 985,000           | -                                         |
| Transfers Out (Use)                                              | (155,000)         | (310,000)         | (154,730)         | 155,270                                   |
| <b>Total Other Financing Sources (Uses)</b>                      | <b>830,000</b>    | <b>675,000</b>    | <b>1,142,093</b>  | <b>467,093</b>                            |

CITY OF PHARR, TEXAS EXHIBIT E-1 (Cont'd)  
 STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE  
 BUDGET AND ACTUAL - GENERAL FUND  
 FOR THE YEAR ENDED SEPTEMBER 30, 2004

|                                      | Budgeted Amounts |              | Actual Amounts<br>(GAAP BASIS) | Variance With<br>Final Budget<br>Positive or<br>(Negative) |
|--------------------------------------|------------------|--------------|--------------------------------|------------------------------------------------------------|
|                                      | Original         | Final        |                                |                                                            |
| Net Change in Fund Balances          | 18,784           | 1,394        | 602,585                        | 601,191                                                    |
| Fund Balance - October 1 (Beginning) | 3,542,924        | 3,542,924    | 3,542,924                      | -                                                          |
| Prior Period Adjustment              | 324,678          | 324,678      | 324,678                        | -                                                          |
| Fund Balance - September 30 (Ending) | \$ 3,886,386     | \$ 3,868,996 | \$ 4,470,187                   | \$ 601,191                                                 |

1  
2  
3  
4  
5  
6  
7  
8  
9  
10  
11  
12  
13  
14  
15  
16  
17  
18  
19  
20  
21  
22  
23  
24  
25  
26  
27  
28  
29  
30  
31  
32  
33  
34  
35  
36  
37  
38  
39  
40  
41  
42  
43  
44  
45  
46  
47  
48  
49  
50  
51  
52  
53  
54  
55  
56  
57  
58  
59  
60  
61  
62  
63  
64  
65  
66  
67  
68  
69  
70  
71  
72  
73  
74  
75  
76  
77  
78  
79  
80  
81  
82  
83  
84  
85  
86  
87  
88  
89  
90  
91  
92  
93  
94  
95  
96  
97  
98  
99  
100

CITY OF PHARR, TEXAS  
 STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE  
 BUDGET AND ACTUAL - PEDC  
 FOR THE YEAR ENDED SEPTEMBER 30, 2004

EXHIBIT E-2

|                                                           | Budgeted Amounts |              | Actual       | Variance With<br>Final Budget<br>Positive or<br>(Negative) |
|-----------------------------------------------------------|------------------|--------------|--------------|------------------------------------------------------------|
|                                                           | Original         | Final        | GAAP BASIS   |                                                            |
| <b>REVENUES:</b>                                          |                  |              |              |                                                            |
| Taxes:                                                    |                  |              |              |                                                            |
| General Sales and Use Taxes                               | \$ 2,000,000     | \$ 2,000,000 | \$ 2,324,343 | \$ 324,343                                                 |
| Intergovernmental Revenue and Grants                      | -                | -            | 1,066,829    | 1,066,829                                                  |
| Investment Earnings                                       | 3,000            | 3,000        | 4,748        | 1,748                                                      |
| Rents and Royalties                                       | 450,000          | 450,000      | 407,173      | (42,827)                                                   |
| Other Revenue                                             | 461,800          | 461,800      | 93,915       | (367,885)                                                  |
| Total Revenues                                            | 2,914,800        | 2,914,800    | 3,897,008    | 982,208                                                    |
| <b>EXPENDITURES:</b>                                      |                  |              |              |                                                            |
| Current:                                                  |                  |              |              |                                                            |
| Conservation and Development:                             |                  |              |              |                                                            |
| Economic Development and Assistance                       | 2,548,715        | 2,427,715    | 1,267,269    | 1,160,446                                                  |
| Debt Service:                                             |                  |              |              |                                                            |
| Principal-bonds/capital leases/loans                      | 473,000          | 473,000      | 467,030      | 5,970                                                      |
| Interest-bonds/capital leases/loans                       | 111,635          | 111,635      | 174,968      | (63,333)                                                   |
| Capital Outlay:                                           |                  |              |              |                                                            |
| Construction                                              | -                | 121,000      | 1,509,442    | (1,388,442)                                                |
| Total Expenditures                                        | 3,133,350        | 3,133,350    | 3,418,709    | (285,359)                                                  |
| Excess (Deficiency) of Revenues Over (Under) Expenditures | (218,550)        | (218,550)    | 478,299      | 696,849                                                    |
| <b>OTHER FINANCING SOURCES (USES):</b>                    |                  |              |              |                                                            |
| Transfers In                                              | -                | -            | 309,460      | 309,460                                                    |
| Transfers Out (Use)                                       | (546,000)        | (546,000)    | (507,159)    | 38,841                                                     |
| Total Other Financing Sources (Uses)                      | (546,000)        | (546,000)    | (197,699)    | 348,301                                                    |
| Change in Fund Balance                                    | (764,550)        | (764,550)    | 280,600      | 1,045,150                                                  |
| Fund Balance - October 1 (Beginning)                      | -                | 254,417      | -            | (254,417)                                                  |
| Prior Period Adjustment                                   | 254,417          | 254,417      | 254,417      | -                                                          |
| Fund Balance - September 30 (Ending)                      | \$ (510,133)     | \$ (255,716) | \$ 535,017   | \$ 790,733                                                 |

The accompanying notes are an integral part of this statement.

CITY OF PHARR, TEXAS  
 COMBINING BALANCE SHEET  
 NONMAJOR GOVERNMENTAL FUNDS  
 SEPTEMBER 30, 2004

|                                                   | 200<br>Assets<br>Sharing<br>Fund | 201<br>CDBG<br>Fund | 202<br>Law<br>Enforcement<br>Fund | Total<br>Nonmajor<br>Special<br>Revenue Funds |
|---------------------------------------------------|----------------------------------|---------------------|-----------------------------------|-----------------------------------------------|
| <b>ASSETS</b>                                     |                                  |                     |                                   |                                               |
| Cash and Cash Equivalents                         | \$ 155,862                       | \$ 61,901           | \$ 82,334                         | \$ 300,097                                    |
| Taxes Receivable                                  | -                                | -                   | -                                 | -                                             |
| Allowance for Uncollectible Taxes (credit)        | -                                | -                   | -                                 | -                                             |
| Receivables (net of allowance for uncollectibles) | -                                | 239,394             | -                                 | 239,394                                       |
| Intergovernmental Receivables                     | -                                | 6,060               | -                                 | 6,060                                         |
| Due from Other Funds                              | 93,136                           | 12,409              | 66,640                            | 172,185                                       |
| <b>Total Assets</b>                               | <u>\$ 248,998</u>                | <u>\$ 319,764</u>   | <u>\$ 148,974</u>                 | <u>\$ 717,736</u>                             |
| <b>LIABILITIES AND FUND BALANCES</b>              |                                  |                     |                                   |                                               |
| Accounts Payable                                  | \$ 9,023                         | \$ 16,285           | \$ -                              | \$ 25,308                                     |
| Due to Other Funds                                | 122,477                          | 36,517              | -                                 | 158,994                                       |
| Deferred Revenues                                 | -                                | 229,326             | -                                 | 229,326                                       |
| Other Current Liabilities                         | -                                | 15,000              | -                                 | 15,000                                        |
| <b>Total Liabilities</b>                          | <u>131,500</u>                   | <u>297,128</u>      | <u>-</u>                          | <u>428,628</u>                                |
| <b>Fund Balances:</b>                             |                                  |                     |                                   |                                               |
| <b>Reserved For:</b>                              |                                  |                     |                                   |                                               |
| Debt Service                                      | -                                | -                   | -                                 | -                                             |
| <b>Unreserved and Undesignated:</b>               |                                  |                     |                                   |                                               |
| Reported in the Special Revenue Fund              | 117,498                          | 22,636              | 148,974                           | 289,108                                       |
| <b>Total Fund Balances</b>                        | <u>117,498</u>                   | <u>22,636</u>       | <u>148,974</u>                    | <u>289,108</u>                                |
| <b>Total Liabilities and Fund Balances</b>        | <u>\$ 248,998</u>                | <u>\$ 319,764</u>   | <u>\$ 148,974</u>                 | <u>\$ 717,736</u>                             |

The accompanying notes are an integral part of this statement.



