

CITY OF EDCOUCH, TEXAS
COMPARATIVE BALANCE SHEETS
NON-MAJOR GOVERNMENTAL FUNDS
SEPTEMBER 30, 2012

	Special Revenue Funds			
	4A Sales	4B Sales		
	Tax	Tax		
	Fund	Fund	2012	2011
Assets				
Cash and cash investments	\$ 16,428	\$ 30,631	\$ 47,059	\$ 42,734
Accounts receivable-taxes	-	-	-	-
Due from other fund	257,409	233,171	490,580	419,220
Due from other governments	-	-	-	-
Total Assets	<u>273,837</u>	<u>263,802</u>	<u>537,639</u>	<u>461,954</u>
Liabilities				
Accounts payable	-	-	-	-
Due to other funds	27,553	29,653	57,206	57,206
Due to other governments	-	-	-	-
Deferred revenues - taxes	-	-	-	-
	<u>27,553</u>	<u>29,653</u>	<u>57,206</u>	<u>57,206</u>
Total Liabilities				
Net Assets				
Unrestricted, Undesignated	<u>246,284</u>	<u>234,149</u>	<u>480,433</u>	<u>404,748</u>
Total Net Assets and Liabilities	<u>\$ 273,837</u>	<u>\$ 263,802</u>	<u>\$ 537,639</u>	<u>\$ 461,954</u>

CITY OF EDCOUCH, TEXAS
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES
NON-MAJOR GOVERNMENTAL FUNDS
SEPTEMBER 30, 2012

	Special Revenue Funds			
	4A Sales	4B Sales		
	Tax	Tax		
	Fund	Fund	2012	2011
Revenues				
Taxes	\$ 46,702	\$ 46,702	\$ 93,404	\$ 85,842
Intergovernmental			-	261,921
Miscellaneous	-	-	-	-
Total Revenues	<u>46,702</u>	<u>46,702</u>	<u>93,404</u>	<u>347,763</u>
Expenditures				
Administration	2,802	14,917	17,719	-
Street Impr.	-	-	-	-
Water and Sewer Project	-	-	-	250,769
Contributions	-	-	-	11,152
Principal	-	-	-	-
Interest	-	-	-	-
Capital outlay	-	-	-	-
Drainage Projects				
Total Expenditures	<u>2,802</u>	<u>14,917</u>	<u>17,719</u>	<u>261,921</u>
Excess (Deficiency) of Revenues				
Over Expenditures	<u>43,900</u>	<u>31,785</u>	<u>75,685</u>	<u>85,842</u>
Other Financing Sources (Uses)				
Operating transfers-in	-	-	-	-
Operating transfers-out	-	-	-	-
Total Other Financing Sources (Uses)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Excess (Deficiency) of Revenues				
and Other Financing Sources				
Over Expenditures and Other Uses	<u>43,900</u>	<u>31,785</u>	<u>75,685</u>	<u>85,842</u>
Fund Balance, October 1,	<u>202,384</u>	<u>202,364</u>	<u>404,748</u>	<u>318,906</u>
Fund Balance, September 30,	<u>\$ 246,284</u>	<u>\$ 234,149</u>	<u>\$ 480,433</u>	<u>\$ 404,748</u>

TRUST & AGENCY FUNDS
Payroll Agency Fund

CITY OF EDCOUCH, TEXAS
STATEMENT OF ASSETS AND LIABILITIES
PAYROLL AGENCY FUND
SEPTEMBER 30, 2012

	Payroll Agency Fund	
	2012	2011
Assets		
Cash and cash investments	\$ 15,914	\$ 4,288
Due from other funds	<u>48,756</u>	<u>48,756</u>
Total Assets	<u>\$ 64,670</u>	<u>\$ 53,044</u>
 Liabilities		
Accounts payable		
Due to other funds	9,714	9,714
Due to others	<u>54,956</u>	<u>43,330</u>
Total Liabilities	<u>64,670</u>	<u>53,044</u>
 Net Assets		
Unrestricted, Undesignated		
Total Liabilities and Net Assets	<u>\$ 64,670</u>	<u>\$ 53,044</u>

CITY OF EDCOUCH, TEXAS
STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
PAYROLL AGENCY FUND
FOR THE YEAR ENDED SEPTEMBER 30, 2012

	<u>Balance</u> <u>10/1/11</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance</u> <u>9/30/12</u>
<u>Payroll Agency Fund</u>				
Assets				
Cash and cash equivalents	\$ 4,288	\$ 804,032	\$ 792,406	\$ 15,914
Due from other funds	48,756			48,756
Due from others				
Total Assets	<u><u>\$ 53,044</u></u>	<u><u>\$ 804,032</u></u>	<u><u>\$ 792,406</u></u>	<u><u>\$ 64,670</u></u>
Liabilities				
Accounts payable	\$ -	\$ -	\$ -	\$ -
Due to other funds	9,714		9,714	9,714
Due to Others	43,330	792,406	804,032	54,956
Total liabilities	<u><u>\$ 53,044</u></u>	<u><u>\$ 792,406</u></u>	<u><u>\$ 813,746</u></u>	<u><u>\$ 64,670</u></u>

CAPITAL INVESTMENT ACCOUNT GROUP

This account group is established to account for the fixed assets, depreciation, and related long term debt of the City exclusive of those relating to Enterprise Fund operations. Expenditure transactions to acquire general capital assets occur in the General and Capital Projects Funds.

CITY OF EDCOUCH, TEXAS
SCHEDULE OF CAPITAL INVESTMENT ASSET GROUP-BY SOURCES
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2012

General Capital Assets:

Land	\$ 375,048	
------	------------	--

Buildings	610,765	
------------------	---------	--

Improvements Other Than Buildings:

Street Improvements	3,149,607	
---------------------	-----------	--

Equipment/Vehicles:

Equipment	1,100,862	
-----------	-----------	--

Construction in Progress	148,113	<u>5,384,395</u>
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Total General Fixed Assets		<u><u>\$ 5,384,395</u></u>
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Investments in Capital Assets:

Capital Projects-Grants/Bonds	<u>\$ 5,384,395</u>	
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Total Investments in Capital Assets		<u><u>\$ 5,384,395</u></u>
--	--	----------------------------

CITY OF EDCOUCH, TEXAS
SCHEDULE OF CHANGES IN CAPITAL INVESTMENT ASSET GROUP- BY SOURCES
SEPTEMBER 30, 2012

	<u>October 1, 2011</u>	<u>Additions Deletions</u>	<u>September 30, 2012</u>
General Capital Assets:			
Land	\$ 375,048	\$ -	\$ 375,048
Buildings	610,765		610,765
Improvements Other Than Buildings	3,022,134	127,473	3,149,607
Furniture, Fixtures & Equipment/Vehicles	1,100,862		1,100,862
Construction in Progress	<u>141,656</u>	<u>6,457</u>	<u>148,113</u>
Total General Capital Assets	<u><u>\$ 5,250,465</u></u>	<u><u>\$ 133,930</u></u>	<u><u>\$ 5,384,395</u></u>
 Investments in Capital Assets From:			
Capital Projects Funds- Grants/Bonds - General Fund	<u><u>\$ 5,250,465</u></u>	<u><u>\$ 133,930</u></u>	<u><u>\$ 5,384,395</u></u>

STATISTICAL SECTION

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CITY OF EDCOUCH, TEXAS
GENERAL GOVERNMENTAL EXPENDITURES BY FUNCTION
LAST TEN FISCAL YEARS

<u>Fiscal Year</u>		<u>General Government</u>	<u>Public Safety</u>	<u>Highways and Streets</u>	<u>Sanitation</u>
2001	*	\$ -	\$ -	\$ -	\$ -
2002	*	-	-	-	-
2003	*	-	-	-	-
2004	*	-	-	-	-
2005	*	-	-	-	-
2006		225,568	257,639	172,082	116,464
2007		376,112	276,511	61,183	152,714
2008		407,631	197,077	97,073	141,050
2009		298,393	209,358	110,115	163,647
2010		279,084	359,513	129,104	212,973
2011		310,715	362,879	169,257	160,335
2012		407,956	448,460	292,418	186,157

* Data not available to prepare schedule.

