

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

NOTE F. INTER-FUND RECEIVABLE AND PAYABLE

Individual inter-fund receivable and payable balances at September 30, 2010 were:

	<u>Interfund Receivable</u>	<u>Interfund Payable</u>
General Fund		
Special Revenue Fund	\$ 57,207	\$ 344,657
Debt Service Fund	155,160	105,190
Water and Sewer Fund	34,615	-
Agency Fund	9,714	-
Water and Sewer I&S Fund	100	-
Water and Sewer Improvement Fund	100	-
 Agency Fund		
General Fund	-	9,714
Water and Sewer Fund	11,058	-
Total	<u>267,954</u>	<u>459,561</u>
 Special Revenue Fund		
General Fund	<u>344,657</u>	<u>57,207</u>
 Debt Service		
General Fund	<u>105,190</u>	<u>155,160</u>
 Water and Sewer Fund		
General Fund	-	34,615
Agency Fund	-	11,058
 Water and Sewer I&S Fund		
General Fund	-	100
 Water and Sewer Improvement Fund		
General Fund	<u>-</u>	<u>100</u>
Total	<u>-</u>	<u>45,873</u>
 Total All Funds	 <u><u>\$ 717,801</u></u>	 <u><u>\$ 717,801</u></u>

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

NOTE G. LONG-TERM DEBT

Long-Term Debt consisted of the following at September 30, 2010:

	<u>2010</u>	<u>2009</u>
Note payable to First National Bank of Edinburg, Texas; due in monthly installments of \$4,565.47 including interest at 9% until maturity on December 1, 2018; collateralized by franchise taxes and ad valorem taxes; original amount was \$450,000, dated December 31, 2003.	\$ 323,522	\$ 347,970
Note payable to First National Bank of Edinburg, Texas; due in monthly installments of approximately \$6,545.32 including interest at 7% until maturity on September 26, 2010; the original amount was \$354,389.81; collateralized by franchise taxes and ad valorem taxes; Refinanced on January 26, 2010; note #1026022185 matures on January 26, 2011.	399,505	350,875
Note payable to First National Bank of Edinburg, Texas; due in monthly installments of approximately \$2,089.72 including interest at 9% until maturity on April 14, 2010; collateralized by franchise taxes and ad valorem taxes; original amount was \$129,884.63 on April 14, 2006; refinanced on December 2009.	-	83,075
	<u>723,027</u>	<u>781,920</u>
Less Current Portion of Long-Term Debt	<u>78,543</u>	<u>61,556</u>
Non-Current Liability Due In More Than 1 Year	<u>\$ 644,484</u>	<u>\$ 720,364</u>

Maturities of long-term debt are as follows:
Year ended September 30,

	<u>Note Payable Interest</u>	<u>Bond Payable Principal</u>	<u>Total Payments</u>	<u>Balance</u>
Beginning Balance				\$ 723,027
2011	\$ 54,342	\$ 78,988	\$ 133,329	644,039
2012	48,056	85,273	133,329	558,766
2013	41,262	92,067	133,329	466,699
2014	33,918	99,412	133,330	367,287
2015	25,978	107,352	133,329	259,936
Thereafter	<u>31,956</u>	<u>259,935</u>	<u>291,892</u>	<u>-</u>
Total	<u>\$ 235,512</u>	<u>\$ 723,027</u>	<u>\$ 958,539</u>	<u>\$ -</u>

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

NOTE H. PROPRIETARY FUND CHANGES IN LONG-TERM DEBT

The following is a summary of bonded and other debt transactions of the City for the year beginning October 1, 2009 and ended September 30, 2010. \$3,202 should be reserved in the Water and Sewer Funds to service the revenue bonds. Current maturities are \$6,000 annually.

Proprietary Fund Long-Term Debt as of September 30, 2010 are as follows:

<u>Description</u>	<u>Original Amount</u>	<u>Principal Balance</u>
Junior Lien Receivable Bonds 1982	\$ 200,000	\$ 105,000

	<u>Note Payable Interest</u>	<u>Bond Payable Principal</u>	<u>Total Payments</u>	<u>Balance</u>
Beginning Balance				\$ 105,000
2011	\$ 5,250	\$ 6,000	\$ 11,250	99,000
2012	4,950	6,000	10,950	93,000
2013	4,650	6,000	10,650	87,000
2014	4,350	6,000	10,350	81,000
2015	4,050	6,000	10,050	75,000
Thereafter	26,650	75,000	101,650	-
Total	<u>\$ 49,900</u>	<u>\$ 105,000</u>	<u>\$ 154,900</u>	<u>\$ -</u>

The bonds, payable to the United States Department of Agriculture, Rural Economic and Community Development Service Agency, are due over a forty (40) year period, which commenced on March 30, 1983. The interest rate is 5%. The bonds are payable in 40 annual payments of principal and interest.

The lease commitments are on a year-to-year basis as follows:

	<u>Caterpillar Financial Services Capital Lease</u>	<u>Copier Machines GE Capital Operating Lease</u>
Subsequent Lease Requirements:		
2011	\$ 19,023	\$ 3,259
2012	8,400	3,259
2013		3,259
Thereafter		3,259
Total	<u>\$ 27,423</u>	<u>\$ 13,036</u>

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

NOTE J. LITIGATION

There are no pending lawsuits in which the City is involved. The City Attorney estimates that the potential claims against the City not covered by insurance resulting from any litigation would not materially affect the financial statements of the City at September 30, 2010.

NOTE K. DEFERRED REVENUES

Deferred revenues at September 30, 2010 are composed of the following in the Funds Statements:

	<u>2010</u>	<u>2009</u>
General Fund		
Taxes Receivable (Net of allowance/refunds)	\$ 223,777	\$ 204,417
Debt Service Fund		
Taxes Receivable (Net of allowance/refunds)	83,252	79,524
Total Deferred Revenues	<u>\$ 307,029</u>	<u>\$ 283,941</u>

NOTE L. RISK MANAGEMENT

The City is exposed to various uncertainties for losses related to intentional and unintentional torts; theft of, damage to and destruction of real and personal property; errors-and-omissions; catastrophes; medical and dental claims by employees; employee illnesses and injuries and pollution claims for which the City carries commercial insurance coverage. There have been no significant reductions in insurance coverage from the previous year. No negotiated settlements or jury awards have exceeded policy limits in any of the past three years.

