The City of Encinal
Audited Financial Statements
And Supplementary Information

For the Year Ended September 30, 2011

City of Encinal, Texas

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FLORES AUDITING, PLLC

3112 SPRING CREEK
LAREDO, TX 78045
Tel: (956) 717-4193; Fax (956) 717-1484

Gloria E. 'Gigi' Flores, CPA **Jorge C. Flores, Manager**

INDEPENDENT AUDITOR'S REPORT

To the City Council
City of Encinal, Texas

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of City of Encinal, 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 City of Encinal, Texas's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the City of Encinal, Texas, as of September 30, 2011, and the respective changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 14, 2013, on our consideration of the City of Encinal, Texas's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 2 and 17 through 22 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Encinal, Texas's financial statements as a whole. The individual nonmajor fund financial statements are presented for purposes of additional analysis and are not a required part of the financial statements. The individual nonmajor fund financial statements are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Flores Auditing, PLLC

Flores Auditing, PLLC

Laredo, TX
June 14, 2013

MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the City of Encinal, 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. Since the Management's Discussion and Analysis (MD&A) is designed to focus on the current year's activities, resulting changes, and currently known facts, it should be read in conjunction with the City's financial statements (beginning on page 3).

FINANCIAL HIGHLIGHTS

Highlights for Government-wide Financial Statements

- The assets of the City of Encinal exceeded its liabilities at the close of the fiscal year 2011 by $635,415 (total net assets). Of this amount, $69,091 (unrestricted net assets) may be used to meet the government's ongoing obligations to citizens and creditors.

- The City's total net assets increased by $344,456 during 2011.

Highlights for Fund Financial Statements

- As of the close of the current fiscal year, the City of Encinal's governmental funds reported a combined ending fund balance of $66,508, a decrease of $25,950 in comparison with the prior year.

- At the end of the current fiscal year, unreserved fund balance for the general fund was $49,322, or 7% of total general fund expenditures.

- For the fiscal year ended September 30, 2011, general fund revenues totaled $755,414, an increase of $399,196 over the prior fiscal year.

- For the fiscal year ended September 30, 2011, general fund expenditures totaled $755,520, an increase of $433,933 over the prior fiscal year.

Financial Statements

City of Encinal, Texas
Statement of Net Assets
September 30, 2011

	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash and equivalents	$ 1,933	$ -	$ 1,933
Cash and equivalents - restricted	10,873	-	10,873
Receivables	103,624	-	103,624
Other current assets	2,344	-	2,344
Capital assets			
Infrastructure	638,282	-	638,282
Buildings and improvements	32,168	-	32,168
Equipment and furniture	48,216	-	48,216
Less: accumulated depreciation	(99,866)	-	(99,866)
Total capital assets	618,800	-	618,800
Total assets	737,574	-	737,574
LIABILITIES			
Accounts payable and accrued expenses	32,497	-	32,497
Notes payable	69,662	-	69,662
Total liabilities	102,159	-	102,159
NET ASSETS			
Invested in capital assets, net of related debt	549,138	-	549,138
Restricted for:			
Economic Development Board	17,186	-	17,186
Unrestricted	69,091	-	69,091
Total net assets	$ 635,415	$ -	$ 635,415

The accompanying notes are an integral part of these financial statements

City of Encinal, Texas
Statement of Activities
For the Year Ended September 30, 2011

Functions/Programs	Expenses	Program Revenue: Charges for Services	Program Revenue: Operating Grants and Contributions	Program Revenue: Capital Grants and Contributions	Net (Expense) Revenue and Changes in Net Assets: Primary Government: Governmental Activities	Net (Expense) Revenue and Changes in Net Assets: Primary Government: Business-type Activities	Net (Expense) Revenue and Changes in Net Assets: Primary Government: Total
Primary Government							
Governmental activities							
General government	$ 212,450	$ -	$ -	$ 364,528	$ 152,078	$ -	$ 152,078
Judicial	16,706	-	-	-	(16,706)	-	(16,706)
Public safety	65,545	-	-	-	(65,545)	-	(65,545)
Public service	170,673	60,552	-	-	(110,121)	-	(110,121)
Infrastructure and environmental services	-	-	-	-	-	-	-
Total governmental activities	465,374	60,552	-	364,528	(40,294)	-	(40,294)
Business-type activities							
Total business-type activities	-	-	-	-	-	-	-
Total primary government	$ 465,374	$ 60,552	$ -	$ 364,528	(40,294)	-	(40,294)
General revenues:							
Taxes:							
Property taxes, levied for general purposes					61,606	-	61,606
Sales Tax					245,719	-	245,719
Fines and fees					45,012	-	45,012
Franchise fees					31,142	-	31,142
Miscellaneous					1,271	-	1,271
Transfers					-	-	-
Total general revenues, special items, and transfers					384,750	-	384,750
Change in net assets					344,456	-	344,456
Net Assets-beginning					290,959	-	290,959
Net Assets-ending					$ 635,415	$ -	$ 635,415