<u>Capital Outlay</u>	<u>Culture and Recreation</u>	<u>Debt Service</u>	<u>Total</u>
\$ -	\$ -	\$ -	\$ -
-	-	-	-
-	-	-	-
-	-	-	-
-	-	-	-
64,642	3,241	92,735	932,371
-	8,246	106,978	981,744
-	37,176	186,511	1,066,518
-	16,625	132,694	930,832
	17,684	126,505	1,124,863
253,323	35,520	130,157	1,422,186
133,930	25,171	112,602	1,606,694

**CITY OF EDCOUCH, TEXAS
GENERAL GOVERNMENTAL REVENUES BY SOURCE
LAST TEN FISCAL YEARS**

Fiscal Year		Taxes	Licenses and Permits	Inter- governmental	Charges for Services	Fines	Miscellaneous	Total
2003	*	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
2004	*	-	-	-	-	-	-	-
2005	*	-	-	-	-	-	-	-
2006	*	570,205	9,356	66,215	260,092	27,260	4,638	937,766
2007		616,131	69,083	12,588	231,805	32,420	5,256	967,283
2008		717,680	74,151	23,973	235,718	59,796	43,293	1,154,611
2009		633,520	6,668	28,981	348,596	9,160	13,166	1,040,091
2010		642,544	5,202	273,468	318,889	4,736	46,518	1,291,357
2011		664,901	15,627	309,936	295,307	49,992	62,081	1,397,844
2012		672,529	11,855	215,433	579,334	67,577	43,678	1,590,406

* Data not available to prepare schedule.

CITY OF EDCOUCH, TEXAS
SCHEDULE OF GENERAL FUND AND DEBT SERVICE TAXES RECEIVABLE
SEPTEMBER 30, 2012

	Total Taxes Receivable	General Fund Tax Receivable		Debt Service Tax Receivable	
		Percent	Amount	Percent	Amount
2011	73,303	64.41%	47,215	35.59%	26,089
2010	56,646	66.67%	37,766	33.33%	18,880
2009	43,256	68.36%	29,570	31.64%	13,686
2008	37,897	65.00%	24,633	35.00%	13,264
2007	30,694	70.05%	21,501	29.95%	9,193
2006	27,684	72.06%	19,949	27.94%	7,735
2005	21,193	77.80%	16,488	22.20%	4,705
2004	22,083	71.92%	15,882	28.08%	6,201
2003	17,865	72.02%	12,866	27.98%	4,999
2002	15,851	72.00%	11,413	28.00%	4,438
2001	15,040	72.54%	10,910	27.46%	4,130
2000	14,831	76.40%	11,331	23.60%	3,500
1999	12,840	72.54%	9,314	27.46%	3,526
1998	10,866	72.17%	7,842	27.83%	3,024
1997	9,640	70.08%	6,756	29.92%	2,884
1996	4,562	71.33%	3,254	28.67%	1,308
1995	3,785	75.78%	2,868	24.22%	917
1994	3,239	74.96%	2,428	25.04%	811
1993	2,638	64.56%	1,703	35.44%	935
1992	1,923	78.27%	1,504	21.73%	418
1991	2,020	100.00%	2,020	0.00%	-
1990	3,180	100.00%	3,180	0.00%	-
1989	-	100.00%	-	0.00%	-
1988	-	100.00%	-	0.00%	-
1987	-	100.00%	-	0.00%	-
1986	-	100.00%	-	0.00%	-
1985 & Prior	-	100.00%	-	0.00%	-
	<u>431,036</u>		<u>300,393</u>		<u>130,643</u>
Less					
	<u>86,046</u>		<u>73,320</u>		<u>12,726</u>
Total Taxes for	<u><u>\$ 344,990</u></u>		<u><u>\$ 227,073</u></u>		<u><u>\$ 117,917</u></u>

OVERSIZED MAP(S)

TO VIEW OVERSIZED MAP(S)
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August 26, 2013

Lisa Fuentes
Texas Commission on Environmental Quality
Water Supply Division - Utilities & Districts Section
12100 Park 35 Circle
Austin, Texas 78753

Re: Application from the City of Edcouch, to obtain a Certificate of Convenience and Necessity (CCN) in Hidalgo County; Application No. 37650-C.

Dear Ms. Fuentes,

This letter is in response to a letter dated July 26, 2013 addressed to Mr. Robert S. Schmalzried (Mayor of the City of Edcouch) regarding the above referenced CCN Application. Enclosed please find the following:

4. Financial information for the city of Edcouch for years 2010 & 2011.
(4Copies of each) (The 2nd part of the information from the first package)

If you should have any questions or concerns, please feel free to contact me at 956.797-3411 or by email at rysquierdo@fulcrum-cs.com.

Respectfully,

Raul Ysquierdo Jr.
Graduate/Project Engineer

XC: Fulcrum Consulting Services – Office File

2013 08 26

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ITEM 4

ANNUAL FINANCIAL REPORT
CITY OF EDCOUCH, TEXAS
FISCAL YEAR ENDED SEPTEMBER 30, 2010

Robert S. Schmalzried
Mayor

CITY OF EDCOUCH, TEXAS
Annual Financial Report
For the Fiscal Year Ended September 30, 2010

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CITY OF EDCOUCH, TEXAS
Annual Financial Report
For the Fiscal Year Ended September 30, 2010

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PART I

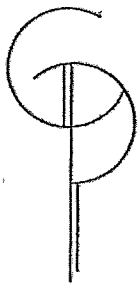
INTRODUCTION SECTION

**CITY OF EDCOUCH, TEXAS
ANNUAL FINANCIAL REPORT
YEAR ENDED SEPTEMBER 30, 2010**

CITY OFFICIALS

Mayor	Robert S. Schmalzried
Mayor Pro-Temp	Eduardo "Eddy" Gonzalez
Council-persons	Melody S. Galvan Noe Garcia, Jr. Ruth Ruiz Daniel Guzman
Interim City Manager	Jose Campos
Chief of Police	Eloy Cardenas
Fire Chief	Johnny Gonzalez
Finance Director	Nancy Sancez
City Attorney	Javier Villalobos

PART II
FINANCIAL SECTION



GARCIA & PEÑA

Certified Public Accountants

P. O. Box 8032

301 West 4th

Weslaco, Texas 78599

956-969-1433 • Fax 956-968-1467 • 956-421-4601

Manuel B. Garcia, CPA

Jaime X. Peña, CPA

INDEPENDENT AUDITOR'S REPORT

Mayor and
Members of the City Council
City of Edcouch, Texas
201 Southern Street
Edcouch, Texas 78538

We have audited the accompanying financial statements of the governmental activities, the business-type activities, and each major fund of the City of Edcouch, Texas, as of and for the year ended September 30, 2010, which collectively comprise the City's basic financial statements as listed in the Table of Contents. These financial statements are the responsibility of the management of the City of Edcouch, Texas. 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 statements presentation. We believe that our audit provides a reasonable basis for our opinion.

The City of Edcouch, Texas has not established a proper control ledger (capital investments account group) for its' general capital assets, depreciation, and long-term debt and for its Enterprise Fund property and equipment. Prior to September 30, 2006, the City's financial records had not been audited since 2001. We were unable to determine the historical cost and related accumulated depreciation of the City's general capital assets and the Enterprise funds at October 1, 2005 and subsequent years.

In our opinion, except for the effects of the matter discussed in the preceding paragraph on the funds financial statements, and the government-wide financial statements, the financial statements referred to above present fairly, in all material respects, the financial position of the City of Edcouch, Texas at September 30, 2010, and the changes in financial position and the budgetary comparison for the general fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the City of Edcouch, Texas, we offer readers of the City's financial statements this narrative overview and analysis of the financial activities of the City for the fiscal year ended September 30, 2010. We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in our letter of transmittal.