City management is not aware of any pending or alleged claims that could exceed the policy limits of the present insurance coverage.

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

NOTE M. SEGMENT INFORMATION FOR ENTERPRISE FUND

Generally accepted accounting principles require disclosure, as part of the Combined Statements-Overview, of certain information concerning individual funds including segment information for the Enterprise Funds.

The City maintains one Enterprise Fund which provides water and sewer services to the City of Edcouch. Selected segment information for the year ended September 30, 2010 is as follows:

	<u>Water and Sewer Fund</u>	
	<u>2010</u>	<u>2009</u>
Operating Revenues	\$ 899,879	\$ 924,925
Operating Expenses	(777,891)	(794,665)
Depreciation	<u>(39,533)</u>	<u>(37,351)</u>
Operating Income (Net)	82,455	92,909
Net Non-Operating Revenues and Expenses		
Contributions	<u>10,320</u>	<u>170,159</u>
Change in Net Assets	<u>92,775</u>	<u>263,068</u>
Beginning Net Assets	3,598,068	3,467,149
Prior year adjustment	<u>-</u>	<u>(289,105)</u>
Beginning Net Assets as restated	<u>3,598,068</u>	<u>3,178,044</u>
Ending Net Assets	<u><u>3,690,843</u></u>	<u><u>3,441,112</u></u>
Condensed Cash Flow		
Net Cash Provided (Used) by:		
Operating Activities	<u>\$ 154,153</u>	<u>\$ 309,321</u>
Capital and Related Financing Activities	<u>(111,045)</u>	<u>(199,271)</u>
Beginning Cash	320,546	210,496
Prior year adjustment	<u>-</u>	<u>-</u>
Beginning Cash as restated	<u>320,546</u>	<u>210,496</u>
Ending Cash	<u><u>\$ 363,654</u></u>	<u><u>\$ 320,546</u></u>

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

NOTE N. PRIOR PERIOD ADJUSTMENT-PROPRIETARY FUND

The equity of the Proprietary fund was decreased due to a provision for uncollectible accounts in the utility system.

There was also an adjustment for a State of Texas Assessment of \$87,500 for prior year deficiencies in the City's Water and Sewer system, the balance at 9/30/09 was \$87,500.

	<u>Water and Sewer Fund</u>	
	<u>2010</u>	<u>2009</u>
Net Assets Unrestricted - Beginning of year	<u>\$ 3,598,068</u>	<u>\$ 3,467,149</u>
Prior period adjustments		
Reduction for Overstatement of Contributions in 2008		136,400
Provision for Uncollectible Utility account receivable	-	65,205
State of Texas Assessment	<u>-</u>	<u>87,500</u>
Total Prior period adjustment	<u>-</u>	<u>289,105</u>
Net Assets, beginning of year as restated and Expenses	3,441,112	3,178,044
Change in Net Assets	<u>92,775</u>	<u>263,068</u>
Ending Net Assets	<u><u>\$ 3,533,887</u></u>	<u><u>\$ 3,441,112</u></u>

NOTE O. SUBSEQUENT EVENTS

The City of Edcouch, Texas has evaluated subsequent events through July 23, 2011, the date which the financial statements were available to be issued.

INDIVIDUAL FUND STATEMENTS AND ACCOUNT GROUPS

FIDUCIARY (AGENCY) FUNDS

CITY OF EDCOUCH, TEXAS
STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES
NON-MAJOR AGENCY FUND
SEPTEMBER 30, 2010

	Payroll Agency Fund	
	2010	2009
Assets		
Cash and cash investments	\$ 31,645	\$ 6,747
Due from other governments		
Total Assets	<u>\$ 31,645</u>	<u>\$ 6,747</u>
 Liabilities		
Accounts payable		
Due to others	<u>31,645</u>	<u>6,747</u>
Total Liabilities	<u>31,645</u>	<u>6,747</u>
 Net Assets		
Unrestricted, Undesignated		
Total Liabilities and Net Assets	<u>\$ 31,645</u>	<u>\$ 6,747</u>

CITY OF EDCOUCH, TEXAS
STATEMENT OF CHANGES IN FIDUCIARY ASSETS AND LIABILITIES
NON-MAJOR AGENCY FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2010

	<u>Balance</u> <u>10/1/09</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance</u> <u>9/30/10</u>
<u>Payroll Agency Fund</u>				
Assets				
Cash and cash equivalents	\$ 6,746	\$ 572,217	\$ 547,318	\$ 31,645
Due from others				-
Total Assets	<u><u>\$ 6,746</u></u>	<u><u>\$ 572,217</u></u>	<u><u>\$ 547,318</u></u>	<u><u>\$ 31,645</u></u>
Liabilities				
Accounts payable	\$ -	\$ -	\$ -	\$ -
Due to Others	<u>6,746</u>	<u>547,318</u>	<u>572,217</u>	<u>31,645</u>
Total liabilities	<u><u>\$ 6,746</u></u>	<u><u>\$ 547,318</u></u>	<u><u>\$ 572,217</u></u>	<u><u>\$ 31,645</u></u>

SPECIAL REVENUE FUNDS

Special revenue funds are used to account for the proceeds of specific revenues sources (other than for major capital projects) that are legally restricted to expenditure for specified purposes.