| 500<br>Debt<br>Service<br>Fund | Total<br>Nonmajor<br>Governmental<br>Funds |
|--------------------------------|--------------------------------------------|
| \$ 312,924                     | \$ 613,021                                 |
| 397,043                        | 397,043                                    |
| (31,763)                       | (31,763)                                   |
| -                              | 239,394                                    |
| -                              | 6,060                                      |
| 738,133                        | 910,318                                    |
| <u>\$ 1,416,337</u>            | <u>\$ 2,134,073</u>                        |
| <br>                           |                                            |
| \$ -                           | \$ 25,308                                  |
| 2,740                          | 161,734                                    |
| 365,280                        | 594,606                                    |
| -                              | 15,000                                     |
| <u>368,020</u>                 | <u>796,648</u>                             |
| <br>                           |                                            |
| 1,048,317                      | 1,048,317                                  |
| -                              | 289,108                                    |
| <u>1,048,317</u>               | <u>1,337,425</u>                           |
| <br>                           |                                            |
| <u>\$ 1,416,337</u>            | <u>\$ 2,134,073</u>                        |

CITY OF PHARR, TEXAS  
 COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN  
 FUND BALANCES - NONMAJOR GOVERNMENTAL FUNDS  
 FOR THE YEAR ENDED SEPTEMBER 30, 2004

|                                                                  | 200<br>Assets<br>Sharing<br>Fund | 201<br>CDBG<br>Fund | 202<br>Law<br>Enforcement<br>Fund | Total<br>Nonmajor<br>Special<br>Revenue Funds |
|------------------------------------------------------------------|----------------------------------|---------------------|-----------------------------------|-----------------------------------------------|
| <b>REVENUES:</b>                                                 |                                  |                     |                                   |                                               |
| Taxes:                                                           |                                  |                     |                                   |                                               |
| Property Taxes                                                   | \$ -                             | \$ -                | \$ -                              | \$ -                                          |
| Intergovernmental Revenue and Grants                             | 286,556                          | 1,523,246           | -                                 | 1,809,802                                     |
| Investment Earnings                                              | 2,734                            | 2,408               | 1,460                             | 6,602                                         |
| Other Revenue                                                    | 4,077                            | 7,971               | -                                 | 12,048                                        |
| <b>Total Revenues</b>                                            | <u>293,367</u>                   | <u>1,533,625</u>    | <u>1,460</u>                      | <u>1,828,452</u>                              |
| <b>EXPENDITURES:</b>                                             |                                  |                     |                                   |                                               |
| Current:                                                         |                                  |                     |                                   |                                               |
| Public Safety:                                                   |                                  |                     |                                   |                                               |
| Police                                                           | 161,479                          | -                   | -                                 | 161,479                                       |
| Fire Protection                                                  | -                                | 15,457              | -                                 | 15,457                                        |
| Public Works                                                     |                                  |                     |                                   |                                               |
| Highways and Streets                                             | -                                | 387,764             | -                                 | 387,764                                       |
| Culture and Recreation:                                          |                                  |                     |                                   |                                               |
| Parks                                                            | -                                | 10,080              | -                                 | 10,080                                        |
| Conservation and Development:                                    |                                  |                     |                                   |                                               |
| Economic Development and Assistance                              | -                                | 833,427             | -                                 | 833,427                                       |
| Debt Service:                                                    |                                  |                     |                                   |                                               |
| Principal-bonds/capital leases/loans                             | -                                | 180,000             | -                                 | 180,000                                       |
| Interest-bonds/capital leases/loans                              | -                                | 96,518              | -                                 | 96,518                                        |
| <b>Total Expenditures</b>                                        | <u>161,479</u>                   | <u>1,523,246</u>    | <u>-</u>                          | <u>1,684,725</u>                              |
| <b>Excess (Deficiency) of Revenues Over (Under) Expenditures</b> | <u>131,888</u>                   | <u>10,379</u>       | <u>1,460</u>                      | <u>143,727</u>                                |
| <b>OTHER FINANCING SOURCES (USES):</b>                           |                                  |                     |                                   |                                               |
| Transfers In                                                     | -                                | -                   | -                                 | -                                             |
| <b>Total Other Financing Sources (Uses)</b>                      | <u>-</u>                         | <u>-</u>            | <u>-</u>                          | <u>-</u>                                      |
| <b>Net Change in Fund Balance</b>                                | <u>131,888</u>                   | <u>10,379</u>       | <u>1,460</u>                      | <u>143,727</u>                                |
| Fund Balance - October 1 (Beginning)                             | (14,390)                         | 2,144               | -                                 | (12,246)                                      |
| Prior Period Adjustment                                          | -                                | 10,113              | 147,514                           | 157,627                                       |
| Fund Balance - September 30 (Ending)                             | <u>\$ 117,498</u>                | <u>\$ 22,636</u>    | <u>\$ 148,974</u>                 | <u>\$ 289,108</u>                             |

The accompanying notes are an integral part of this statement.

| 500<br>Debt<br>Service<br>Fund | Total<br>Nonmajor<br>Governmental<br>Funds |
|--------------------------------|--------------------------------------------|
| \$ 1,115,976                   | \$ 1,115,976                               |
| -                              | 1,809,802                                  |
| 7,362                          | 13,964                                     |
| -                              | 12,048                                     |
| <u>1,123,338</u>               | <u>2,951,790</u>                           |
| -                              | 161,479                                    |
| -                              | 15,457                                     |
| -                              | 387,764                                    |
| -                              | 10,080                                     |
| -                              | 833,427                                    |
| 840,000                        | 1,020,000                                  |
| 1,228,724                      | 1,325,242                                  |
| <u>2,068,724</u>               | <u>3,753,449</u>                           |
| (945,386)                      | (801,659)                                  |
| 1,007,159                      | 1,007,159                                  |
| <u>1,007,159</u>               | <u>1,007,159</u>                           |
| 61,773                         | 205,500                                    |
| 355,683                        | 343,437                                    |
| 630,861                        | 788,488                                    |
| <u>\$ 1,048,317</u>            | <u>\$ 1,337,425</u>                        |

U  
S  
S  
R  
T  
R  
A  
D  
E  
M  
I  
N  
I  
S  
T  
R  
Y  
O  
F  
F  
O  
R  
E  
I  
G  
N  
R  
E  
L  
A  
T  
I  
O  
N  
S



Twin Palm Plaza + 1101 N. Cage Boulevard + Suite 8-A  
P.O. Box 978 + Pharr, Texas 78577-0978 + (956) 787-0521

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

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

Members of the Board:

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Pharr, Texas (the City), as of and for the year ended September 30, 2004, which collectively comprise the City's basic financial statements and have issued our report thereon dated June 14, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Compliance**

As part of obtaining reasonable assurance about whether the City's basic financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance that are required to be reported under *Government Auditing Standards*, which are described in the accompanying schedule of finding and questioned costs as items # 04-9 and # 04-10. We also noted certain immaterial instances of noncompliance that we have reported to the management of the City in a separate letter dated June 14, 2005.

**Internal Control Over Financial Reporting**

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



The Honorable Mayor and Other  
Members of the Board of Commissioners  
June 14, 2005  
Page Two

be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the City's ability to record, process, summarize, and report financial data consistent with assertions of management in the financial statements. Reportable conditions are described in the accompanying schedule of findings and questioned costs as items # 04-1, # 04-2, # 04-3, # 04-4, # 04-5, # 04-6, # 04-7, # 04-8, # 04-12, # 04-13, # 04-14, # 04-15 and # 04-16.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the basic financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we consider items # 04-1, # 04-2, and # 04-4 to be material weaknesses. We also noted other matters involving the internal control over financial reporting that we have reported to the management of the City in a separate letter dated June 14, 2005.

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



Juan Nuñez  
Certified Public Accountant

June 14, 2005

1  
2  
3  
4  
5  
6  
7  
8  
9  
10  
11  
12  
13  
14  
15  
16  
17  
18  
19  
20  
21  
22  
23  
24  
25  
26  
27  
28  
29  
30  
31  
32  
33  
34  
35  
36  
37  
38  
39  
40  
41  
42  
43  
44  
45  
46  
47  
48  
49  
50  
51  
52  
53  
54  
55  
56  
57  
58  
59  
60  
61  
62  
63  
64  
65  
66  
67  
68  
69  
70  
71  
72  
73  
74  
75  
76  
77  
78  
79  
80  
81  
82  
83  
84  
85  
86  
87  
88  
89  
90  
91  
92  
93  
94  
95  
96  
97  
98  
99  
100





Twin Palm Plaza    †    1101 N. Cage Boulevard    †    Suite 8-A  
P.O. Box 978    †    Pharr, Texas 78577-0978    †    (956) 787-0521

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

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

Members of the Board:

**Compliance**

We have audited the compliance of the City of Pharr, Texas (the City) with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended September 30, 2004. The City'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 the City's management. Our responsibility is to express an opinion on the City's compliance based on our audit.