Financial Highlights

- The City's combined assets from governmental and business-type activities exceeded its liabilities at the close of the most recent fiscal year by over \$8 million (net assets). The net assets have a balance of \$8,006,086.
- The City's total net assets increased by \$359,144; of which 74.2 percent of the increase is attributable to governmental activities and 25.8 percent to business-type activities.
- As of the close of the current fiscal year, the City's governmental funds reported combined ended fund balances of \$(128,500), an increase of over \$27,772 in comparison with the prior year deficit of \$156,271.
- At the end of fiscal year 2010, unreserved fund balance for the general fund was \$(417,418).

Overview of the Financial Statements

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

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

The statement of net assets presents information on all of the City's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets are one indicator of whether the financial position of the City is improving or deteriorating.

The statement of net assets presents information on all of the City's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets are one indicator of whether the financial position of the City is improving or deteriorating.

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

Both of the government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (governmental activities) from other function that are indebted to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the City include general government, public safety, highways and streets, sanitation, drainage, health and welfare, culture and recreation, and urban and economic development. The business-type activities of the City include the water and sewer fund activities.

The basic fiduciary (agency) fund financial statements can be found on pages 27 and 28 of this report.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 11 through 26 of this report.

Other information. In addition to the basic financial statements and accompanying notes, this report also presents a statistical section, which begins on page 33 through 42 of this report.

Government-wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the City, assets exceeded liabilities by over \$8.1 million at the close of the most recent fiscal year.

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

At the end of the current fiscal year, the City is able to report positive balances in the investment in capital asset and in the unrestricted net assets.

There was an increase of \$92,775 in net assets reported in connection with the City's business-type activities. This was a decrease in net assets from the prior year amount of \$263,068. This decrease resulted from decreases in the water and sewer service revenues.

The City's net assets increased by \$359,144 during the fiscal year. This increase represents revenues of \$1,333,999 and expenses of \$1,067,630 in governmental funds. Revenues for the Water and Sewer fund were \$910,199 of which \$899,879 are operating revenues and \$10,320 are grants, compared with \$817,424 in operating and interest expenses.

Governmental activities. Governmental activities increased the City's net assets by \$266,369.

Financial Analysis of the City's Funds

As noted earlier, the City uses fund accounting to ensure and demonstrate compliance with finance related legal requirements.

Governmental funds. The focus of the City's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the City's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

The general fund is the chief operating fund of the City. At the end of the current fiscal year, the unreserved fund balance of the general fund had a deficit balance of (\$417,418) and the special revenue fund had \$318,906. The debt service fund had a fund balance deficit of (\$29,988).

BASIC FINANCIAL STATEMENTS
Governmental-Type Activities

CITY OF EDCOUCH, TEXAS
GOVERNMENT-WIDE STATEMENT OF NET ASSETS
SEPTEMBER 30, 2010

	Governmental Activities	Business-type Activities	Total
Assets			
Cash and cash investments	\$ 106,142	\$ 227,154	\$ 333,296
Receivables			
Taxes (net of allowance for uncollectibles)	357,318	-	357,318
Accounts receivable-(net of allowance for uncollectibles)		82,074	82,074
Accounts receivable-other	26,355	-	26,355
Franchise fees	17,968	-	17,968
Due from other governments	8,188		8,188
Internal balances	45,874	(45,874)	-
Restricted assets			
Cash and cash investments		136,500	136,500
Capital Assets			
Land	375,048	346,533	721,581
Buildings and improvements	610,765	3,952,441	4,563,206
Street and park improvements	3,022,134	-	3,022,134
Vehicles and equipment	461,338	43,183	504,521
Tractors and heavy equipment	394,037	94,792	488,829
Fire department equipment	113,257	-	113,257
Furniture and equipment	10,481	5,156	15,637
Construction-in-progress	10,082	10,320	20,402
Accumulated depreciation	-	(1,083,480)	(1,083,480)
Total Assets	<u>\$ 5,558,987</u>	<u>\$ 3,768,799</u>	<u>\$ 9,327,786</u>
Liabilities			
Accounts payable	\$ 319,279	\$ 16,862	\$ 336,141
Accrued liabilities	44,482	3,938	48,420
Due to others		22,389	22,389
Due to State of Texas	-	59,300	59,300
Non-current liabilities			
Due within 1 year	78,543	25,023	103,566
Due in more than 1 year	644,484	107,400	751,884
Total Liabilities	<u>1,086,788</u>	<u>234,912</u>	<u>1,321,700</u>
Net Assets			
Invested in capital assets, net of related debt	4,274,115	3,236,522	7,510,637
Restricted for:			
Debt Service	(29,988)		(29,988)
General Fund	(417,418)		(417,418)
Special Revenue Funds	318,906		318,906
Unrestricted	326,584	297,365	623,949
Total Net Assets	<u>4,472,199</u>	<u>3,533,887</u>	<u>8,006,086</u>
Total Liabilities and Net Assets	<u>\$ 5,558,987</u>	<u>\$ 3,768,799</u>	<u>\$ 9,327,786</u>

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

Net (Expenses) Revenues and Changes in Net Assets

Governmental Activities	Business-Type Activities	Totals
\$ (195,632)	\$ -	\$ (195,632)
(120,023)	-	(120,023)
(48,663)	-	(48,663)
53,093	-	53,093
(10,739)	-	(10,739)
(67,612)	-	(67,612)
<u>\$ (389,576)</u>	<u>\$ -</u>	<u>\$ (389,576)</u>
-	101,983	101,983
-	(9,208)	(9,208)
	<u>92,775</u>	<u>92,775</u>
<u>(389,576)</u>	<u>92,775</u>	<u>(296,801)</u>
272,479	-	272,479
129,217	-	129,217
169,119	-	169,119
85,130	-	85,130
<u>655,945</u>	<u>-</u>	<u>655,945</u>
266,369	92,775	359,144
4,205,830	3,441,112	7,646,942
<u>\$ 4,472,199</u>	<u>\$ 3,533,887</u>	<u>\$ 8,006,086</u>

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

CITY OF EDCOUCH, TEXAS
BALANCE SHEET - GOVERNMENTAL FUNDS
SEPTEMBER 30, 2010

Assets	General	Special Revenue	Debt Service	2010	2009
Cash	\$ 74,687	\$ 31,455	\$ -	\$ 106,142	\$ 56,066
Certificate of Deposits				-	
Receivable					
Taxes - net of allowance	254,085		103,233	357,318	343,479
Franchise Tax	17,968			17,968	18,339
Other receivable	26,355			26,355	26,831
Due from other governments	8,188			8,188	-
Due from other funds	267,954	344,657	105,191	717,802	607,083
Total Assets	\$ 649,237	\$ 376,112	\$ 208,424	\$ 1,233,773	\$ 1,051,798
Liabilities					
Accounts payable	\$ 319,279	\$ -	\$ -	\$ 319,279	\$ 317,619
Accrued liabilities	53,447			53,447	34,576
Due to other funds	459,562	57,206	155,160	671,928	571,933
Sales tax payable	4,521			4,521	-
Court costs payable	6,069			6,069	-
Deferred revenues-taxes	223,777		83,252	307,029	283,940
Total Liabilities	1,066,655	57,206	238,412	1,362,273	1,208,068
Fund Equity and Other Balances					
Reserved for:					
Encumbrances					
Prepaid Items					
Debt Service			(29,988)	(29,988)	(21,958)
Unreserved, Reported in:					
General Fund	(417,418)			(417,418)	(368,659)
Special Revenue Fund		318,906		318,906	234,347
Undesignated				-	
Total Equity and Other Credits	(417,418)	318,906	(29,988)	(128,500)	(156,270)
Total Liability, Fund Equity and Other Credits	\$ 649,237	\$ 376,112	\$ 208,424	\$ 1,233,773	\$ 1,051,798