**CITY OF EDCOUCH, TEXAS
COMPARATIVE BALANCE SHEETS
SPECIAL REVENUE FUNDS
SEPTEMBER 30, 2010**

	<u>4A Sales Tax Fund</u>	<u>4B Sales Tax Fund</u>	<u>Urban County Fund</u>	<u>2010</u>	<u>2009</u>
Assets					
Cash and cash investments	\$ 11,533	\$ 19,922	\$ -	\$ 31,455	\$ 57,226
Accounts receivable-taxes	-	-	-	-	-
Due from other fund	175,483	169,174	-	344,657	207,120
Due from other governments	-	-	-	-	-
Total Assets	<u>187,016</u>	<u>189,096</u>	<u>-</u>	<u>376,112</u>	<u>264,346</u>
Liabilities					
Accounts payable	-	-	-	-	-
Due to other funds	27,553	29,653	-	57,206	30,000
Due to other governments	-	-	-	-	-
Deferred revenues - taxes	-	-	-	-	-
	<u>27,553</u>	<u>29,653</u>	<u>-</u>	<u>57,206</u>	<u>30,000</u>
Total Liabilities					
Net Assets					
Unrestricted, Undesignated	<u>159,463</u>	<u>159,443</u>	<u>-</u>	<u>318,906</u>	<u>234,346</u>
Total Net Assets and Liabilities	<u>\$ 187,016</u>	<u>\$ 189,096</u>	<u>\$ -</u>	<u>\$ 376,112</u>	<u>\$ 264,346</u>

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

	4A Sales Tax Fund	4B Sales Tax Fund	Urban County Fund	2010	2009
Revenues					
Taxes	\$ 42,280	\$ 42,280	\$ -	\$ 84,560	\$ 91,030
Intergovernmental	-	-	52,356	52,356	170,159
Miscellaneous	-	-	-	-	-
Total Revenues	<u>42,280</u>	<u>42,280</u>	<u>52,356</u>	<u>136,916</u>	<u>261,189</u>
Expenditures					
Administration	-	-	1,950	1,950	1,892
Street Impr.	-	-	40,211	40,211	-
Water and Sewer Project	-	-	2,153	2,153	157,654
Contributions	-	-	8,042	8,042	10,613
Principal	-	-	-	-	-
Interest	-	-	-	-	-
Capital outlay	-	-	-	-	-
Total Expenditures	<u>-</u>	<u>-</u>	<u>52,356</u>	<u>52,356</u>	<u>170,159</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>42,280</u>	<u>42,280</u>	<u>-</u>	<u>84,560</u>	<u>91,030</u>
Other Financing Sources (Uses)					
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>42,280</u>	<u>42,280</u>	<u>-</u>	<u>84,560</u>	<u>91,030</u>
Fund Balance, October 1,	<u>117,183</u>	<u>117,164</u>	<u>-</u>	<u>234,347</u>	<u>143,316</u>
Fund Balance, September 30,	<u>\$ 159,463</u>	<u>\$ 159,444</u>	<u>\$ -</u>	<u>\$ 318,907</u>	<u>\$ 234,346</u>

SCHEDULE OF 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, 2010

General Capital Assets:			
Land	\$	375,048	
Buildings		610,765	
Improvements Other Than Buildings:			
Street Improvements		3,022,134	
Equipment/Vehicles:			
Equipment		979,108	
Construction in Progress		<u>10,082</u>	<u>4,997,137</u>
Total General Fixed Assets			<u><u>\$ 4,997,137</u></u>
 Investments in Capital Assets:			
Capital Projects-Grants/Bonds	\$	<u>4,997,137</u>	
Total Investments in Capital Assets			<u><u>\$ 4,997,137</u></u>

CITY OF EDCOUCH, TEXAS
SCHEDULE OF CHANGES IN CAPITAL INVESTMENT ASSET GROUP- BY SOURCES
SEPTEMBER 30, 2010

	<u>October 1, 2009</u>	<u>Additions Deletions</u>	<u>September 30, 2010</u>
General Capital Assets:			
Land	\$ 375,048	\$ -	\$ 375,048
Buildings	610,765		610,765
Improvements Other Than Buildings	2,979,770	42,364	3,022,134
Furniture, Fixtures & Equipment/Vehicles	894,495	84,613	979,108
Construction in Progress		10,082	10,082
Total General Capital Assets	<u>\$ 4,860,078</u>	<u>\$ 137,059</u>	<u>\$ 4,997,137</u>
 Investments in Capital Assets From:			
Capital Projects Funds- Grants/Bonds - General Fund	<u>\$ 4,860,078</u>	<u>\$ 137,059</u>	<u>\$ 4,997,137</u>

STATISTICAL SECTION

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

* Data not available to prepare schedule.

<u>Urban and Economic Development</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

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
2001	*	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
2002	*	-	-	-	-	-	-	-
2003	*	-	-	-	-	-	-	-
2004	*	-	-	-	-	-	-	-
2005	*	-	-	-	-	-	-	-
2006		570,205	9,356	66,215	260,092	27,260	4,639	937,767
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

* Data not available to prepare schedule.

** Includes Sanitation income of \$216,600

CITY OF EDCOUCH, TEXAS
SCHEDULE OF GENERAL FUND AND DEBT SERVICE TAXES RECEIVABLE
SEPTEMBER 30, 2010

	Total Taxes Receivable	General Fund Tax Receivable		Debt Service Tax Receivable	
		Percent	Amount	Percent	Amount
2009	\$ 75,845	68.36%	\$ 51,848	31.64%	\$ 23,997
2008	59,743	65.00%	38,833	35.00%	20,910
2007	42,033	70.05%	29,444	29.95%	12,589
2006	36,033	72.06%	25,965	27.94%	10,068
2005	25,324	77.80%	19,702	22.20%	5,622
2004	24,437	71.92%	17,575	28.08%	6,862
2003	19,359	72.02%	13,942	27.98%	5,417
2002	17,384	72.00%	12,516	28.00%	4,868
2001	16,337	72.54%	11,851	27.46%	4,486
2000	15,590	76.40%	11,911	23.60%	3,679
1999	13,639	72.54%	9,894	27.46%	3,745
1998	11,690	72.17%	8,437	27.83%	3,253
1997	9,919	70.08%	6,951	29.92%	2,968
1996	4,752	71.33%	3,390	28.67%	1,362
1995	3,977	75.78%	3,014	24.22%	963
1994	3,455	74.96%	2,590	25.04%	865
1993	2,839	64.56%	1,833	35.44%	1,006
1992	2,071	78.27%	1,621	21.73%	450
1991	2,606	100.00%	2,606	-	-
1990	1,805	100.00%	1,805	-	-
1989	566	100.00%	566	-	-
1988	1,907	100.00%	1,907	-	-
1987	0	100.00%	-	-	-
1986	-	100.00%	-	-	-
1985 & Prior	-	100.00%	-	-	-
	<u>391,311</u>		<u>278,200</u>		<u>113,111</u>
Less Allowance for Uncollectible	<u>36,700</u>		<u>27,300</u>		<u>9,400</u>
Total Taxes net of for Doubtful	<u>\$ 354,611</u>		<u>\$ 250,900</u>		<u>\$ 103,711</u>