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

In our opinion, the City complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended September 30, 2004. However, the results of our auditing procedures disclosed an instance of noncompliance with those requirements that is required to be reported in accordance with OMB Circular A-133 and which is described in the accompanying schedule of findings and questioned costs as item # 04-11.

U  
S  
S  
R  
S  
T  
R  
U  
C  
T  
U  
R  
E  
S  
T  
R  
U  
C  
T  
U  
R  
E  
S

The Honorable Mayor and Other  
Members of the Board of Commissioners  
June 14, 2005  
Page Two

### **Internal Control Over Compliance**

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

We noted certain matters involving the internal control over compliance and its operation that we consider to be reportable conditions. Reportable conditions involve matter coming to our attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in our judgment, could adversely affect the City's ability to administer a major federal program in accordance with applicable requirements of laws, regulations, contracts, and grants. Reportable conditions are described in the accompanying schedule of findings and questioned costs as items #04-1, #04-2, #04-4, #04-12, #04-13, and #04-16.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with the applicable requirements of laws, regulations, contracts, and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we consider items # 04-1, # 04-2, and # 04-4 to be material weaknesses

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



Juan Nuñez  
Certified Public Accountant

June 14, 2005

1  
2  
3  
4  
5  
6  
7  
8  
9  
10  
11  
12  
13  
14  
15  
16  
17  
18  
19  
20  
21  
22  
23  
24  
25  
26  
27  
28  
29  
30  
31  
32  
33  
34  
35  
36  
37  
38  
39  
40  
41  
42  
43  
44  
45  
46  
47  
48  
49  
50  
51  
52  
53  
54  
55  
56  
57  
58  
59  
60  
61  
62  
63  
64  
65  
66  
67  
68  
69  
70  
71  
72  
73  
74  
75  
76  
77  
78  
79  
80  
81  
82  
83  
84  
85  
86  
87  
88  
89  
90  
91  
92  
93  
94  
95  
96  
97  
98  
99  
100

**CITY OF PHARR, TEXAS**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2004**

| Section I – Summary of Auditor's Results                                                                                                                                                                                    | Description                                                                                                                                                                                                                                                                                                                                                                                                              |
|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>Financial Statements</b>                                                                                                                                                                                                 |                                                                                                                                                                                                                                                                                                                                                                                                                          |
| Type of auditor's report issued:                                                                                                                                                                                            | Unqualified                                                                                                                                                                                                                                                                                                                                                                                                              |
| Internal control over financial reporting:<br><ul style="list-style-type: none"> <li>• Material weakness(es) identified?</li> <li>• Reportable condition(s) identified not considered to be material weaknesses?</li> </ul> | Yes<br><br>Yes                                                                                                                                                                                                                                                                                                                                                                                                           |
| Noncompliance material to financial statements noted?                                                                                                                                                                       | No                                                                                                                                                                                                                                                                                                                                                                                                                       |
| <b>Federal Awards</b>                                                                                                                                                                                                       |                                                                                                                                                                                                                                                                                                                                                                                                                          |
| Internal Control over major programs:<br><ul style="list-style-type: none"> <li>• Material weakness(es) identified?</li> <li>• Reportable condition(s) identified not considered to be material weaknesses?</li> </ul>      | No<br><br>Yes                                                                                                                                                                                                                                                                                                                                                                                                            |
| Type of auditor's report issued on compliance for major programs:                                                                                                                                                           | Unqualified                                                                                                                                                                                                                                                                                                                                                                                                              |
| Any audit findings disclosed that are required to be reported in accordance with Circular A-133, Section.510(a)?                                                                                                            | Yes                                                                                                                                                                                                                                                                                                                                                                                                                      |
| Dollar threshold used to distinguish between Type A and Type B programs:                                                                                                                                                    | \$500,000                                                                                                                                                                                                                                                                                                                                                                                                                |
| Auditee qualified as low risk auditee?                                                                                                                                                                                      | Yes, the City was classified as a low-risk auditee in the context of OMB Circular A-133.                                                                                                                                                                                                                                                                                                                                 |
| Identification of Major Federal Programs:                                                                                                                                                                                   | <b>U.S. Department of Commerce</b><br><b>Direct:</b><br>Public Works and Economic Development Facilities Grant <span style="float: right;">CFDA 11.300</span><br><br><b>Environmental Protection Agency</b><br><b>Passed Through Texas Water Development Board:</b><br>Economically Distressed Area Program / Colonia Wastewater Treatment Assistance Program <span style="float: right;">U.S. Public Law 102-389</span> |

**CITY OF PHARR, TEXAS**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2004**

| Section II – Financial Statement /Federal Awards Findings and Questioned Costs        | Description                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                   |
|---------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <p>04-1<br/> <b>Accounting Policies and Procedures Manual- Primary Government</b></p> | <p><b>Criteria:</b> Good internal controls require that the City have a written accounting policies and procedures manual for the proper handling and recording of financial transactions by the Finance Department.</p> <p><b>Statement of Condition:</b> The City do not have a written policies and procedures manual.</p> <p><b>Cause of Condition:</b> The City was unaware of the need to have such a document.</p> <p><b>Effect of Condition:</b> There is no proper guidance for applicable City personnel to follow in accounting for financial transactions.</p> <p><b>Recommendation:</b> The City should hire a consultant to help it establish a written policies and procedures manual for its Finance Department. Once the manual is approved by the Board, the City should adhere to such policies and procedures.</p> <p><b>Auditee's Response:</b> The Auditee concurs.</p> <p><b>Questioned Cost:</b> \$ -0-</p>                                                                                           |
| <p>04-2<br/> <b>Purchasing – Primary Government</b></p>                               | <p><b>A. Purchasing Manual</b></p> <p><b>Criteria:</b> Good internal controls require that the City have a written purchasing manual to ensure compliance with state, federal, and legal requirements.</p> <p><b>Statement of Condition:</b> The City currently has a manual that is outdated.</p> <p><b>Cause of Condition:</b> The City has not given priority to updating or renewing its purchasing manual.</p> <p><b>Effect of Condition:</b> The City does not have the proper guidance to ensure compliance with state, federal, and legal requirements in the procurement process.</p> <p><b>Recommendation:</b> The City should hire a consultant to help it establish a current written purchasing manual. The manual should then be reviewed by legal counsel. Once it is approved by legal counsel, the Board should approve it. The City should adhere to the policies and procedures in its purchasing manual.</p> <p><b>Auditee's Response:</b> The Auditee concurs.</p> <p><b>Questioned Cost:</b> \$ -0-</p> |

**CITY OF PHARR, TEXAS**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2004**

| Section II – Financial Statement /Federal Awards Findings and Questioned Costs | Description                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                              |
|--------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <p>04-2<br/> Purchasing – Primary Government,<br/> (Cont.)</p>                 | <p><b>B. <u>Purchase Orders</u></b></p> <p><b>Criteria:</b> Good internal controls require that the City properly prepare purchase orders for all applicable purchases of goods or services before the purchases are made.</p> <p><b>Statement of Condition:</b> Currently the City prepares purchase orders for certain purchases of goods. In many instances, the purchase order (P.O.) is prepared after the fact (i.e., the P.O. is dated the same as or after the date of the invoice).</p> <p><b>Cause of Condition:</b> The City does not have a current purchasing manual, which provides proper guidance to applicable personnel.</p> <p><b>Effect of Condition:</b> The City made some purchases of goods and services that were not properly authorized.</p> <p><b>Recommendation:</b> The City should establish and approve a current written purchasing manual. The City should adhere to the policies and procedures in its purchasing manual.</p> <p><b>Auditee's Response:</b> The Auditee concurs.</p> <p><b>Questioned Cost:</b> \$ -0-</p> <p><b>C. <u>Unauthorized Purchases</u></b></p> <p><b>Criteria:</b> Good internal controls require that the City properly prepare purchase orders for all applicable purchases of goods or services before the purchases are made.</p> <p><b>Statement of Condition:</b> In fiscal year 2004, the City paid a local vendor for services and products that were authorized by the assistant department head. Purchase orders were not utilized. This vendor has already been charged by the Pharr Police Department for invoicing the City in excess of services and products delivered.</p> <p><b>Cause of Condition:</b> The City does not have a purchasing manual, which provides proper guidance to applicable personnel. The department head's authorization was not required. Also, invoices from this vendor were not properly reviewed by the Finance Department prior to payment.</p> <p><b>Effect of Condition:</b> The City paid invoices from this vendor that were for amounts in excess of services and products delivered.</p> <p><b>Recommendation:</b> The City should establish and approve a current written purchasing manual. The manual should require that the department head, City Manager, and Finance Director authorize all purchases over a certain dollar amount. The Finance Director should properly review invoices prior to payment.</p> <p><b>Auditee's Response:</b> The Auditee concurs.</p> <p><b>Questioned Cost:</b> \$ 193,668</p> |