The accompanying notes are an integral part of these financial statements.

City of Encinal, Texas
Balance Sheet
Governmental Funds
September 30, 2011

	General Fund	Economic Development Corporation	Total Governmental Funds
ASSETS			
Cash and cash equivalents	$ 1,933	$ -	$ 1,933
Cash and cash equivalents - restricted	-	10,873	10,873
Due from other funds	-	-	-
Taxes receivable, net	19,769	-	19,769
Accounts receivable	77,542	6,313	83,855
Other current assets	2,344	-	2,344
Total assets	101,588	17,186	118,774
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts Payable	32,497	-	32,497
Due to other funds	-	-	-
Deferred revenue	19,769	-	19,769
Total liabilities	52,266	-	52,266
Fund balances:			
Unassigned, reported in:			
General fund	49,322	-	49,322
Restricted for Special Revenue	-	-	-
Restricted for Debt Service	-	-	-
Restricted for Economic Development	-	17,186	17,186
Total fund balances	49,322	17,186	66,508
Total liabilities and fund balances	$ 101,588	$ 17,186	$ 118,774

The accompanying notes are an integral part of these financial statements.

City of Encinal, Texas
Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Assets
September 30, 2011

Total fund balance, governmental funds	$	66,508
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 this fund financial statement, but are reported in the governmental activities of the Statement of Net Assets.		
Add - capital assets		718,666
Deduct - accumulated depreciation		(99,866)
Deferred revenues used in governmental funds are not current financial resources and therefore are not reported in this fund financial statement, but are reported in the governmental activities of the Statement of Activities.		19,769
Other financing sources used in governmental funds are current financial resources and therefore are reported in this fund financial statement, but are not reported in the governmental activities of the Statement of Activities.		(69,662)
Net Assets of Governmental Activities in the Statement of Net Assets	$	635,415

The accompanying notes are an integral part of these financial statements.

City of Encinal, Texas
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Year Ended September 30, 2011

	General Fund	Economic Development Corporation	Total Governmental Funds
REVENUES			
Taxes	$ 284,051	$ 64,081	$ 348,132
Licenses and permits	1,271	-	1,271
Fines and fees	45,012	-	45,012
Intergovernmental	364,528	-	364,528
Interest	-	-	-
Charges for services	60,552	-	60,552
Miscellaneous	-	-	-
Total revenues	755,414	64,081	819,495
EXPENDITURES			
Current:			
General government	555,523	-	555,523
Debt Service	10,486	-	10,486
Judicial	16,706	-	16,706
Public safety	59,734	-	59,734
Public service	113,071	89,925	202,996
Total expenditures	755,520	89,925	845,445
Excess (deficiency) of revenues over expenditures	(106)	(25,844)	(25,950)
OTHER FINANCING SOURCES (USES)			
Transfers In	-	-	-
Transfers out	-	-	-
Other financing sources	-	-	-
Total other financing sources and uses	-	-	-
Net change in fund balances	(106)	(25,844)	(25,950)
Fund balances - beginning	49,428	43,030	92,458
Fund balances - ending	$ 49,322	$ 17,186	$ 66,508

The accompanying notes are an integral part of these financial statements.