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

CITY OF EDCOUCH, TEXAS
RECONCILIATION OF THE GOVERNMENTAL FUND BALANCE SHEET
TO STATEMENT OF NET ASSETS
SEPTEMBER 30, 2010

	<u>2010</u>	<u>2009</u>
Total fund balance-total governmental funds	\$ (128,498)	(156,270)
Amounts reported for governmental activities in the statement of net assets are different because:		
Capital assets used in governmental activities are not current financial resources and therefore are not reported in the governmental fund balance sheet.	4,997,142	4,860,079
Long term liabilities applicable to the City's governmental activities are not due and payable in the current period and, accordingly, are not reported as fund liabilities. All liabilities, both current and long-term, however, are reported in the statement of net assets.	(723,027)	(781,920)
Other adjustments		
Tax revenues not collected in the current year are recorded as deferred revenues in the funds statements		
Current year	45,662	56,392
Prior years	<u>280,920</u>	<u>227,549</u>
Net assets of governmental activities	<u>\$ 4,472,199</u>	<u>\$ 4,205,830</u>

The notes to the financial statements are an integral part of these statements.

CITY OF EDCOUCH, TEXAS
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
SEPTEMBER 30, 2010

	General Fund	Special Revenue	Debt Service	Total Governmental Funds	
				2010	2009
Revenues					
Taxes-property	\$ 240,578		\$ 118,476	\$ 359,054	\$ 342,901
Penalty and interest	29,241		-	29,241	28,130
Sales Taxes	84,559	84,560		169,119	182,062
Franchise Taxes	85,130			85,130	80,427
Building permits	1,796			1,796	3,401
Licenses and permits	3,406			3,406	3,267
Charges for services	311,944			311,944	337,938
Fines and forfeitures	4,736			4,736	9,160
Intergovernmental revenues	221,112	52,356		273,468	28,981
Recreational fees	6,945			6,945	10,658
Miscellaneous	46,518		-	46,518	13,166
Total Revenues	<u>1,035,965</u>	<u>136,916</u>	<u>118,476</u>	<u>1,291,357</u>	<u>1,040,091</u>
Expenditures					
General Government	328,260	1,950	-	330,210	298,393
Public Safety	359,513			359,513	209,358
Streets & Highways	129,104			129,104	110,115
Maintenance	163,507			163,507	163,647
Culture and Recreation	9,642	8,042		17,684	16,625
Debt Service					
Principal	-		58,893	58,893	53,234
Interest	-		56,415	56,415	79,460
Loan Processing Fees	-	-	11,197	11,197	
Capital Outlay	94,698	42,364	-	137,062	-
Total Expenditures	<u>1,084,724</u>	<u>52,356</u>	<u>126,505</u>	<u>1,263,585</u>	<u>930,832</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>(48,759)</u>	<u>84,560</u>	<u>(8,029)</u>	<u>27,772</u>	<u>109,259</u>
Other Financing Sources (Uses)					
Notes issued			-	-	-
Operating transfers-in		-			-
Operating transfers-out	-				-
Total Other Financing Sources (Uses)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Excess (Deficiency) of Revenues and Other Financing Sources Over Expenditures and Other Uses	<u>(48,759)</u>	<u>84,560</u>	<u>(8,029)</u>	<u>27,772</u>	<u>109,259</u>
Fund Balance, October 1,	<u>(368,659)</u>	<u>234,346</u>	<u>(21,958)</u>	<u>(156,271)</u>	<u>(265,529)</u>
Fund Balance, September 30,	<u>\$ (417,418)</u>	<u>\$ 318,906</u>	<u>\$ (29,987)</u>	<u>\$ (128,499)</u>	<u>\$ (156,270)</u>

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

CITY OF EDCOUCH, TEXAS
RECONCILIATION OF STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN THE FUND BALANCES OF GOVERNMENTAL FUNDS
TO STATEMENT OF ACTIVITIES
SEPTEMBER 30, 2010

	<u>2010</u>	<u>2009</u>
Net changes in fund balances-total governmental funds	\$ 27,772	\$ 109,259
Amounts reported for governmental activities in the statement of activities are different because:		
Governmental funds report capital outlay as expenditures. However, in the government-wide statement of activities and changes in net asset, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount of capital assets recorded in the current period.	137,062	
Recognition of uncollected taxes for the current year as tax revenue for government wide financial statements. Uncollected taxes in the fund statement are recognized as deferred tax revenue net of estimated uncollectible taxes.	42,642	13,915
The issuance of long-term debt (e.g., notes) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds (0) . Payment of debt is an expenditure in the governmental funds but the payment of debt in the government-wide statements reduces the liability of the City (\$58,893). This amount is net effect of these differences in the treatment of long-term debt and related items.	<u>58,893</u>	<u>53,234</u>
Change in net assets of governmental activities	<u>\$ 266,369</u>	<u>\$ 176,408</u>

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

CITY OF EDCOUCO, TEXAS
STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES - BUDGET AND ACTUAL-GOVERNMENTAL FUNDS
SEPTEMBER 30, 2010

	Budgeted Amounts		Actual	Variance with
	Original	Final	GAAP Basis	Final Budget
Revenues				
Taxes	\$ 383,310	\$ 383,310	\$ 388,295	\$ 4,985
Sales Taxes	185,000	185,000	169,119	(15,881)
Franchise Taxes	75,800	75,800	85,130	9,330
Building permits	6,700	6,700	1,796	(4,904)
Licenses and permits	3,040	3,040	3,406	366
Charges for services	271,350	271,350	311,944	40,594
Fines & fees	41,500	41,500	4,736	(36,764)
Intergovernmental revenues	11,000	11,000	273,468	262,468
Recreational fees	14,000	14,000	6,945	(7,055)
Miscellaneous	51,575	51,575	46,518	(5,057)
Total Revenues	<u>1,043,275</u>	<u>1,043,275</u>	<u>1,291,357</u>	<u>248,082</u>
Expenditures				
General Government	381,621	381,621	330,210	51,411
Public Safety	258,864	258,864	359,513	(100,649)
Streets & Highways	268,775	268,775	292,611	(23,836)
General Expenditures	-	-	-	-
Economic Development	-	-	-	-
Recreation	18,965	18,965	17,684	1,281
Debt service				
Principal	115,050	115,050	58,893	56,157
Interest	-	-	56,415	(56,415)
Loan processing fees	-	-	11,197	(11,197)
Capital outlay	-	-	137,062	(137,062)
	<u>1,043,275</u>	<u>1,043,275</u>	<u>1,263,585</u>	<u>(220,310)</u>
Excess (Deficiency) of Revenues				
Over Expenditures	<u>-</u>	<u>-</u>	<u>27,772</u>	<u>27,772</u>
Other Financing Sources (Uses)				
Note proceeds	-	-	-	-
Operating transfers-in	-	-	-	-
Operating transfers-out	-	-	-	-
Total Other Financing Sources (Uses)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Excess (Deficiency) of Revenues				
and Other Financing Sources				
Over Expenditures and Other Uses	<u>\$ -</u>	<u>\$ -</u>	<u>27,772</u>	<u>\$ 27,772</u>
Fund Balance, October 1,			<u>(156,270)</u>	
Fund Balance, September 30,			<u>\$ (128,498)</u>	