**CITY OF PHARR, TEXAS**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2004**

| Section II – Financial Statement /Federal Awards Findings and Questioned Costs | Description                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                              |
|--------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <p>04-2<br/> Purchasing – Primary Government,<br/> (Cont.)</p>                 | <p><b>D. Purchasing Department</b></p> <p><b>Criteria:</b> Good internal controls require that the City have a centralized purchasing department, which is in charge of purchasing all goods and services for the City.</p> <p><b>Statement of Condition:</b> Currently, the City has a purchasing clerk under the Finance Director. The purchasing clerk is responsible for assigning P.O. numbers to P.O.s for purchases requested by the department heads or their assistants. The department heads or their assistants make the actual purchases.</p> <p><b>Cause of Condition:</b> The City does not have a current purchasing manual, which provides proper guidance to applicable personnel.</p> <p><b>Effect of Condition:</b> The City made some purchases of goods or services that were not properly authorized.</p> <p><b>Recommendation:</b> The City should establish a centralized purchasing department with a purchasing agent. This department does not have to be under the Finance Director. It can be a separate department under the City Manager.</p> <p><b>Auditee's Response:</b> The Auditee concurs</p> <p><b>Questioned Cost:</b> \$ -0-</p> |
| <p>04-3<br/> Finance Department – Primary Government</p>                       | <p><b>A. Job Descriptions</b></p> <p><b>Criteria:</b> Good internal controls require that the City have written job descriptions for all employee positions in the Finance Department.</p> <p><b>Statement of Condition:</b> There are no written job description for employees in the Finance Department.</p> <p><b>Cause of Condition:</b> The City has not given priority to defining roles or duties of its employees.</p> <p><b>Effect of Condition:</b> Employees are unsure about their duties and responsibilities.</p> <p><b>Recommendation:</b> The City should hire a consultant to help it establish job descriptions for all employee positions of the City. The job descriptions should clearly identify the duties and responsibilities of each job position. The City should then formally approve the job descriptions.</p> <p><b>Auditee's Response:</b> The Auditee concurs.</p> <p><b>Questioned Cost:</b> \$ -0-</p>                                                                                                                                                                                                                                |



**CITY OF PHARR, TEXAS**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2004**

| Section II – Financial Statement /Federal Awards Findings and Questioned Costs | Description                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                      |
|--------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <p>04-3<br/> <b>Finance Department- Primary Government, (Cont.)</b></p>        | <p><b>B. Training, Supervision, and Review:</b></p> <p><b>Criteria:</b> Good internal controls require that the City properly train and supervise employees in the performance of their assigned functions. Someone in a supervisory capacity is also required to review the employees' work.</p> <p><b>Statement of Condition:</b> Based on the results of our audit, staff under the Finance Director were not properly trained and supervised to perform their assigned functions. There was no documentation to support that the employees' work was reviewed.</p> <p><b>Cause of Condition:</b> The City and the Finance Director are unaware of the required duties and responsibilities of the Finance Director's position.</p> <p><b>Effect of Condition:</b> There were too many post-closing adjustments made after year's end to reclassify transactions and correct errors that should have been done prior to City's closing of the general ledgers.</p> <p><b>Recommendation:</b> The City should establish and approve a job description for the position of Finance Director. The City should also evaluate whether the current Finance Director meets the qualifications of this position.</p> <p><b>Auditee's Response:</b> The Auditee concurs.</p> <p><b>Questioned Cost:</b> \$ -0-</p> <p><b>C. Professional Development</b></p> <p><b>Criteria:</b> Good internal controls require that the City have a program in place for the professional development of its accounting staff.</p> <p><b>Statement of Condition:</b> The City does not have a program in place for the professional development of its accounting staff.</p> <p><b>Cause of Condition:</b> The City is unaware of what it needs to have in place for the professional development of its accounting staff.</p> <p><b>Effect of Condition:</b> The Finance Director and the accounting staff do not have an adequate awareness and understanding of current developments on technical literature to properly perform their assigned functions.</p> <p><b>Recommendation:</b> The City should establish and approve a policy that requires all professional personnel of the Finance Department to comply with the continuing professional education requirements of the U.S. General Accounting Office and other regulatory agencies, if applicable; that all professional staff will maintain an adequate awareness and understanding of current developments in technical literature; and that all professional staff will assist in the training and development of staff under their supervision.</p> <p><b>Auditee's Response:</b> The Auditee concurs.</p> <p><b>Questioned Cost:</b> \$ -0-</p> |

**CITY OF PHARR, TEXAS**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2004**

| Section II – Financial Statement /Federal Awards Findings and Questioned Costs | Description                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                     |
|--------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <p>04-4<br/> Fixed Assets – Primary Government</p>                             | <p><b>A. Capitalization Policies and Procedures</b></p> <p><b>Criteria:</b> Good internal controls require that the City have written policies and procedures for the capitalization of fixed assets purchased, constructed, or received as donation and also for the depreciation of depreciable assets.</p> <p><b>Statement of Condition:</b> The City does not have written policies and procedures for the capitalization of fixed assets purchased, constructed, or received as donation, and also for the depreciation of depreciable assets.</p> <p><b>Cause of Condition:</b> The City's Finance Department has not given priority to the establishment of proper policies and procedures for the proper capitalization and depreciation of fixed assets.</p> <p><b>Effect of Condition:</b> The City did not properly account for its fixed assets as of and for the year ended September 30, 2004.</p> <p><b>Recommendation:</b> The City should establish and approve its policies and procedures for the proper capitalization and depreciation of fixed assets. The policies and procedures should also address the requirements of OMB Circular A-102.</p> <p><b>Auditee's Response:</b> The Auditee concurs.</p> <p><b>Questioned Cost:</b> \$ -0-</p> <p><b>B. Capitalization of Fixed Assets</b></p> <p><b>Criteria:</b> Good internal controls require that the City capitalize fixed assets, which were purchased, constructed, or received as donations, on a timely basis.</p> <p><b>Statement of Condition:</b> The City did not capitalize fixed assets purchased or constructed during the year on a timely basis.</p> <p><b>Cause of Condition:</b> The City's Finance Department has not given priority to the proper capitalization of fixed assets.</p> <p><b>Effect of Condition:</b> The City did not readily know what fixed assets were purchased or constructed during the year.</p> <p><b>Recommendation:</b> The City should hire an accountant or fixed assets clerk to properly account for and record fixed assets purchased or constructed during the year on a timely basis.</p> <p><b>Auditee's Response:</b> The Auditee concurs. The City will ensure that applicable personnel are properly trained and will comply with the new policies and procedures for the proper capitalization of fixed assets on a timely basis.</p> <p><b>Questioned Cost:</b> \$ -0-</p> |

**CITY OF PHARR, TEXAS**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2004**

| Section II – Financial Statement /Federal Awards Findings and Questioned Costs       | Description                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                  |
|--------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <p>04-4<br/>           Fixed Assets – Primary Government,<br/>           (Cont.)</p> | <p><b>C. <u>Subsidiary Ledger</u></b></p> <p><b>Criteria:</b> Good internal controls require that the City maintain a subsidiary ledger for fixed assets that reflect the fixed assets that the City owns and has on hand.</p> <p><b>Statement of Condition:</b> The City's fixed assets subsidiary ledger is incomplete and has not been adjusted to reflect the fixed assets that the City owns and has on hand.</p> <p><b>Cause of Condition:</b> The City's Finance Department has not given priority to the proper maintenance of its fixed assets subsidiary ledger.</p> <p><b>Effect of Condition:</b> The City did not properly account for its fixed assets during the year ended September 30, 2004.</p> <p><b>Recommendation:</b> The City should perform a complete physical inventory of its fixed assets. The City should update its fixed assets subsidiary ledger based on the physical inventory of fixed assets.</p> <p><b>Auditee's Response:</b> The Auditee concurs. The City will perform a complete physical inventory of its fixed assets and adjust its fixed assets subsidiary ledger based on the physical inventory.</p> <p><b>Questioned Cost:</b> \$ -0-</p><br><p><b>D. <u>Depreciation Schedules</u></b></p> <p><b>Criteria:</b> Good internal controls require that the City maintain depreciation schedules for all of its depreciable fixed assets.</p> <p><b>Statement of Condition:</b> The City does not have depreciation schedules for its depreciable fixed assets. It is currently using schedules that were provided to the City by the company that helps the City implement GASB Statement No. 34 two years ago.</p> <p><b>Cause of Condition:</b> The City's Finance Department has not given priority to establishing proper depreciation schedules for the City's depreciable fixed assets.</p> <p><b>Effect of Condition:</b> The City did not properly account for depreciation expense in fiscal year 2004.</p> <p><b>Recommendation:</b> The City should purchase a computer software program for the depreciation of its fixed assets.</p> <p><b>Auditee's Response:</b> The Auditee concurs.</p> <p><b>Questioned Cost:</b> \$ -0-</p> |