CITY OF EDCOUCH, TEXAS
SCHEDULE OF GENERAL FUND AND DEBT SERVICE TAXES COLLECTIONS
SEPTEMBER 30, 2010

	Total Collections	General Fund Taxes		Debt Service Taxes	
		Percent	Amount	Percent	Amount
2009	\$ 326,724	68.36%	\$ 223,349	31.64%	\$ 103,375
2008	18,778	65.00%	12,206	35.00%	6,572
2007	6,650	70.05%	4,658	29.95%	1,992
2006	3,905	72.06%	2,814	27.94%	1,091
2005	2,739	77.80%	2,131	22.20%	608
2004	2,954	71.92%	2,125	28.08%	829
2003	2,003	72.02%	1,443	27.98%	560
2002	1,233	72.00%	888	28.00%	345
2001	570	72.54%	413	27.46%	157
2000	505	76.40%	386	23.60%	119
1999	370	72.54%	268	27.46%	102
1998	402	72.17%	290	27.83%	112
1997	267	70.08%	187	29.92%	80
1996	287	71.33%	205	28.67%	82
1995	212	75.78%	161	24.22%	51
1994	158	74.96%	118	25.04%	40
1993	126	64.56%	81	35.44%	45
1992	48	78.27%	38	21.73%	10
1991	109	100.00%	109	-	-
1990	149	100.00%	149	-	-
1989	129	100.00%	129	-	-
1988	134	100.00%	134	-	-
1987 & Prior	-	100.00%	-	-	-
Adjustments					
	<u>\$ 368,452</u>		<u>\$ 252,281</u>		<u>\$ 116,171</u>

**CITY OF EDCOUCH, TEXAS
PRINCIPAL TAXPAYERS
SEPTEMBER 30, 2010**

<u>Taxpayer</u>	<u>Type of Property</u>	<u>Assessed Valuation</u>	<u>Percentage of Total Assessed Valuation</u>
Southwestern Bell Telephone	Telephone	\$ 841,860	14.15%
AEP Texas Central Co.	Electrical	687,790	11.56%
HVM Edcouch II LTD.	Commercial	673,573	11.32%
HVM Edcouch III LTD.	Commercial	629,733	10.59%
Southwest Grain Company	Industrial	591,385	9.94%
National Farm Workers Service Center, Inc.	Non Profit	561,287	9.44%
Hess-Turner Inc.	Commercial	543,158	9.13%
Evening Shade Corporation	Commercial	518,140	8.71%
Twe Advance Newhouse Prtnshp	Commercial	457,440	7.69%
Torres, Socorro	Commercial	444,030	7.46%
Total		<u>\$ 5,948,396</u>	100.00%

Note: Total Assessed Value of Property \$41,645,202.

**CITY OF EDCOUCH, TEXAS
COMPUTATION OF LEGAL DEBT MARGIN
SEPTEMBER 30, 2010**

Assessed Value (1)		<u>\$ 44,026,233</u>
Legal debt margin:		
Debt limitation - 10 percent of assessed value (2)		4,402,623
Debt applicable to limitation:		
Bonded debt:		
City of Edcouch *	723,027	
Less: amounts available for repayment of general obligation bonds	<u>29,988</u>	
		<u>(753,015)</u>
Legal debt margin		<u><u>\$ 3,649,608</u></u>

(1) FY 2007 Real Estate Assessed Valuation (1326 properties)

(2) In 1955, the State Legislature enacted the 10% debt limit rate for School Districts in Texas and has subsequently been used by municipalities as a general rule in computing debt margin.

* General Obligation Refunding Bond, Series 2003 \$450,000 - Bond Balance @ 9/30/10

CITY OF EDCOUCH, TEXAS
SCHEDULE OF ANNUAL
DEBT SERVICE REQUIREMENTS UNTIL MATURITY
SEPTEMBER 30, 2010

GOVERNMENTAL FUND DEBT

<u>Year of Payment</u>	<u>Principal Requirements</u>	<u>Interest Requirements</u>	<u>Total Annual Debt Requirements</u>
2011	\$ 78,988	\$ 54,342	\$ 133,330
2012	85,273	48,056	133,329
2013	92,067	41,262	133,329
2014	99,412	33,918	133,330
2015	107,352	25,978	133,330
2016	115,935	17,393	133,328
2017	69,521	9,292	78,813
2018	50,117	4,671	54,788
2019 & Thereafter	24,362	600	24,962
	<u>\$ 723,027</u>	<u>\$ 235,512</u>	<u>\$ 958,539</u>

PROPRIETARY FUND BONDED DEBT

<u>Year of Payment</u>	<u>Note Payable Interest</u>	<u>Bond Payable Principal</u>	<u>Balance</u>
Beginning Balance			\$ 105,000
2011	\$ 5,250	\$ 6,000	99,000
2012	4,950	6,000	93,000
2013	4,650	6,000	87,000
2014	4,350	6,000	81,000
2015	4,050	6,000	75,000
2016	3,750	6,000	69,000
2017	3,450	6,000	63,000
2018	3,150	6,000	57,000
2019	2,850	6,000	51,000
2020	2,550	6,000	45,000
2021	2,250	6,000	39,000
2022	1,950	6,000	33,000
2023	1,650	6,000	27,000
2024	1,350	6,000	21,000
2025	1,050	6,000	15,000
2026	750	6,000	9,000
2027	450	6,000	3,000
2028	150	3,000	-
Total	<u>\$ 48,600</u>	<u>\$ 105,000</u>	<u>\$ -</u>