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

PROPRIETARY FUND

CITY OF EDCOUCH, TEXAS
STATEMENT OF NET ASSETS
PROPRIETARY FUND
SEPTEMBER 30, 2010

	2010	Restated 2009
Assets		
Cash and cash investments	\$ 227,154	\$ 184,046
Receivables		
Accounts receivable-(net of allowance for uncollectibles)	82,074	76,557
Accounts receivable-other		
Due from other governments		
Restricted assets		
Cash and cash investments	136,500	136,500
Capital Assets		
Land	346,533	346,533
Buildings and improvements	3,794,787	3,794,787
Vehicles and equipment	43,183	14,095
Tractors and heavy equipment	40,273	20,049
Infrastructure-Water and Sewer	157,654	157,654
Furniture and equipment	5,156	5,156
Capital Lease Equipment	54,519	54,519
Constuction in Progress	10,320	-
Accumulated depreciation	(1,083,480)	(1,043,947)
Total Assets	<u>\$ 3,814,673</u>	<u>\$ 3,745,949</u>
Liabilities		
Accounts payable	\$ 16,862	\$ -
Accrued liabilities	-	-
Accrued interest payable	3,938	4,162
Due to others	22,389	22,389
Due to other funds	45,874	35,150
Due to State of Texas	59,300	87,500
Non-current liabilities		
Due within 1 year	25,023	24,087
Due in more than 1 year	107,400	131,549
Total Liabilities	<u>280,786</u>	<u>304,837</u>
Net Assets		
Invested in capital assets	3,236,522	3,193,210
Unrestricted, Undesignated	297,365	247,902
Total Net Assets	<u>3,533,887</u>	<u>3,441,112</u>
Total Liabilities and Net Assets	<u>\$ 3,814,673</u>	<u>\$ 3,745,949</u>

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

CITY OF EDCOUCH, TEXAS
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
PROPRIETARY FUND
SEPTEMBER 30, 2010

	<u>2010</u>	<u>2009</u>
Revenues		
Water Sales	\$ 454,467	\$ 540,421
Sewer Sales	423,794	337,646
Reconnect fees		-
Late Charges	8,593	19,519
Miscellaneous		8,374
Other	13,025	18,965
Intergovernmental revenue	<u>10,320</u>	<u>170,159</u>
Total Revenues	<u>910,199</u>	<u>1,095,084</u>
Operating Expenses		
Operations:		
Personal services	205,859	193,641
Contract services	125,885	170,653
Materials and supplies	98,691	101,709
Utilities	108,231	92,293
Travel	2,451	10,192
Lab fees-water and sewer	17,582	21,350
Insurance	7,533	8,178
Repairs and maintenance	95,535	75,885
Licenses and permits	4,283	25,494
State of Texas payments	-	17,750
TCEQ fees	(339)	-
Office Expense	23,440	25,918
Miscellaneous	39,849	17,750
Purchased water	17,483	18,297
Depreciation	39,533	37,351
Interest expense	9,208	4,942
Contributions	-	10,613
Bad debt expense	<u>22,200</u>	<u>-</u>
Total Operating Expenses	<u>817,424</u>	<u>832,016</u>
Excess (Deficiency) of Revenues		
Over Expenditures	92,775	263,068
Other Financing Sources (Uses)	-	-
Net Assets, October 1,	3,441,112	3,467,149
Prior Period Adjustment	<u>-</u>	<u>(289,105)</u>
Net Assets, beginning balance as restated	<u>3,441,112</u>	<u>3,178,044</u>
Net Assets, September 30,	<u><u>\$ 3,533,887</u></u>	<u><u>\$ 3,441,112</u></u>

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

CITY OF EDCOUCH, TEXAS
STATEMENT OF CASH FLOWS
PROPRIETARY FUND
SEPTEMBER 30, 2010

	<u>2010</u>	<u>2009</u>
Cash flows from operating activities		
Cash received from customers	\$ 872,745	\$ 827,455
Cash received from others	21,618	43,456
Cash received from operating grants	10,320	170,159
Cash payments to suppliers for goods and services	(544,671)	(537,266)
Cash payments to employees for services	(205,859)	(194,483)
Net cash provided by (used in) operating activities	<u>154,153</u>	<u>309,321</u>
Reconciliation of income (losses) from Cash Flows From Capital and Related Financing Activities		
Acquisition and construction of capital assets	(59,632)	(212,173)
Capital lease proceeds	-	18,407
Retirement of long-term debt	(51,413)	(5,505)
Net Cash Provided (used) by Capital and Related Financing Activities	(111,045)	(199,271)
Net increase (decrease) in cash and cash investments	43,108	110,050
Cash and cash investments, October 1,	<u>320,546</u>	<u>210,496</u>
Cash and cash investments, September 30,	<u>\$ 363,654</u>	<u>\$ 320,546</u>
Reconciliation of income (losses) from operations to net cash provided (used) by operating activities:		
Income (loss) from operations	92,775	263,068
Adjustments to reconcile income (loss) from operations to net cash provided (used) by operating activities:		
Depreciation	39,533	37,357
Change in assets and liabilities:		
(Increase) decrease in assets:		
Accounts receivables	(5,517)	(23,549)
Increase (decrease) in liabilities:		
Due to other funds	10,724	11,359
Accounts payable	16,862	17,730
Accrued liabilities	(224)	(1,323)
Other liabilities	4,679	4,679
Net cash provided (used) by operating activities	<u>\$ 154,153</u>	<u>\$ 309,321</u>
Reconciliation of total cash and cash cash investments	\$ 227,154	\$ 184,046
Current assets-cash and cash investments		
Restricted assets-cash and cash investments	<u>136,500</u>	<u>136,500</u>
Total Cash and cash investments	<u>\$ 363,654</u>	<u>\$ 320,546</u>

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

NOTES TO FINANCIAL STATEMENTS

CITY OF EDCOUCH, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2010

NOTE A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

1. General Statement

The City of Edcouch, Texas was incorporated on September 26, 1928. The City operates under a Commission-Manager form of government and provides the following services as authorized by its charter: public safety (code enforcement), highways and streets, public improvements, planning and zoning, and general administrative services.

The City was incorporated under Article 966, Chapter 12, Title 28 of the Revised Civil Statutes of the State of Texas. The City exercises powers granted to general Law Type A Cities.

The accounting policies of the City of Edcouch, Texas related to the funds included in the accompanying basic financial statements conform to generally accepted accounting principles in the United States of America applicable to governmental units. Generally accepted accounting principles for local governments includes those principles prescribed by the Governmental Accounting Standards Board (GASB), the American Institute of Certified Public Accountants in the publication entitled Audits of State and Local Governmental Units and by the Financial Accounting Standards Board (FASB) when applicable. Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The following represents the more significant accounting and reporting policies and reporting practices used by the City.

The City implemented GASB Statement No. 34, *Basic Financial Statements- and Management's Discussion and Analysis- for State and Local Governments*. GASB Statements No. 34 required the City to report and depreciate new infrastructure assets.

2. Financial Reporting Entity

In evaluating how to define the government, for financial reporting purposes, management has considered all potential component units. The decision to include a potential component unit in the reporting entity was made by applying the criteria set forth in conformity in Section 2100 of GASB's Codification of Governmental Accounting and Financial Reporting Standards, include whether:

- The organization is legally separate (can sue and be sued in their own name)
- The City holds the corporate powers of the organization
- The City appoints a voting majority of the organization's board
- The City is able to impose its will on the organization
- The organization has the potential to impose a financial benefit/burden on the City
- There is fiscal dependency by the organization on the City.

As required by accounting principles generally accepted in the United States of America, these financial statements present the City of Edcouch, Texas, and its component units, entities for which the City is considered to be financial accountable. The component units discussed below are included in the City's reporting entity because of the significance of their operational or financial relationships with the City.

Blended Component Units – Blended component units, although legally separate entities, are in substance part of the government's operations and so data from these units are combined with data of the primary government. Blended component units include the following:

CITY OF EDCOUCH, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2010

NOTE A. SUMMARY OF SIGNIFICANT ACCOUNTING PRINCIPLES (CONTINUED)

The Edcouch Industrial Development Corporation (the "Corporation") is a Section 4-A Non-Profit Industrial Development Corporation governed by a five-member board appointed by the City. The Corporation is funded through a sales tax levy of one half of one percent. The purpose of the Corporation is to promote industrial development within the City. The City has a voting majority, imposition of will, financial benefit and financial accountability over the Corporation. The Corporation also maintains a September 30th fiscal year end.