**CITY OF PHARR, TEXAS**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2004**

| Section II – Financial Statement /Federal Awards Findings and Questioned Costs | Description                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                      |
|--------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <p>04-5<br/> <b>Bank Reconciliations - Primary Government</b></p>              | <p><b>A. Preparation of Bank Reconciliations</b></p> <p><b>Criteria:</b> Good internal controls require that the City prepare bank reconciliations for all of its bank accounts on a monthly basis. The City is also required to reconcile the book balances per bank reconciliations to book balances per general ledgers. If needed, the City is required to adjust the general ledger in order for the balances to agree with book balances per bank reconciliations.</p> <p><b>Statement of Condition:</b> Although the City prepared bank reconciliations for all of its bank accounts on a monthly basis, it did not reconcile the book balances per bank reconciliations to book balances per general ledgers.</p> <p><b>Cause of Condition:</b> Applicable City staff was not properly trained to perform this function.</p> <p><b>Effect of Condition:</b> Bank balances per general ledgers might not have been correct during the year.</p> <p><b>Recommendation:</b> The City should ensure that all applicable personnel are properly trained to perform the bank reconciliation function. The preparer should initial and date the bank reconciliations.</p> <p><b>Auditee's Response:</b> The Auditee concurs.</p> <p><b>Questioned Cost:</b> \$ -0-</p> <p><b>B. Review of Bank Reconciliations:</b></p> <p><b>Criteria:</b> Good internal controls require that the City have someone in a supervisory capacity review the monthly bank reconciliations prepared by someone else.</p> <p><b>Statement of Condition:</b> There was no documentation to substantiate that supervisory reviews of bank reconciliations were performed.</p> <p><b>Cause of Condition:</b> Applicable City Staff was not properly trained to perform this function.</p> <p><b>Effect of Condition:</b> Bank balances per general ledgers might not have been correct during the year.</p> <p><b>Recommendation:</b> Bank reconciliations should be reviewed on a monthly basis by someone in a supervisory capacity. The reviewer should document his/her review by initialing and dating the bank reconciliations.</p> <p><b>Auditee's Response:</b> The Auditee concurs.</p> <p><b>Questioned Cost:</b> \$ -0-</p> |

**CITY OF PHARR, TEXAS**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2004**

| Section II – Financial Statement /Federal Awards Findings and Questioned Costs             | Description                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                  |
|--------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <p>04-6<br/> <b>Collateralization of Deposits and Investments - Primary Government</b></p> | <p><b>Criteria:</b> Good internal controls require that the City ascertain whether the City's deposits and investments are adequately collateralized as required by state statutes.</p> <p><b>Statement of Condition:</b> There was no documentation to substantiate that internal reviews of collateralization were performed to ensure that the depository institutions had maintained adequate collateralization on the City's deposits and investments as of and for the year ended September 30, 2004.</p> <p><b>Cause of Condition:</b> The City's Finance Department has not given priority to the proper review of collateralization on the City's deposits and investments.</p> <p><b>Effect of Condition:</b> The City did not know whether all applicable depository institutions maintained adequate collateralization on the City's deposits and investments during fiscal year 2004.</p> <p><b>Recommendation:</b> Pledged securities reports from all banks should be requested on a monthly basis. These reports should be internally reviewed and such reviews should be properly documented.</p> <p><b>Auditee's Response:</b> The Auditee concurs. Deposit collateralization will be closely monitored and reviewed on a timely basis. Such review will be properly documented.</p> <p><b>Questioned Cost:</b> \$ -0-</p> |
| <p>04-7<br/> <b>Golf Course Inventories – Primary Government</b></p>                       | <p><b>Criteria:</b> Good internal controls require that the City conduct periodic physical counts of inventories of goods for sale at its Golf Course Pro Shop. The City is also required to reconcile each inventory taken with the preceding inventory taking into consideration items purchased, items returned to vendors, and items sold.</p> <p><b>Statement of Condition:</b> The City only conducts annual counts of inventories at the Pro Shop. No reconciliation is performed between the most recent inventory and the preceding inventory.</p> <p><b>Cause of Condition:</b> The City has not given priority to performing periodic counts of inventories and reconciling such inventories to previous inventories.</p> <p><b>Effect of Condition:</b> The City has no way of knowing whether theft of inventory items has occurred.</p> <p><b>Recommendation:</b> The Pro Shop personnel should conduct physical counts of inventory, at least quarterly (if not monthly). Personnel should also reconcile each inventory to the preceding inventory. Any significant variance should be investigated and resolved in a timely manner.</p> <p><b>Auditee's Response:</b> The Auditee concurs.</p> <p><b>Questioned Cost:</b> \$ -0-</p>                                                                                        |

**CITY OF PHARR, TEXAS**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2004**

| Section II – Financial Statement /Federal Awards Findings and Questioned Costs | Description                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                            |
|--------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <p>04-8<br/>           Golf Course Revenues - Primary Government</p>           | <p><b>A. Accounting System</b></p> <p><b>Criteria:</b> Good internal controls require that the City have an accounting system with cash registers and software that will provide accurate, properly controlled, and protected information.</p> <p><b>Statement of Condition:</b> The current Golf Course accounting system is ineffective and unreliable. The cashiers were able to enter negative sales transactions without being detected. There was an excessive number of voided transactions recorded during the year without proper documentation.</p> <p><b>Cause of Condition:</b> The City has not given priority to the installation of a good accounting system at the Golf Course.</p> <p><b>Effect of Condition:</b> The amount of cash collected during fiscal year 2004 was substantially more than the actual cash deposited in the bank. The difference between the cash collected and the actual cash deposited was comprised of "negative sales" entries, voided transactions, and other credits to cash receipts per "Daily Sales Transaction Log Reports." The total of such missing cash amount was \$ 52,218.</p> <p><b>Recommendation:</b> The City should replace the current system with cash registers and software that will provide more accurate, properly controlled, and protected information. The accounting system should be networked and compatible with the City's Accounting system.</p> <p><b>Auditee's Response:</b> The Auditee concurs.</p> <p><b>Questioned Cost:</b> \$ -0-</p> <p><b>B. Policies and Procedures Manual</b></p> <p><b>Criteria:</b> Good internal controls require that the City have a written accounting policies and procedures manual for the proper handling and recording of financial transactions of its Golf Course Operations.</p> <p><b>Statement of Condition:</b> The City does not have a written accounting policies and procedures manual for its Golf Course Operations.</p> <p><b>Cause of Condition:</b> The City was unaware of the need to have such a document.</p> <p><b>Effect of Condition:</b> There was no proper guidance for applicable personnel to follow in accounting for financial transactions.</p> <p><b>Recommendation:</b> The City should include written policies and procedures related to the Golf Course in its City-wide written accounting policies and procedures manual.</p> <p><b>Auditee's Response:</b> The Auditee concurs.</p> <p><b>Questioned Cost:</b> \$ -0-</p> |

**CITY OF PHARR, TEXAS**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2004**

| Section II – Financial Statement /Federal Awards Findings and Questioned Costs | Description                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                              |
|--------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <p>04-8<br/> <b>Golf Course Revenues - Primary Government, (Cont.)</b></p>     | <p><b>C. Training</b></p> <p><b>Criteria:</b> Good internal controls require that the City properly train the cashiers in the performance of their assigned functions.</p> <p><b>Statement of Condition:</b> Cashiers at the Pro Shop were not properly trained.</p> <p><b>Cause of Condition:</b> The City has not given priority to the proper training of the cashiers at the Pro Shop.</p> <p><b>Effect of Condition:</b> Certain cashiers were unfamiliar with the accounting software and with their duties and responsibilities.</p> <p><b>Recommendation:</b> All applicable Pro Shop employees should be properly trained to use the new cash registers and new accounting system.</p> <p><b>Auditee's Response:</b> The Auditee concurs.</p> <p><b>Questioned Cost:</b> \$ -0-</p>                                                                                             |
| <p>04-9<br/> <b>Public Investment Act – Primary Government</b></p>             | <p><b>A. Investment Policy</b></p> <p><b>Criteria:</b> Chapter 2256.005 of the Texas Government Code requires that the City' invest its funds under written investment policies approved by the City Commission and to review the City investment policy annually.</p> <p><b>Statement of Condition:</b> The City has not updated its written investment policy that addresses the requirements of the Public Investment Act (the Act).</p> <p><b>Cause of Condition:</b> The City did not annually review its public investment policy.</p> <p><b>Effect of Condition:</b> The City did not comply with State law regarding this matter.</p> <p><b>Recommendation:</b> The City should immediately review and approve an investment policy that addresses all requirements of the Act.</p> <p><b>Auditee's Response:</b> The Auditee concurs.</p> <p><b>Questioned Cost:</b> \$ -0-</p> |