CITY OF EDCOUCH, TEXAS
SCHEDULE OF ACTUARIAL LIABILITIES AND FUNDING PROGRESS
SEPTEMBER 30, 2010

<u>Actuarial Valuation Date</u>	<u>8/31/2008</u>	<u>8/31/2006</u>	<u>8/31/2004</u>
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	12,229,384	15,814,523	13,426,925
Funded Ratio	77.00%	72.80%	74.00%
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%	50%

SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS

CITY OF EDCOUCH, TEXAS
SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS
FOR THE YEAR ENDED SEPTEMBER 30, 2010

Federal Financial Assistance

Federal Grantor: U.S. Department of Housing and Urban Development (Urban County)

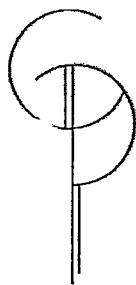
Pass through Grantor: County of Hidalgo, Texas

CDFA Number: 14.218

NOTE: County of Hidalgo, Texas reports expenditures for the program. For information purposes only, the City of Edcouch, Texas expended \$52,356 for the year of the Urban County Funding.

<u>Grantor / Pass-Through Grantor Program Title</u>	<u>Federal CFDA</u>	<u>Pass-Through Early Identifying Number</u>	<u>Program Award Amount</u>	<u>Federal Expenditures</u>
<u>Federal Financial Assistance</u>				
<u>U.S. Department of Housing and Urban Development</u>				
Pass-through Texas Department of Rural Affairs CDBG Disaster Recovery Non-Entitlement Grant	14.218		\$ 450,534	\$ 20,402
<u>U.S. Department of Defense</u>				
Pass-through the State of Texas, Health and Human Services Commission Lower Rio Grande Valley Development Council Social Services Block Grants			150,052	148,298
Total Federal Financial Assistance			<u>\$ 600,586</u>	<u>\$ 168,700</u>
<u>State Financial Assistance</u>				
Pass-through Lower Rio Grande Development Council Criminal Justice Division Justice Assistance Grant		SU-09 A10-22284-01	\$ 66,179	\$ 62,732
Total State Financial Assistance			<u>\$ 66,179</u>	<u>\$ 62,732</u>
Total Federal and State Financial Assistance			<u>\$ 666,765</u>	<u>\$ 231,432</u>

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



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Certified Public Accountants

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Weslaco, Texas 78599

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Manuel B. Garcia, CPA
Jaime X. Peña, CPA

Honorable Mayor and Members
Of the City Commission
Edcouch, Texas 78538

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units information of the City of Edcouch, Texas as of and for the year ended September 30, 2010, which collectively comprise the City of Edcouch, Texas basic financial statements and have issued our report thereon dated July 23 2011.

Our report was qualified because we were unable to obtain sufficient and appropriate audit evidence regarding property inventory for capital assets including general infrastructure improvements for General Capital Assets and the Proprietary Fund Capital Assets. Generally accepted accounting principles of the United States of America require that those general infrastructure assets be capitalized and depreciated, which would increase the assets, net assets, and the Governmental Activities. The amount by which this departure would affect the assets, net assets, and expenses of the Governmental Activities is not reasonably determinable. We were not provided with sufficient audit documentation to confirm the value of the capital assets.

Except as discussed in the preceding paragraph, we conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the City of Edcouch, Texas' ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the City of Edcouch, Texas' financial statements that is more than inconsequential will not be prevented or detected by the City of Edcouch, Texas' internal control. We consider the deficiencies described in the accompanying Schedule of Findings and Responses to be significant deficiencies in internal control over financial reporting as items 08-1, 08-2, 08-4, 08-5 and 08-6.

Honorable Mayor and Members
Of the City Commission

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be detected by the City of Edcouch Texas' internal control.

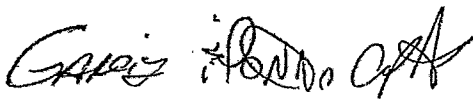
Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe the following significant deficiencies 08-1, 08-5 and 08-6 described above are material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance whether the City of Edcouch, Texas' financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying Schedule of Findings and Responses.

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

This report is intended solely for the information and use of audit committee, management and federal and state awarding agencies and pass-through agencies and is not intended to be and should not be used by anyone other than these specified parties.



Garcia & Pena, CPAs
Certified Public Accountants

July 23, 2011

CITY OF EDCOUCH, TEXAS
PRIOR YEAR SCHEDULE OF FINDINGS AND RESPONSES
SEPTEMBER 30, 2010

PROGRAM	DESCRIPTION
Reference Number 09-1 Criteria:	Accounting Records GASB (Governmental Accounting Standards Board) is the entity charged with establishing standards for GAAP (generally accepted accounting standards) for governmental accounting and financial reporting. GASB issues GASB Statements No. 34 establishes standards for reporting and accounting for governmental entities. Governmental entities use fund accounting and also report on a government wide basis the financial position and activities of the entity. Fund accounting segregates an entity's assets, liabilities, and net assets into separate accounting entities based on legal restrictions, donor-imposed restrictions, or special regulations. Fund accounting requires a complete set of accounting records for each fund which includes: General Fund, Water & Sewer Fund, Debt Service Fund, Industrial Development Fund, the Economic Development Funds, (EDC 4A and EDC 4B) and the agency fund (Payroll Fund.) Each fund should have a complete general ledger that includes proper cash receipts, cash disbursements, and a general journal. These journals should then have a detail description of transactions, i.e. date of check or deposit, check number, vendor/customer name, and amount of check or deposit.
Condition Found:	The City maintains a general ledger for the General Fund and the Water and Sewer Fund. It does not have a general ledger for the Debt Service Fund, the Special Revenue Funds (Economic Development Corporations 4A and 4B, the Urban County Grant Fund), and the agency (payroll) fund. The cash accounts, receivables, due to/from accounts, liability, and equity accounts for the various governmental funds are maintained in the general fund. This practice makes it difficult for accounting and reporting for each individual fund. The water and sewer fund are accounted for separately. Fund accounting has not been established for the water & sewer Interest & Sinking Fund and the water & sewer Improvement Fund.
Context:	Previous administrations did not establish a formal monthly accounting process.
Effect:	The City is not in full compliance with GASB reporting and accounting requirements. The City is unable to maximize its efficiency for monthly account expenditure and budget analysis.
Cause:	The City has not prioritized establishing a complete fund accounting system for recording and reporting daily transactions as required by generally accepted accounting principals and GASB Statements.
Recommendation:	We recommend that the City implement a complete fund accounting system and implement policy and procedures over its accounting and reporting functions. Such an approach would detail all the critical steps in recording transactions, preparing necessary schedules,. We further recommend that the City establish a target date to complete the year-end closing, possibly sixty days subsequent to year-end. Strict adherence to this schedule should be required since this will allow for timely preparation of year-end financial statements. Ad-valorem taxes for the Debt Service Fund should be deposited in the Debt Service Fund Cash account and disbursements for long term debt should be made from the debt service fund cash account. Sales tax for the economic development funds 4A and 4B should be transferred or deposited in the respective special funds (EDC 4A and EDC 4B). Amounts due to other funds should be paid to the other funds.