The Edcouch Economic Development Corporation (the "Corporation") is a Section 4-B Non-Profit Industrial Development Corporation governed by a five-member board appointed by the City. The Corporation is funded through a sales tax levy of one half of one percent. The purpose of the Corporation is to promote economic development within the City. The City has a voting majority, imposition of will, financial benefit and financial accountability over the Corporation. The Corporation also maintains a September 30th fiscal year end.

A copy of the component units' financial statements can be obtained by contacting the Office of the City Secretary at 211 Southern Street, Edcouch, Texas 78538.

Discretely Presented Component Units – Discretely presented component units, on the other hand, are reported in a separate column in the combined financial statements to emphasize that they are legally separate from the City. The City does not have any discretely presented component units.

Ability to Exercise Oversight Responsibility –

The City of Edcouch appoints members to the Housing Authority and has a moral responsibility for debts. The City of Edcouch has little influence in hiring of management and clerical staff, reviewing and approving budgets, adjustments and amendment, signing contracts, exercising control over facilities and property, and determining the outcome of disposition of matters affecting the service tenants that the Housing Authority receive.

Scope of Services

The Housing Authority provides housing for the residents of the City of Edcouch, Texas. The Housing Authority operates within the City limits.

Special Financial Relationship

The City of Edcouch and the Housing Authority are two separate legal entities and the financial operations and status of each are not integral. There are no other component units that need to be considered.

The following local agencies are not part of the City's reporting entity because the City takes no financial responsibility for them, elected officials of the City do not select their governing authority, the management of the agency is designated independently of the City, the City is not in a position to influence operations and there is no accountability for fiscal matters.

Hidalgo County Emergency Services District #2
Edcouch-Elsa Independent School District

CITY OF EDCOUCH, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2010

NOTE A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3. Government-Wide Financial Statements

The government-wide financial statements consist of the statement of net assets and the statement of activities. These new statements report information on all the activities of the reporting entity with the exception of fiduciary activity. Generally, the effect of inter-fund activity has been eliminated from these statements. Governmental activities, normally supported by taxes and intergovernmental revenues are reported separately from business-type activities, which primarily rely on fees and charges.

The statement of activities reflects the extent to which direct expenses of each function are offset by program revenues. Direct expenses are those that are attributable to a specific function and are clearly identifiable. Program revenues include charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a specific function as well as grants and contributions that are restricted to meeting the operational or capital requirements of a specific function. Taxes and other items not appropriately included with program revenues are shown as general revenues.

In addition to and apart from the government-wide financial statements, fund financial statements are presented for governmental funds, proprietary funds and fiduciary funds. In each of these financial statements, major funds are presented in separate columns.

4. Measurement Focus, Basis of Accounting and Basis of Presentation

The government-wide financial statements are presented using the economic resources measurement focus and the accrual basis of accounting, consistent with the presentation of the proprietary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, without regard to the timing of the related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Fund Financial Statements

The City segregates transactions related to certain functions or activities in separate funds in order to aid financial management and to demonstrate legal compliance. These statements present each major fund as a separate column on the fund financial statements; all non-major funds are aggregated and presented in a single column.

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 as soon enough thereafter to pay liabilities of the current period. The City considers revenues to be available if they are collected within 60 days of the end of the current fiscal year. Expenditures generally are recorded when a liability is incurred, consistent with accrual accounting. However, debt service expenditures, as well as those related to compensated absences and claims and judgments are recognized only when payment is made. The City reports the following fund types and related major governmental funds.

General Fund

The general fund is the primary operating fund. It accounts for all of the financial resources of the general government, except those required to be accounted for in another fund.

CITY OF EDCOUCH, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2010

NOTE A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Special Revenue Funds

The special revenue funds are used to account for the proceeds of special revenue sources, other than for major capital projects that are legally restricted to expenditure for specific purposes.

Governmental funds are used to account for all or most of the government's general activities, including the collection and disbursement of earmarked monies (special revenue funds), the acquisition or construction of capital assets (capital projects funds), and the servicing of long-term debt (debt service funds). The general fund is used to account for all activities of the general government not accounted for in some other fund.

Proprietary funds are used to account for activities similar to those found in the private sector, when the determination of net income is necessary or useful to sound financial administration. Goods or services from such activities can be provided either to outside parties (enterprise funds) or to other departments or agencies primarily within the government (internal service funds).

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All governmental funds and private purpose funds are accounted for using a current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. Operating statements of these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financial uses) in net current assets.

The modified accrual basis of accounting is used by all governmental fund types. Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual (i.e., when they become both measurable and available). "*Measurable*" means the amount of the transactions can be determined and "*available*" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. The City considers property taxes as available if they are collected within 60 days after year-end. A one-year availability period is used for revenue recognition for all other governmental fund revenues. Expenditures are recorded when the related fund liability is incurred. Principal and interest on long-term debt are recorded as fund liabilities when due or when amounts have been accumulated in the debt service fund for payments to be made early in the following year.

The City reports deferred revenues on its combined balance sheet. Deferred revenues arise when a potential revenues does not meet both the "*measurable*" and "*available*" criteria for recognition in the current period. Deferred revenues also arise when resources are received by the City before it has a legal claim to them, as when grant monies are received prior to the incurrence of qualifying expenditures. In subsequent periods when both revenue recognition criteria are met or when the City has a legal claim to the resources, the deferred revenue is removed from the combined balance sheet and revenue is recognized.

Those revenues susceptible to accrual are property taxes, franchise taxes, interest revenue and charges for services. Sales taxes, which are collected and held by the State at year-end on behalf of the government, are also recognized as revenue. Fines and permit revenues are not susceptible to accrual because generally they are not measurable until received in cash.

The accrual basis of accounting is utilized by proprietary funds, trust funds, water & sewer funds and garbage funds. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred. Unbilled water and sewer utility service receivables are recorded at year-end. The City is not using trust and agency funds.

CITY OF EDCOUCH, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2010

NOTE A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

5. Budgets and Budgetary Accounting

The City of Edcouch follows these procedures in establishing the budgetary data reflected in the financial statements:

1. At least forty-five days prior to the beginning of each budget year, or by August 15th, the city secretary submits to the city council a proposed budget for the fiscal year commencing the following October 1st. The operating budget included proposed expenditures and the means of financing them.
2. Public Hearings are conducted by the city to obtain taxpayer comments.
3. Formal budgetary integration is employed as a management control device during the year for the general fund. Formal budgetary integration is not employed for the capital project fund because effective budgetary control is alternatively achieved through grant agreement, bond covenant provisions and other contract or agreement restrictions.
4. Current year appropriations lapse at year-end.
5. Budgeted amounts are as originally adopted or as amended by the City Alderman.
6. Budget for the General Fund, is adopted on a basis that is consistent with Generally Accepted Accounting Principles (GAAP).

Encumbrances

Encumbrance accounting, under which purchase orders for the future expenditure of monies are recorded in order to reserve the portion of the applicable budget appropriations, is not used by the City of Edcouch, Texas.

6. Deficit Fund Equity

Deficit balances existed in the net assets/fund balance for the year ended September 30, 2010 in the General Fund in the amount of \$417,418 and the Debt Service Fund in the amount of \$29,988.

Expenditures Over Appropriations

For the fiscal year ended September 30, 2010 expenditures in the General Fund and other governmental funds did not exceed budgeted appropriations.

7. Assets, Liabilities and Equity

a. Cash and Cash Equivalents

For purposes of the statement of cash flows, the proprietary fund type considers cash and cash equivalents to include all highly liquid investments with maturity of three months or less when purchased.

Investments

In accordance with provisions of GASB Statement No. 31, "Accounting and Financial Reporting for Certain Investments and External Investment Pools," investments are reported at fair value, which is determined by market value. Certificates of deposits are reported at carrying amount which reasonable estimates fair value.