**CITY OF PHARR, TEXAS**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2004**

| Section II – Financial Statement /Federal Awards Findings and Questioned Costs | Description                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                |
|--------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <p>04-9<br/> Public Investment Act – Primary Government</p>                    | <p><b>B. Investment Officer(s)</b></p> <p><b>Criteria:</b> Chapter 2256.005 of the Texas Government Code require that the City designate one or more officers or employees of the City as investment officers to be responsible for the investment of its funds consistent with the investment policy adopted by the City.</p> <p><b>Statement of Condition:</b> Since the City has designated only one of its employees as investment officer, it does have someone else available to perform this function in case of an emergency.</p> <p><b>Cause of Condition:</b> The City has not updated its investment policy to comply with the Act.</p> <p><b>Effect of Condition:</b> The City is not prepared in case of an emergency.</p> <p><b>Recommendation:</b> The City should designate one more of its employees as the City's investment officers.</p> <p><b>Auditee's Response:</b> The Auditee concurs.</p> <p><b>Questioned Cost:</b> \$ -0-</p> <p><b>C. Investment Training</b></p> <p><b>Criteria:</b> Chapter 2256.008 of the Texas Government Code requires that the City's investment officer(s) attend at least one training session from an independent source approved by the City Commission and containing at least 10 hours of instruction relating to the investment officers responsibilities within 12 months after assuming duties and attend an investment training session not less than once in a two year period and received not less than 10 hours of instruction relating to the investment officer's responsibilities.</p> <p><b>Statement of Condition:</b> No City employee has attended the required training sessions during the required time frame.</p> <p><b>Cause of Condition:</b> The City has not adopted an investment policy in compliance with the Act.</p> <p><b>Effect of Condition:</b> The City did not comply with state law regarding this matter.</p> <p><b>Recommendation:</b> The City should provide the required training to the employee(s) it designates as the City's investment officer(s).</p> <p><b>Auditee's Response:</b> The Auditee concurs.</p> <p><b>Questioned Cost:</b> \$ -0-</p> |



**CITY OF PHARR, TEXAS**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2004**

| Section II – Financial Statement /Federal Awards Findings and Questioned Costs | Description                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                       |
|--------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <p>04-9<br/> <b>Public Investment Act – Primary Government, (Cont.)</b></p>    | <p><b>D. <u>Investment Management Reporting</u></b></p> <p><b>Criteria:</b> Chapter 2256.023 of the Texas Government Code requires that the City's investment officer, not less than quarterly, prepare and submit to the City Commission detailed written report(s) of all investment transactions for all funds covered.</p> <p><b>Statement of Condition:</b> The City's investment officer did not prepare all of the required reports in fiscal year 2004.</p> <p><b>Cause of Condition:</b> The City's Finance Department has not given priority to these reports.</p> <p><b>Effect of Condition:</b> The City did not comply with state law regarding this matter.</p> <p><b>Recommendation:</b> The City's investment officer should prepare and submit internal investment management reports, minimally, on a quarterly basis to the City Commission.</p> <p><b>Auditee's Response:</b> The Auditee concurs.</p> <p><b>Questioned Cost:</b> \$ -0-</p>                                                                  |
| <p>04-10<br/> <b>Workman Compensation – Primary Government</b></p>             | <p><b>Criteria:</b> State law requires that the City obtain competitive bids or proposals from parties interested in providing workman compensation coverage to the City.</p> <p><b>Statement of Condition:</b> In fiscal year 2004, the City obtained such bids from various vendors. The bid, as originally submitted by the vendor who was awarded the contract, did not meet bid specifications. This vendor was subsequently allowed to modify his bid to meet the specifications.</p> <p><b>Cause of Condition:</b> The City does not have a current purchasing manual, which provides proper guidance to applicable personnel.</p> <p><b>Effect of Condition:</b> The City did not comply with federal and state law regarding this matter.</p> <p><b>Recommendation:</b> The City should establish and approve a current written purchasing manual, which addresses the competitive bidding process and requirements.</p> <p><b>Auditee's Response:</b> The Auditee concurs.</p> <p><b>Questioned Cost:</b> \$ 93,708</p> |

**CITY OF PHARR, TEXAS**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2004**

| Section II – Financial Statement /Federal Awards Findings and Questioned Costs                                            | Description                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                            |
|---------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <p>04-11<br/> <b>Audit Report and Data Collection Form – Primary Government</b></p>                                       | <p><b>Criteria:</b> OMB Circular A-133 required the City to submit the reporting package, which included the fiscal year 2003 Audit Report and Data Collection Form, to the Single Audit Clearing House by June 30, 2004.</p> <p><b>Statement of Condition:</b> The City did not file the reporting package by the deadline.</p> <p><b>Cause of Condition:</b> The City did not close its general ledgers timely. Also, too many post-closing adjustments were subsequently made.</p> <p><b>Effect of Condition:</b> The City did not comply with OMB Circular A-133 requirement regarding this matter.</p> <p><b>Recommendation:</b> The City should take the necessary steps to ensure that the general ledgers are closed out no later than October 31. The City should also ensure that the general ledger balances are more auditable.</p> <p><b>Auditee's Response:</b> The Auditee concurs. The City's reporting package for fiscal year 2004 will be submitted before June 30, 2005.</p> <p><b>Questioned Cost:</b> \$ -0-</p> |
| <p>04-12<br/> <b>Accounting Policies and Procedures Manual – Pharr Economic Development Corporation, Inc., (PEDC)</b></p> | <p><b>Criteria:</b> Good internal controls require that PEDC have a written accounting policies and procedures manual for the proper handling and recording of financial transactions by the Finance Department.</p> <p><b>Statement of Condition:</b> PEDC does not have a written policies and procedures manual.</p> <p><b>Cause of Condition:</b> PEDC was unaware of the need to have such a document.</p> <p><b>Effect of Condition:</b> There is no proper guidance for applicable PEDC personnel to follow in accounting for financial transactions.</p> <p><b>Recommendation:</b> PEDC should hire a consultant to help it establish a written policies and procedures manual for its Finance Department. Once the manual is approved by the Board, PEDC should adhere to such policies and procedures.</p> <p><b>Auditee's Response:</b> The Auditee concurs.</p> <p><b>Questioned Cost:</b> \$ -0-</p>                                                                                                                      |

**CITY OF PHARR, TEXAS**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2004**

| Section II – Financial Statement /Federal Awards Findings and Questioned Costs | Description                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                           |
|--------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <p>04-13<br/> Purchasing Manual – PEDC</p>                                     | <p><b>Criteria:</b> Good internal controls require that PEDC have a written purchasing manual to ensure compliance with state, federal, and legal requirements.</p> <p><b>Statement of Condition:</b> PEDC currently has a manual that is outdated.</p> <p><b>Cause of Condition:</b> PEDC has not given priority to updating or renewing its purchasing manual.</p> <p><b>Effect of Condition:</b> PEDC does not have the proper guidance to ensure compliance with state, federal, and legal requirements in the procurement process.</p> <p><b>Recommendation:</b> PEDC should hire a consultant to help it establish a current written purchasing manual. The manual should then be reviewed by legal counsel. Once it is approved by legal counsel, the Board should approve it. PEDC should adhere to the policies and procedures in its purchasing manual.</p> <p><b>Auditee's Response:</b> The Auditee concurs.</p> <p><b>Questioned Cost:</b> \$ -0-</p>                                                                                                                                                                                                                                                                                                                    |
| <p>04-14<br/> Bank Reconciliation - PEDC</p>                                   | <p><b>Criteria:</b> Good internal controls require that PEDC prepare bank reconciliations for all of its bank accounts on a monthly basis. PEDC is also required to reconcile the book balances per bank reconciliations to book balances per general ledgers. If needed, PEDC is required to adjust the general ledger in order for the balances to agree with book balances per bank reconciliations.</p> <p><b>Statement of Condition:</b> PEDC did not prepare bank reconciliations for its bank accounts on a monthly basis.</p> <p><b>Cause of Condition:</b> Applicable PEDC staff was not properly trained to perform this function.</p> <p><b>Effect of Condition:</b> Bank balances per general ledgers might not have been correct during the year.</p> <p><b>Recommendation:</b> PEDC should ensure that all applicable personnel are properly trained to perform the bank reconciliation function. The preparer should initial and date the bank reconciliations. Also, bank reconciliations should be reviewed on a monthly basis by someone in a supervisory capacity. The reviewer should document his/her review by initialing and dating the bank reconciliations.</p> <p><b>Auditee's Response:</b> The Auditee concurs.</p> <p><b>Questioned Cost:</b> \$ -0-</p> |