CITY OF EDCOUCH, TEXAS
PRIOR YEAR SCHEDULE OF FINDINGS AND RESPONSES
SEPTEMBER 30, 2010

<u>PROGRAM</u>	<u>DESCRIPTION</u>
Corrective Action Plan:	The City is currently posting transactions into accounting software on a daily basis. We have established daily summaries of cash receipts. We will be implementing separate accounting funds with general ledgers for the various funds.
<u>Reference Number: 09-2</u>	<u>Public Funds Investment Act</u>
Criteria:	The Public Fund Investment act mandates that the investment officer 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 investment responsibilities under the Act within 12 months after taking office or assuming duties. The Act also requires that the board perform annual reviews of the investment policy and strategy.
Condition Found:	We noted that the investment officer did not attend at least ten hours of continuing education training within two years. No documentation was maintained to demonstrate that the board performed an annual review of the investment policies and strategy.
Context:	Previous Secretary did not obtain Public Funds Investment Act training.
Effect:	The City is not in full compliance with the Public Funds Investment Act.
Cause:	Oversight was due to change in City Administration.
Recommendation:	We recommend that the City's investment officer attend the required hours to be in compliance with the Act and that review and approval of the City's investment policy and strategies be documented in the City Commission minutes annually.
Corrective Action Plan:	Investment officers will attend the investment training sessions and the investment policies will be submitted for City Commission review in a regular scheduled commission meeting.
<u>Reference Number: 09-3</u>	<u>Expenditures in Excess of Budget Appropriations</u>
Criteria:	State law requires governmental entities to adopt annual budgets. The budgets estimate the amount of revenues and expenditures for the community. Ad-valorem tax rates adopted are based on the budgets adopted by the Board of Aldermen. The City should monitor expenditures to ensure that sufficient funds are available as per the approved annual budget and related amendments.
Condition Found:	As indicated in the notes to the City's financial statements, we noted instances in which the City's budget had been exceeded.
Context:	Limited control over expenditure categories.
Effect:	The City exceeded the budget in some of the expense categories.
Cause:	The City does not compare expenditures to the approved budget on a routine basis to ensure expenditures do not exceed budget.

CITY OF EDCOUCH, TEXAS
PRIOR YEAR SCHEDULE OF FINDINGS AND RESPONSES
SEPTEMBER 30, 2010

<u>PROGRAM</u>	<u>DESCRIPTION</u>
Recommendation:	Budget versus actual comparisons should be made on a monthly basis, and control over expenditures should include a review of available budget amounts prior to approval of expenditures.
Corrective Action Plan:	Expenditures will be reviewed and compared to available budget amounts.
<u>Reference Number: 09-4</u>	<u>Internal Control</u>
Criteria:	A good system of internal control provides for proper segregation of the accounting functions and internal written procedures for these functions.
Condition Found:	<p>The City Secretary performs most of the duties, except the actual collections of cash receipts and the billing function for utilities, taxes, and municipal court.</p> <p>The City Secretary reviews daily cash collections for all receipts. She posts or records cash receipts to the general ledger. She also prepares all disbursements along with reconciling the bank accounts.</p>
Context:	Very little segregation of duties.
Effect:	Duties of these functions need to be segregated to minimize errors or fraud. Without proper segregation of duties, errors within the financial records or fraud could go undetected.
Cause:	In a small organization it is not possible to have well trained personnel to properly segregate some of the duties. In these circumstances it may be necessary to have a member of the City Commission or hire an outside person to break some of the internal cycles.
Recommendation:	<p>We recommend that management review the current assignment of accounting functions. Where possible, duties should be segregated to reduce these risks.</p> <p>The City Secretary should review daily cash summaries, with copies of the actual cash deposits prepared for the bank. The individuals collecting cash receipts should count their cash receipts individually and then work together to prepare the daily summary and bank deposit. At this time the City Secretary should also review cash collections posted to the utility system, to tie-in cash receipts.</p> <p>If the City Secretary is the only one posting transactions to the general ledger, then another individual should compare the deposits and checks in the bank statements to the general ledger, cash receipts, and cash disbursement journal prior to the City Secretary preparing the bank reconciliation. Disbursement approval should also have a counter approval from a city commissioner, even if it's after the fact in case the City Secretary is not available on a daily basis. If at all possible the City should hire a qualified accountant to assist the City Secretary.</p> <p>To the extent cost effective, duties should be segregated and management should attempt to negotiate this weakness by supervision and renew procedures.</p>