CITY OF EDCOUCH, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2010

NOTE A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

b. Credit Risks

Custodial Credit Risk

Deposits and Certificates of Deposits

Custodial credit risk refers to the risk that in the event of a bank failure, the City's deposits may not be returned to it.

In accordance with the City's fiscal policy as approved by the Board, the City maintains demand and time deposits under the terms of the depository agreement. The local depository bank are members of the Federal Reserve System.

In no time during the fiscal year did the City's deposits go over the Federal Deposit Insurance Corporation (FDIC) insurance of \$250,000 and the pledged securities at the local depository bank.

Interest Rate Risk

The City's investment policy limits investment maturities to no more than two years from the date of purchase.

Concentration of Credit Risk

The City's policy limits the deposits in any one-bank institution to their extent of FDIC coverage, and where applicable with bank depository agreements, but it is silent in the concentration of balances in the various types of accounts.

Fair Values of Financial Instruments

The following methods of assumptions were used by the City in estimating its fair value disclosures for financial instruments:

- Cash, cash equivalents, short-term investments, and promises to give are due in less than one year. The carrying amounts reported in the statement of financial position approximate fair values because of the short maturities of those instruments.

State statutes authorize the City to invest in the obligations of the United States of America, State of Texas, obligations of states, agencies, counties, cities, and any other political subdivisions of any state having a rating no less than A or its equivalent by a nationally recognized investment rating firm, certificates of deposit issued by state and national banks guaranteed or insured by the Federal Deposit Insurance Corporation (FDIC) and/or further collateralized by additional pledged securities above the FDIC limits, and fully collateralized direct repurchased agreements.

c. Restricted Assets

Certain proceeds of enterprise fund revenue bonds, as well as certain resources set aside for their repayment, are classified as restricted assets on the statement of net assets, because their use is limited by applicable bond covenants or City Ordinance. Funds restricted include amounts set aside to subsidize potential deficiencies from the enterprise funds operations that could adversely affect debt service payments, amounts set aside from the proceeds of revenue bond issuances that are required for payment of construction, amounts set aside for debt service payments over the succeeding twelve months, amounts set aside for unexpected contingencies or to fund asset replacements, as well as amounts set aside from customer's deposits.

d. Property Tax

The State of Texas Constitution limits the City's ad-valorem tax rate for all purposes to \$2.50 per one hundred dollars of assessed valuation. Ad-valorem tax revenues during the

CITY OF EDCOUCH, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2010

NOTE A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

year ended September 30, 2009 was levied using a rate of \$ 0.8542 per one hundred dollars of assessed valuation based on 100 percent of estimated market value.

Legislation has been passed by the Texas Legislature which affects the methods of property appraisal on the City. This legislation, with certain exceptions, exempts intangible personal property, household goods, and family owned automobiles (unless specifically authorized by resolution of the governing body) from taxation. In addition, this legislation creates a "Property Tax Code" and provides, among other things, for the establishment of county appraisal districts and for a state property board.

The appraisal of property within the City became the responsibility of the Hidalgo County Tax Appraisal District. The Appraisal District is required under the Property Tax Code to appraise all property within the county on the basis of 100 percent of its market value. The value of real property within the Appraisal District must be reviewed every five years; however, the City may, at its own expense, require annual reviews of appraised value. The City may challenge appraised values established by the Appraisal District through various appeals and, if necessary, legal action. Under this legislation, the City continues to set tax rates on City property. However, if the effective tax rate, excluding tax rates for bonds and other contractual obligations, adjusted for new improvement, exceeds the rate for the previous year by more than 8 percent, qualified voters of the City may petition for an election to determine whether to limit the tax rate to no more than 8 percent above the effective tax rate.

The Hidalgo County Tax Office bills and collects taxes for the City's property taxes. City property tax revenues are recognized when levied to the extent that they result in current receivables. January 1 is the assessment date. March 31, is the end of the rendition period for the Appraisal District. On September 1, the City adopts the tax rate. October 1 taxes are levied and payable by January 31. Property taxes attach as an enforceable lien on property as of January 1. Uncollected taxes are assigned to the City's delinquent tax attorney for legal action effective July 1.

e. Capital Assets

Capital assets, which include property, plant, equipment and infrastructure (i.e., roads, bridges, sidewalks and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the City as assets with an initial, individual cost of \$1,000 or more and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated assets are reflected at 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 asset lives are not capitalized. Improvements are capitalized and depreciated over the remaining useful lives of the related capital assets, as applicable.

Gains or losses on dispositions of capital assets are included in income within the proprietary fund financial statements and in the governmental activities and business-type activities columns of the government-wide financial statements. In the governmental fund financial statements, only the proceeds from the disposition are reported.

Within the proprietary fund, interest cost, less interest earned on investments acquired with proceeds of related borrowing, is capitalized during the construction of capital projects when material. Interest expense is not capitalized on capital assets.

CITY OF EDCOUCH, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2010

NOTE A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Depreciation of capital assets used by proprietary funds, including those acquired by contributed capital, is charged as an expense against their operation in the fund financial statements as well as the government-wide financial statements. Depreciation of capital assets used by funds categorized as governmental activities is not provided in the fund financial statements, however, is included in the gross expense by function in the government-wide Statement of Activities. Capital assets, net of accumulated depreciation, are reported on the proprietary fund balance sheets in both the governmental activities and business-type activities column of the government-wide statement of net assets. Depreciation has been provided over the estimated useful lives using the straight-line method.

The estimated useful lives are as follows:

Buildings	20-40 years
Plants and Improvements	10-40 years
Equipment	3-10 years

f. Short-Term Inter-Fund Receivables and Payables/Internal Balances

Short-term lending/borrowing between funds that result in amounts outstanding at the end of the fiscal year are referred to as "due to/from other funds". Due to/from other funds", represent the current portion of inter-fund loans. With respect to the government-wide financial statements, any residual balances outstanding between the governmental activities and business-type activities are reported as "internal balances".

g. Accumulated Compensated Absences

Accumulated unpaid vacations and other employee benefit amounts are accrued when incurred in Proprietary Funds and the government-wide financial statements. In Governmental Funds, the primary emphasis is on the flow of financial resources during the year. The method of accounting and financial reporting for compensated absences depends on the measurement focus of the fund in which they are reported. The amounts that would be reported as expenditures in the Governmental Fund would be the total amounts earned in the current period plus amounts from prior periods that which, based on experience, will be paid from available expendable resources. The amount recorded in the General Long-Term Debt Account Groups would be the amount payable from future resources. At September 30, 2010, the liability for accrued vacation leave and accrued sick leave is zero.

h. Long-Term Obligations

In the government-wide financial statements and the proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the governmental/business-type activities or the specific proprietary fund to which each relates, as applicable. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds. 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. Premiums received on debt issuances are reported as other financing sources and discounts are reported as other financing uses. Issuance costs, whether or not withheld from debt proceeds, are reported as debt service expenditures.

CITY OF EDCOUCH, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2010

NOTE A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

i. Inter-fund Transactions

Inter-fund services provided and used are accounted as revenues, expenditures or expenses. Transactions that constitute reimbursements to a fund for expenditures/expenses initially made from it that are properly applicable to another fund are recorded as expenditures/expenses in the reimbursing fund and as reductions of expenditures/expenses in the fund that is reimbursed.

All other inter-fund transactions are reported as transfers.

j. Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Accordingly, actual results could vary from those estimates.

8. Fireman's Pension Plan

On January 1, 1998, the City of Edcouch, Texas voted to sponsor the City's Volunteer Fire Department member pension program with the Texas Statewide Emergency Services Personnel Retirement Fund. The plan description is as follows:

Plan Description and Contribution Information

The primary function of the Fire Fighters' Pension Commissioner (FFPC) is to oversee the statewide Texas Local Fire Fighters Retirement Act (TLFFRA) and administer the Texas Statewide Emergency Services Personnel Retirement Fund, a cost-sharing multiple employer pension system established and administered by the State of Texas to provide pension benefits for emergency services personnel who serve without monetary remuneration. The Texas Statewide Emergency Services Personnel Retirement Fund is considered a component unit of the State of Texas financial reporting entity and is included in the State's financial reports as a pension trust fund. The FFPC supports the retirement and benefit activities of over 8,061 retirees and active participants volunteer fire fighters.