**CITY OF PHARR, TEXAS**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2004**

| Section II – Financial Statement /Federal Awards Findings and Questioned Costs | Description                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                  |
|--------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <p>04-15<br/> <b>Training, Supervision, and Review - PEDC</b></p>              | <p><b>Criteria:</b> Good internal controls require that PEDC properly train and supervise employees in the performance of their assigned functions. Someone in a supervisory capacity is also required to review the employees' work.</p> <p><b>Statement of Condition:</b> Based on the results of our audit, staff in the Accounting Department was not properly trained and supervised to perform her assigned function. There was no documentation to support that the employee's work was reviewed.</p> <p><b>Cause of Condition:</b> PEDC was unaware of the required duties and responsibilities of this position.</p> <p><b>Effect of Condition:</b> There were too many post-closing adjustments made after year's end to reclassify transactions and correct errors that should have been done prior to PEDC's closing of the general ledgers.</p> <p><b>Recommendation:</b> PEDC should hire a degreed accountant for its accounting department. The position should also require that the individual have at least two-year experience in governmental/nonprofit organization accounting.</p> <p><b>Auditee's Response:</b> The Auditee concurs.</p> <p><b>Questioned Cost:</b> \$ -0-</p>                       |
| <p>04-16<br/> <b>Fixed Assets – PEDC</b></p>                                   | <p><b>A. Capitalization Policies and Procedures</b></p> <p><b>Criteria:</b> Good internal controls require that PEDC have written policies and procedures for the capitalization of fixed assets purchased, constructed, or received as donation and also for the depreciation of depreciable assets.</p> <p><b>Statement of Condition:</b> PEDC does not have written policies and procedures for the capitalization of fixed assets purchased, constructed, or received as donation, and also for the depreciation of depreciable assets.</p> <p><b>Cause of Condition:</b> PEDC has not given priority to the establishment of proper policies and procedures for the proper capitalization and depreciation of fixed assets.</p> <p><b>Effect of Condition:</b> PEDC did not properly account for its fixed assets as of and for the year ended September 30, 2004.</p> <p><b>Recommendation:</b> PEDC should establish and approve its policies and procedures for the proper capitalization and depreciation of fixed assets. The policies and procedures should also address the requirements of OMB Circular A-102.</p> <p><b>Auditee's Response:</b> The Auditee concurs.</p> <p><b>Questioned Cost:</b> \$ -0-</p> |

**CITY OF PHARR, TEXAS**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2004**

| Section II – Financial Statement /Federal Awards Findings and Questioned Costs | Description                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                            |
|--------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <p>04-16<br/> Fixed Assets – PEDC, (Cont.)</p>                                 | <p><b>B. Capitalization of Fixed Assets</b></p> <p><b>Criteria:</b> Good internal controls require that PEDC capitalize fixed assets, which were purchased, constructed, or received as donations, on a timely basis.</p> <p><b>Statement of Condition:</b> PEDC did not capitalize fixed assets purchased or constructed during the year on a timely basis.</p> <p><b>Cause of Condition:</b> PEDC has not given priority to the proper capitalization of fixed assets.</p> <p><b>Effect of Condition:</b> PEDC did not readily know what fixed assets were purchased or constructed during the year.</p> <p><b>Recommendation:</b> PEDC should capitalize fixed assets purchased or constructed during the year on a timely basis.</p> <p><b>Auditee's Response:</b> The Auditee concurs. PEDC will ensure that applicable personnel are properly trained and will comply with the new policies and procedures for the proper capitalization of fixed assets on a timely basis.</p> <p><b>Questioned Cost:</b> \$ -0-</p> <p><b>C. Subsidiary Ledger</b></p> <p><b>Criteria:</b> Good internal controls require that PEDC maintain a subsidiary ledger for fixed assets that reflect the fixed assets that PEDC owns and has on hand.</p> <p><b>Statement of Condition:</b> PEDC's fixed assets subsidiary ledger is incomplete and has not been adjusted to reflect the fixed assets that PEDC owns and has on hand.</p> <p><b>Cause of Condition:</b> PEDC has not given priority to the proper maintenance of its fixed assets subsidiary ledger.</p> <p><b>Effect of Condition:</b> PEDC did not properly account for its fixed assets during the year ended September 30, 2004.</p> <p><b>Recommendation:</b> PEDC should perform a complete physical inventory of its fixed assets. PEDC should update its fixed assets subsidiary ledger based on the physical inventory of fixed assets.</p> <p><b>Auditee's Response:</b> The Auditee concurs. PEDC will perform a complete physical inventory of its fixed assets and adjust its fixed assets subsidiary ledger based on the physical inventory.</p> <p><b>Questioned Cost:</b> \$ -0-</p> |

U  
N  
I  
T  
E  
D  
N  
A  
T  
I  
O  
N  
A  
L  
L  
I  
G  
N  
C  
E

**CITY OF PHARR, TEXAS**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2004**

| Section II – Financial Statement /Federal Awards Findings and Questioned Costs      | Description                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                               |
|-------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <p>04-16<br/> Fixed Assets- PEDC, (Cont.)</p>                                       | <p><b>D. Depreciation Schedules</b></p> <p><b>Criteria:</b> Good internal controls require that PEDC maintain depreciation schedules for all of its depreciable fixed assets.</p> <p><b>Statement of Condition:</b> PEDC does not have depreciation schedules for its depreciable fixed assets.</p> <p><b>Cause of Condition:</b> PEDC has not given priority to establishing proper depreciation schedules for PEDC's depreciable fixed assets.</p> <p><b>Effect of Condition:</b> PEDC did not properly account for depreciation expense in fiscal year 2004.</p> <p><b>Recommendation:</b> PEDC should purchase a computer software program for the depreciation of its fixed assets.</p> <p><b>Auditee's Response:</b> The Auditee concurs.</p> <p><b>Questioned Cost:</b> \$ -0-</p> |
| <p><b>Section III – Contact Persons Regarding Findings and Questioned Costs</b></p> |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                           |
| <p><b>Primary Government</b><br/> City of Pharr, Texas</p>                          | <p>Fred Sandoval, City Manager<br/> 108 S. Cage Blvd.<br/> Pharr, Texas 78577<br/> (956) 702-5300</p>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                     |
| <p><b>Component Unit</b><br/> Pharr Economic Development Corporation, Inc.</p>      | <p>Raul Garza, Executive Director<br/> 1215 S. Cage Blvd.<br/> P.O. Box 1360<br/> Pharr, Texas 78577<br/> (956) 781-7332</p>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                              |

1  
2  
3  
4  
5  
6  
7  
8  
9  
10  
11  
12  
13  
14  
15  
16  
17  
18  
19  
20  
21  
22  
23  
24  
25  
26  
27  
28  
29  
30  
31  
32  
33  
34  
35  
36  
37  
38  
39  
40  
41  
42  
43  
44  
45  
46  
47  
48  
49  
50  
51  
52  
53  
54  
55  
56  
57  
58  
59  
60  
61  
62  
63  
64  
65  
66  
67  
68  
69  
70  
71  
72  
73  
74  
75  
76  
77  
78  
79  
80  
81  
82  
83  
84  
85  
86  
87  
88  
89  
90  
91  
92  
93  
94  
95  
96  
97  
98  
99  
100



**CITY OF PHARR, TEXAS**  
**SCHEDULE OF STATUS OF PRIOR AUDIT FINDINGS**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2004**

|                             | <b>Description</b>                                          |
|-----------------------------|-------------------------------------------------------------|
| <b>City of Pharr, Texas</b> | No matters were noted in the fiscal year 2003 audit report. |