CITY OF EDCOUCH, TEXAS
PRIOR YEAR SCHEDULE OF FINDINGS AND RESPONSES
SEPTEMBER 30, 2010

<u>PROGRAM</u>	<u>DESCRIPTION</u>
Corrective Action Plan:	The City has established formal policies and procedures for its accounting functions. The City will continue to monitor its daily transactions closely.
<u>Reference Number: 09-5</u>	<u>Controls over Financial Reporting</u>
Criteria:	The Auditing Standards Board recently issued guidance to auditors related to entity's internal controls over financial reporting. Many small organizations rely on their auditor to generate the annual financial statements including footnotes. SAS No. 112 emphasizes that the auditor cannot be part of your system of internal control over financial reporting.
Condition Found:	In our judgment, the City's accounting personnel and those charged with governance, in the course of their assigned duties, lack the capable skills to prepare the financial statements and related footnotes in accordance with generally accepted accounting principles and detect and correct a material misstatement, if present.
Context:	The auditor prepared the financial statements.
Effect:	Material misstatements in financial statements could go undetected.
Cause:	The City's lack of resources available to management.
Recommendation:	In our judgment, due to the lack of resources available to management to correct this material weakness in financial reporting, we recommend management mitigate this weakness by having a heightened awareness of all transactions being reported.
Corrective Action Plan:	The City is under new administration, which will develop and implement a formal policy and procedure over its audit preparation.
<u>Reference Number: 09-6</u>	<u>Capital Assets</u>
Criteria:	Generally accepted accounting principles of the United States of America require that general infrastructure assets of the Governmental and Proprietary Funds be capitalized and depreciated.
Condition Found:	The City has an incomplete set of records for the General Capital Assets and the Proprietary Fund Capital Assets. The City did not provide sufficient audit documentation to confirm the value of the capital assets.
Recommendation:	We recommend the City begin recording capital assets from the figures in the audit for the year ended September 30, 2001, which although not complete, is a good beginning base. From these figures, the City can begin adding capital assets for those purchased since 2001 and deleting capital assets that no longer belong to the City or are no longer in service. From insurance records and consulting with City engineers, the City should be able to properly structure a set of records. The records should include a complete description of the capital asset, serial numbers, construction contract numbers, date purchased, date donated to the City, if donated, the cost of the constructed capital assets, including the cost of engineering, consultant, architect, fees, and the source of funding. The City can follow the State

**CITY OF EDCOUCH, TEXAS
PRIOR YEAR SCHEDULE OF FINDINGS AND RESPONSES
SEPTEMBER 30, 2010**

<u>PROGRAM</u>	<u>DESCRIPTION</u>
	of Texas plan which indicates various minimum amounts for recording capital assets including infrastructure.
Corrective Action Plan:	The City will begin working toward gathering information to complete the recording of capital assets as recommended and required for Cities by the Governmental Accounting Standards Board (GASB.)

ANNUAL FINANCIAL REPORT
CITY OF EDCOUCH, TEXAS
FISCAL YEAR ENDED SEPTEMBER 30, 2011

Robert S. Schmalzried
Mayor

CITY OF EDCOUCH, TEXAS
Annual Financial Report
For the Fiscal Year Ended September 30, 2011

TABLE OF CONTENTS

PART I
INTRODUCTION SECTION

City Officials

PART II
FINANCIAL SECTION

Independent Auditor's Report	a
Management's Discussion and Analysis	c
Basic Financial Statements	
Government-Wide Financial Statements	
Statement of Net Assets	1
Statement of Activities	2
Fund Financial Statements	
Governmental Funds:	
Balance Sheet	4
Reconciliation of the Balance Sheet to the Statement of Net Assets	5
Statement of Revenues, Expenditures and Changes in Fund Balances	6
Reconciliation of Statement of Revenues, Expenditures, and Changes in the Fund Balances to the Statement of Activities	7
Statement of Revenues, Expenditures and Changes in Fund Balances-Budget and Actual-Governmental Funds	8
Proprietary Funds:	
Statement of Net Assets	9
Statement of Revenues, Expenditures and Changes in Fund Balances	10
Statement of Cash Flows	11
Notes to Financial Statements	12

CITY OF EDCOUCH, TEXAS
Annual Financial Report
For the Fiscal Year Ended September 30, 2011

TABLE OF CONTENTS
(CONTINUED)

Individual Fund Statements and Account Groups

Fiduciary Fund (Agency Fund)

Statement of Fiduciary (Agency) Assets and Liabilities	31
Statement of Changes in Fiduciary (Agency) Assets and Liabilities	32

Special Revenue Funds:

Comparative Balance Sheets	33
Combining Statements of Revenues, Expenditures and Changes in Fund Balance	34

Capital Investment Account Group:

Schedule of Capital Investment Asset Group - By Sources	35
Schedule of Changes in Capital Investment Asset Group-By Sources	36

Statistical Section:

General Governmental Expenditures by Function	37
General Governmental Revenues by Source	39
Schedule of General Fund and Debt Service Fund Taxes Receivable	40
Schedule of General Fund and Debt Service Fund Collection of Taxes	41
Principal Taxpayers	42
Computation of Legal Debt Margin	43
Debt Service Requirements Until Maturity	44
Schedule of Actuarial Liability and Funding Progress	45

Schedule of Expenditures of Federal and State Awards:

Schedule of Expenditures of Federal and State Awards	46
Notes to Schedule of Federal and State Financial Assistance	47
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based On An Audit of Financial Statements Performed in Accordance with Government auditing Standards	48
Schedule of Findings and Responses	50

PART I

INTRODUCTION SECTION

**CITY OF EDCOUCH, TEXAS
ANNUAL FINANCIAL REPORT
YEAR ENDED SEPTEMBER 30, 2011**

CITY OFFICIALS

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

PART II

FINANCIAL SECTION



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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, 2011 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, 2011, 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.

Honorable Mayor
and Members of the City Commission
Page 2

In accordance with *Government Auditing Standards*, we have also issued our report dated May 15, 2012, on our consideration of the City of Edcouch, Texas, internal control over financial reporting and on our tests of its compliance with certain provision of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis is not a required part of the basic financial statements but is 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 do not express an opinion on the management's discussion and analysis.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the City's basic financial statements taken as a whole. The accompanying Schedule of Expenditures of Federal and State Awards and the accompanying financial information listed as supplementary schedules in the Table of Contents are presented for purposes of additional analysis. These supplementary schedules are not a required part of the financial statements taken as a whole.

Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, are fairly presented in all material respects in relation to the financial statements taken as a whole.