Net assets held in trust for pension benefits at fiscal year 2006 totaled \$42.2 million. Increases in plan net assets for the last two years were \$4.1 million in 2008 and \$4.1 million for 2006.

Actuarial Status

The System's latest actuarial valuation was performed for the fiscal year ended August 31, 2008. The pension system was created by Senate Bill 411, 65th Legislature, Regular Session (1977), and was revised in the 75th Legislature, Regular Session (1997) and the 79th Legislature, Regular Session (2005). The system's provisions include retirement benefits as well as death and disability benefits.

Funding Status and Program

The "actuarial accrued liability" is a standardized disclosure measure which represents the value of the portion of the member's anticipated retirement, death, disability and termination benefits accrued as of the valuation date. The entry age actuarial cost method is used for determining the actuarial accrued liability. Benefits are not based on salaries of the member. The last actuarial valuation was conducted on August 31, 2008. The unfunded actuarial accrued liability (UAAL) was \$15,814,523.

CITY OF EDCOUCH, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2010

NOTE A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Schedule of Actuarial Liabilities and Funding Progress at August 31, 2008 for the Texas Statewide Emergency Services Personnel Retirement Fund:

Actuarial Valuation Date	8/31/2008	8/31/2006	8/31/2004
Actuarial Value of Assets	\$ 40,869,476	\$ 42,268,305	\$ 38,140,501
Actuarial Accrued Liability	53,098,860	58,082,828	51,567,426
Unfunded Actuarial Accrued Liability	15,814,523	15,814,523	13,426,925
Fund Ratio	77.0%	72.8%	74.0%
Total Members Covered	8,061	8,061	7,994
Annual Required Contributions (ARC)	2,675,982	2,753,035	3,206,300
Percentage of ARC Contributed	100%	100%	100%

9. General Obligation Bonded Debt Service

The ad valorem tax rate is adopted each year for the General Fund and the Debt Service Fund. The ad valorem tax rate is established at a rate that will be adequate to meet or pay the projected annual requirement for debt service on notes payable collateralized by property taxes. The rate necessary for the maintenance and operation of the entity is thereafter determined. The debt service tax rate cannot be less than that required to pay the required interest and principal payments for the year. The projected annually requirement takes into consideration the following items: The beginning fund balance available in the Debt Service Fund, the maintenance of an adequate ending fund balance, and the maintenance of an allocation rate at least large enough to satisfy the payment requirements for the debt service obligations.

NOTE B. CASH AND INVESTMENTS

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

Deposits in financial institutions are carried at cost plus accrued interest. At September 30, 2010, checking as well as time and savings deposits are summarized as follows:

	Primary Government	Component Units	Proprietary Units	Totals
Carrying Value	\$ 74,687	\$ 31,455	\$ 363,654	\$ 469,796
Bank Balance	8,424	57,227	452,329	517,980

CITY OF EDCOUCH, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2010

NOTE B. CASH AND INVESTMENTS (CONTINUED)

At September 30, 2010, the insurance and collateral pledges are summarized as follows:

Financial Institution	FDIC Coverage	Securities Pledged	Cash on Deposit	Excess (Deficiency) In Depository Security
First National Bank	\$ 569,550	\$ -	\$ 569,550	\$ -
	<u>\$ 569,550</u>	<u>\$ -</u>	<u>\$ 569,550</u>	<u>\$ -</u>

NOTE C. CHANGES IN DELINQUENT TAX RECEIVABLE

A summary of all activity regarding delinquent taxes for the year ended September 30, 2010 is as follows:

Delinquent taxes receivable, October 1, 2009	\$ 376,072
Tax Levy 2009	408,395
Less collection and tax roll adjustments	<u>(393,157)</u>
Delinquent taxes receivable, September 30, 2010	391,310
Less allowance for uncollectible	<u>(36,700)</u>
Net delinquent taxes receivable, September 30, 2010	<u>\$ 354,610</u>

The addition to the tax levy for the year ended September 30, 2010 consisted of the following:

Taxable value of real and tangible property and improvements	\$ 47,810,231
Tax rate per \$100 of valuation	0.8542%
Total 2009 Tax Levy	<u>\$ 408,395</u>

NOTE D. CAPITAL ASSETS

The City of Edcouch has not recorded accumulated depreciation for its capital improvements and equipment. The City has hired a firm to assist in developing its accounting system and development of financial statements. The City's Water and Wastewater System was assigned to a receiver appointed by the State of Texas. The receiver took possession of the Water and Wastewater System on July 30, 2005. The system was placed back with the City during the fiscal year ending September 30, 2009.

	Balance 9/30/2009	Additions	Retirements	Balance 9/30/2010
Government-Type Activities:				
Land	\$ 375,048	\$ -	\$ -	\$ 375,048
Building and Improvements	610,765			610,765
Equipment	894,495	84,613		979,108
Infrastructure	2,979,770	42,364		3,022,134
Construction in Progress		10,082		10,082
Total	<u>4,860,078</u>	<u>137,059</u>	<u>-</u>	<u>4,997,137</u>
Accumulated Depreciation		Not complete at this time		
Total General Fixed Assets	<u>\$ 4,860,078</u>	<u>\$ 137,059</u>	<u>\$ -</u>	<u>\$ 4,997,137</u>

CITY OF EDCOUCH, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2010

NOTE D. CAPITAL ASSETS (CONTINUED)

A summary of general fixed assets follows: (See Note A for accounting and reporting policies)

	Balance @ 9/30/2009	Additions	Retirements	Balance @ 9/30/2010
Business-type activities:				
Capital assets, not being depreciated:				
Land	\$ 346,533	\$ -	\$ -	\$ 346,533
Construction-in-Progress				-
	<u>346,533</u>	<u>-</u>	<u>-</u>	<u>346,533</u>
Capital assets, being depreciated:				
Buildings and Infrastructure	3,794,787			3,794,787
Furniture and Fixtures	5,156			5,156
Vehicles	14,095	29,088		43,183
Machinery and Equipment	74,568	20,224		94,792
Infrastructure	157,654	-		157,654
Construction in Progress		10,320		10,320
	<u>4,046,260</u>	<u>59,632</u>	<u>-</u>	<u>4,105,892</u>
Less accumulated depreciation	<u>(1,043,947)</u>	<u>(39,533)</u>		<u>(1,083,480)</u>
Total capital assets, being depreciated, net	<u>3,002,313</u>	<u>20,099</u>	<u>-</u>	<u>3,022,412</u>
Business-type activities, capital assets, net	<u>\$ 3,348,846</u>	<u>\$ 20,099</u>	<u>\$ -</u>	<u>\$ 3,368,945</u>

NOTE E. RESTRICTED ASSETS

Bond Reserve Fund Cash and Investments

The Systems Fund (Water and Sewer Fund) certificate of obligation bond indenture requires that during the period of time the bonds are outstanding the City must maintain specific separate accounts to record debt service transactions, as well as comply with other debt services requirements. Assets in this fund are restricted and can be used only in accordance with the bond indenture.

	2010	2009
Water and Sewer bond indenture requirements for Debt Service and Systems Maintenance/Operations	\$ 36,500	\$ 36,500
State of Texas Agreed Judgement Escrow Requirements **	100,000	100,000
Total Restricted Assets	<u>\$ 136,500</u>	<u>\$ 136,500</u>

**To be used to rehabilitate or maintain:

- (1). The Public Water System
- (2). The Waste Water Treatment Facility
- (3). Pump Stations and Force Mains

This is a requirement for five years ending on 2014