**CITY OF PHARR, TEXAS**  
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
 FOR THE YEAR ENDED SEPTEMBER 30, 2004

**Exhibit G-1**

| GRANT<br>NUMBER                                                                               | FEDERAL GRANTOR/<br>PASS-THROUGH GRANTOR/STATE<br>GRANTOR/PROGRAM TITLE                     | FEDERAL<br>CFDA<br>NUMBER | FEDERAL/STATE<br>EXPENDITURES | PASS THROUGH<br>AMOUNT<br>TO<br>SUBRECIPIENTS |
|-----------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------|---------------------------|-------------------------------|-----------------------------------------------|
| <b>FEDERAL AWARDS</b>                                                                         |                                                                                             |                           |                               |                                               |
| <b>Primary Government:</b>                                                                    |                                                                                             |                           |                               |                                               |
| <b><u>U.S. Department of Housing and Urban Development</u></b>                                |                                                                                             |                           |                               |                                               |
| <b><u>Direct</u></b>                                                                          |                                                                                             |                           |                               |                                               |
| B-02-MC-48-0507                                                                               | Community Development Block Grant                                                           | 14.218                    | \$ 306,281                    | \$ -                                          |
| B-03-MC-48-0507                                                                               | Community Development Block Grant                                                           | 14.218                    | 1,045,665                     | -                                             |
|                                                                                               | Total CFDA Number 14.218                                                                    |                           | 1,351,946                     | -                                             |
|                                                                                               | <b>Total Direct</b>                                                                         |                           | 1,351,946                     | -                                             |
| <b><u>Passed Through Texas Department of Housing and Community Affairs</u></b>                |                                                                                             |                           |                               |                                               |
| 531032                                                                                        | Home Investment Partnership Program (HOME)                                                  | 14.239                    | 171,300                       | -                                             |
|                                                                                               | Total CFDA Number 14.239                                                                    |                           | 171,300                       | -                                             |
|                                                                                               | <b>Total Passed Through Texas Department of Housing and Community Affairs</b>               |                           | 171,300                       | -                                             |
|                                                                                               | <b>Total U.S. Department of Housing and Urban Development</b>                               |                           | 1,523,246                     | -                                             |
| <b><u>U.S. Department of Justice</u></b>                                                      |                                                                                             |                           |                               |                                               |
| <b><u>Direct</u></b>                                                                          |                                                                                             |                           |                               |                                               |
| 2001SHWX0118                                                                                  | COPS In School                                                                              | 16.710                    | 33,249                        | -                                             |
| 2003UMWX0258                                                                                  | COPS In School                                                                              | 16.710                    | 123,895                       | -                                             |
|                                                                                               | Total CFDA Number 16.710                                                                    |                           | 157,144                       | -                                             |
| 2003-LB-BX-0829                                                                               | Local Law Enforcement Block Grant                                                           | 16.592                    | 50,136                        | -                                             |
|                                                                                               | Total CFDA Number 16.592                                                                    |                           | 50,136                        | -                                             |
|                                                                                               | <b>Total Direct</b>                                                                         |                           | 207,280                       | -                                             |
|                                                                                               | <b>Total U.S. Department of Justice</b>                                                     |                           | 207,280                       | -                                             |
| <b><u>U.S. Department of Homeland Security</u></b>                                            |                                                                                             |                           |                               |                                               |
| <b><u>Direct</u></b>                                                                          |                                                                                             |                           |                               |                                               |
| EMW-2003-FP-03448                                                                             | Fire Prevention and Safety Program                                                          | 97.044                    | 40,500                        | -                                             |
|                                                                                               | Total CFDA Number 97.044                                                                    |                           | 40,500                        | -                                             |
|                                                                                               | <b>Total Direct</b>                                                                         |                           | 40,500                        | -                                             |
| <b><u>Passed Through Texas A &amp; M University - Texas Engineering Extension Service</u></b> |                                                                                             |                           |                               |                                               |
| 2004SHSP-57200                                                                                | State Homeland Security Grant Program                                                       | 97.005                    | 46,885                        | -                                             |
|                                                                                               | Total CFDA Number 97.005                                                                    |                           | 46,885                        | -                                             |
|                                                                                               | <b>Total Passed Through Texas A &amp; M University - Texas Engineering Extension Office</b> |                           | 46,885                        | -                                             |
|                                                                                               | <b>Total U.S. Department of Homeland Security</b>                                           |                           | 87,385                        | -                                             |

(Continued)

**CITY OF PHARR, TEXAS**

**Exhibit G-1, (Cont.)**

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED SEPTEMBER 30, 2004

| GRANT NUMBER                                                                            | FEDERAL GRANTOR/<br>PASS-THROUGH GRANTOR/STATE<br>GRANTOR/PROGRAM TITLE                   | FEDERAL<br>CFDA<br>NUMBER                                  | FEDERAL/STATE<br>EXPENDITURES | PASS THROUGH<br>AMOUNT<br>TO<br>SUBRECIPIENTS |
|-----------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------|------------------------------------------------------------|-------------------------------|-----------------------------------------------|
| <b>FEDERAL AWARDS</b>                                                                   |                                                                                           |                                                            |                               |                                               |
| <b>Primary Government, (Cont.):</b>                                                     |                                                                                           |                                                            |                               |                                               |
| <b>U. S. Department of the Treasury</b>                                                 |                                                                                           |                                                            |                               |                                               |
| <b>Direct</b>                                                                           |                                                                                           |                                                            |                               |                                               |
| 2004-779                                                                                | Operation Task Force                                                                      | 31 U.S.C. 9703,<br>Treasury Forfeiture<br>Fund Act of 1992 | \$ 34,710                     | \$ -                                          |
|                                                                                         | <b>Total U.S. Department of the Treasury</b>                                              |                                                            | <u>34,710</u>                 | <u>-</u>                                      |
| <b>National Highway Traffic Safety Administration,<br/>Department of Transportation</b> |                                                                                           |                                                            |                               |                                               |
| <b>Passed Through Texas Department of Transportation</b>                                |                                                                                           |                                                            |                               |                                               |
| 584XXF5165                                                                              | Intoxicated Driver Mobilization                                                           | 20.605                                                     | 25,011                        | -                                             |
|                                                                                         | <b>Total CFDA Number 20.605</b>                                                           |                                                            | <u>25,011</u>                 | <u>-</u>                                      |
| 583XXF6133                                                                              | Click It or Ticket                                                                        | 20.604                                                     | 6,000                         | -                                             |
| 584XXF6152                                                                              | Click It or Ticket                                                                        | 20.604                                                     | 6,055                         | -                                             |
|                                                                                         | <b>Total CFDA Number 20.604</b>                                                           |                                                            | <u>12,055</u>                 | <u>-</u>                                      |
|                                                                                         | <b>Total Passed Through Texas Department of Transportation</b>                            |                                                            | <u>37,066</u>                 | <u>-</u>                                      |
|                                                                                         | <b>Total National Traffic Safety Administration,<br/>Department of Transportation</b>     |                                                            | <u>37,066</u>                 | <u>-</u>                                      |
| <b>Environmental Protection Agency</b>                                                  |                                                                                           |                                                            |                               |                                               |
| <b>Passed Through Texas Water Development Board</b>                                     |                                                                                           |                                                            |                               |                                               |
| G03700                                                                                  | Economically Distressed Area Program / Colonia<br>Wastewater Treatment Assistance Program | U.S. Public<br>Law 102-389                                 | 2,935,935                     | -                                             |
|                                                                                         | <b>Total Environmental Protection Agency</b>                                              |                                                            | <u>2,935,935</u>              | <u>-</u>                                      |
|                                                                                         | <b>Total Primary Government</b>                                                           |                                                            | <u>4,825,622</u>              | <u>-</u>                                      |
| <b>Component Unit – PEDC:</b>                                                           |                                                                                           |                                                            |                               |                                               |
| <b>U.S. Department of Commerce</b>                                                      |                                                                                           |                                                            |                               |                                               |
| <b>Direct</b>                                                                           |                                                                                           |                                                            |                               |                                               |
| 08-01-03566                                                                             | Public Works and Economic Development<br>Facilities Grant                                 | 11.300                                                     | 1,066,829                     | -                                             |
|                                                                                         | <b>Total CFDA Number 11.300</b>                                                           |                                                            | <u>1,066,829</u>              | <u>-</u>                                      |
|                                                                                         | <b>Total Direct</b>                                                                       |                                                            | <u>1,066,829</u>              | <u>-</u>                                      |
|                                                                                         | <b>Total U.S. Department of Commerce</b>                                                  |                                                            | <u>1,066,829</u>              | <u>-</u>                                      |
|                                                                                         | <b>Total Component Unit</b>                                                               |                                                            | <u>1,066,829</u>              | <u>-</u>                                      |
|                                                                                         | <b>TOTAL EXPENDITURES OF FEDERAL AWARDS</b>                                               |                                                            | <u>\$ 5,892,451</u>           | <u>\$ -</u>                                   |

**CITY OF PHARR, TEXAS**  
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED SEPTEMBER 30, 2004

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

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

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

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