Garcia & Pena
Certified Public Accountants

June 8, 2012

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, 2011. 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 \$8,851,605.
- The City's total net assets increased by \$977,057; of which 38 percent of the increase is attributable to governmental activities and 62 percent to business-type activities.
- As of the close of the current fiscal year, the City's governmental funds reported combined ending deficit fund balances of \$156,054.
- At the end of the current fiscal year, the general fund had a deficit unreserved fund balance of \$526,973.

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 government-wide financial statements includes the City itself (known as the primary government).

The government-wide financial statements can be found on pages 1 and 2 of this report.

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

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

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The City maintains multiple individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general fund. The general fund is the only major governmental fund. Data from the other governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these non-major governmental funds is provided elsewhere in this report.

The City adopts an annual appropriated budget for its governmental funds with the exception of grant funded special revenue funds and capital projects funds, if any.

The basic governmental fund financial statements can be found on pages 3 through 11 of this report.

Proprietary funds. The City maintains one type of proprietary fund. The enterprise fund is used to report the same function presented as business-type activities in the government-wide financial statements. The City uses one enterprise fund to account for the water and sewer services provided for residents.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The enterprise funds are presented in a single, aggregated presentation in the proprietary fund financial statements. Individual fund data for the enterprise fund is provided in this report, pages 8 through 10.

Fiduciary funds. Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the City's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds.

The basic fiduciary (agency) fund financial statements can be found on pages 31 and 32 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 12 through 30 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 36 through 44 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 \$8.8 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 \$564,979 in net assets reported in connection with the City's business-type activities. This was an increase in net assets from the prior year. The increase was due to decreased operating costs and the obtaining of a capital grant for \$441,296 for water and sewer improvements.

The City had revenues of \$1,397,844 and expenses of \$1,422,186 in governmental funds. Revenues for the Water and Sewer fund were \$1,341,329 of which \$900,103 are operating revenues and \$441,329 are grants, compared with \$740,680 in operating and interest expenses.

Governmental activities. Governmental activities increased the City's net assets by 412,078.

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 (\$526,973) and the special revenue fund had \$404,748. The debt service fund had a fund balance deficit of (\$33,829).

Proprietary funds. Since the City has only one proprietary fund, the Water and Sewer Fund, an individual financial statement is presented to provide more detail information for the statement of revenues, expenses and changes in net assets.

Unrestricted net assets of the water and sewer fund at the end of the year amounted to a net assets of \$4,094,329. 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 water and sewer service to citizens. 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 come from revenues generated from the sale of water and providing sewer collection services.

General Fund Budgetary Highlights

The original budget was not amended during the year. Expenses were held to those budgeted.

Capital Asset and Debt Administration

Capital Assets. The City's additional investment in capital assets for its governmental and business-type activities as of September 30, 2011, amounts to \$765,987.

Long-Term Debt. At the end of the current fiscal year, the City had total debt outstanding of \$648,763. These are notes payable.

State statutes limit the amount of general obligation debt that the City may issue to 10% of its total assessed valuation (\$45,924,579). The City's general obligation debt maximum is \$3,977,524, compared to the City's debt of \$648,763.

Additional information on the City's debt service can be found in the notes to the financial statements.

Economic Factors and Next Year's Budget and Rate

The following factors were considered in preparing the City's budget for the 2010-2011 fiscal year:

- The ad valorem property tax rate was set at \$ 0.8842 to generate the revenues necessary for the operation of the City. The City is relying on the increase of the tax base to increase revenues.
- This tax rate should generate \$406,065 compared to \$376,072; an increase of 7.79% over the previous year.

This financial report is designed to provide a general overview of the City's finances for all those interested. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Office of the City Administrator, 211 Southern Street, Edcouch, Texas 78539.

BASIC FINANCIAL STATEMENTS
Governmental-Type Activities

CITY OF EDCOUCH, TEXAS
GOVERNMENT-WIDE STATEMENT OF NET ASSETS
SEPTEMBER 30, 2011

	Governmental Activities	Business-type Activities	Total
Assets			
Cash and cash investments	\$ 179,328	\$ 287,867	\$ 467,195
Receivables			323,002
Taxes (net of allowance for uncollectibles)	323,002		
Accounts receivable-(net of allowance for uncollectibles)		111,739	111,739
Accounts receivable-other	69,915		69,915
Franchise fees	18,070		18,070
Due from other governments	145,959	185,901	331,860
Internal balances	69,205	(69,205)	-
Restricted assets			-
Cash and cash investments		139,600	139,600
Capital Assets			-
Land	375,048	346,533	721,581
Buildings and improvements	610,765	3,794,787	4,405,552
Street and park improvements	3,022,134		3,022,134
Vehicles and equipment	562,103	59,695	621,798
Tractors and heavy equipment	394,037	94,792	488,829
Fire department equipment	126,591		126,591
Furniture and equipment	18,131	5,156	23,287
Infrastructure - Water & Sewer		408,423	408,423
Construction-in-progress	141,656	255,698	397,354
Accumulated depreciation		(1,123,013)	(1,123,013)
Total Assets	<u>\$ 6,055,944</u>	<u>\$ 4,497,973</u>	<u>\$ 10,553,917</u>
Liabilities			
Accounts payable	\$ 386,238	\$ 29,807	\$ 416,045
Accrued liabilities		12,871	12,871
Due to others	258,070	213,450	471,520
Due to State of Texas	12,263	33,450	45,713
Non-current liabilities			
Due within 1 year	85,273	14,400	99,673
Due in more than 1 year	563,490	93,000	656,490
Total Liabilities	<u>1,305,334</u>	<u>396,978</u>	<u>1,702,312</u>
Net Assets			
Invested in capital assets, net of related debt	5,247,465	3,836,911	9,084,376
Restricted for:			
Debt Service	(33,829)		(33,829)
General Fund	(867,774)		(867,774)
Special Revenue Funds	404,748		404,748
Unrestricted		264,084	264,084
Total Net Assets	<u>4,750,610</u>	<u>4,100,995</u>	<u>8,851,605</u>
Total Liabilities and Net Assets	<u>\$ 6,055,944</u>	<u>\$ 4,497,973</u>	<u>\$ 10,553,917</u>

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