City of Encinal, Texas
Reconciliation of the Statement of Revenues, Expenditures and Changes
In Fund Balances of Governmental Funds to the Statement of Activities
For the Year Ended September 30, 2011

Net change in fund balances - total governmental funds:	$	(25,950)
Amounts reported for governmental activities in the Statement of Activities are different because:		
Governmental funds report outlays for capital assets as expenditures because such outlays use current financial resources. In contrast, the Statement of Activities reports only a portion of the outlay as expense. The outlay is allocated over the assets' estimated useful lives as depreciation expense for the period. This is the amount by which capital outlay $395,343 exceeded depreciation $36,153 in the current period		359,190
Other financing sources used in governmental funds are current financial resources and therefore are reported in this fund financial statement, but are not reported in the governmental activities of the Statement of Activities.		-
Notes payable used in governmental activities are not current financial resources and therefore are not reported in this fund financial statement, but are reported in the governmental activities of the Statement of Net Assets.		6,086
Other items used in governmental activities are not current financial resources and therefore are not reported in this fund financial statement, but are reported in the governmental activities of the Statement of Net Assets.		5,130
Change in net assets of governmental activities	$	344,456

The accompanying notes are an integral part of these financial statements.

NOTE 1 GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

The City of Encinal, Texas (the "City") adopted the provisions and Statutes for cities in the State of Texas. The City provides fire, street and social services and public improvements, planning and zoning and general and administrative services. It also provides sanitation services.

The basic financial statements include both government-wide (based on the City as a whole) and fund financial statements. While the previous model emphasized fund types (the total of all funds of a particular type), in the new reporting model the focus is on either the City as a whole or as major individual funds (within the fund financial statements).

Both the government-wide and fund financial statements within the basic financial statements categorize primary activities as either governmental activities or business-type activities. In the government-wide Statement of Net Assets, both the governmental and business-type activities columns (a) are presented on a consolidated basis by column, (b) and are reflected, on a full accrual, economic resource basis, which incorporates long-term assets and receivables as well as long-term debt and obligations.

The government-wide Statement of Activities reflects both the gross and net cost per functional categories (public safety, public works, etc.) that are otherwise being supported by general government revenues (property, sales and use taxes, certain intergovernmental revenues, fines, permits and charges, etc.). The Statement of Activities reduces gross expenses (including depreciation) by related program revenues, operating and capital grants. The program revenues must be directly associated with the function or a business-type activity. Program revenues include revenues from fines and forfeitures, licenses and permit fees, taxes and charges for services. The operating grants include operating-specific and discretionary (either operating or capital grants while the capital grants columns reflects capital-specific grants.

The net cost (by function or business-type activity) is normally covered by general revenue (property, sales or use taxes, intergovernmental revenues, interest income, etc.). Historically, the previous model did not summarize or present net cost by function or activity. The City does not currently employ an indirect cost allocation system.

This government-wide focus is more on the sustainability of the City as an entity and the change in aggregate financial position resulting from the activities of the fiscal period.

The fund financial statements are, in substance, very similar to the financial statements presented in the previous model. Emphasis here is on the governmental or business-type categories. Management has elected to treat all governmental funds as major funds.

The governmental funds statements in the fund financial statements are presented on a current financial resource and modified accrual basis of accounting. This is the manner in which these funds are normally budgeted.

This presentation is deemed most appropriate to (a) demonstrate legal and covenant compliance, (b) demonstrate the sources and use of liquid resources, and (c) demonstrate how the City's actual experience conforms to the budget or fiscal plan. Since the governmental fund statements are presented on a different measurement focus and basis of accounting than the government-wide statements' governmental column, a reconciliation is presented on the page following each statement, which briefly explains the adjustment necessary to transform the fund based financial statements into the governmental column of the government-wide presentation.

NOTE 2 MEASUREMENT FOCUS, BASIS OF ACCOUNTING, AND FINANCIAL STATEMENT PRESENTATION

1. BASIS OF ACCOUNTING

Basis of accounting refers to the point at which revenues or expenditures/expenses are recognized in the accounts and reported in the financial statements. It relates to the timing of the measurement made, regardless of the measurement focus applied.

The Government-wide Financial Statements and the Proprietary and Fiduciary Fund Financial Statements are presented on an accrual basis of accounting. The Governmental Funds in the Fund Financial Statements are presented on a modified accrual basis.

Accrual:

All proprietary funds are accounted for using the accrual basis of accounting. Revenues are recognized when earned and expenses are recognized when incurred. Property taxes and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when the City receives cash.

Modified Accrual:

All governmental funds are accounted for using the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recorded when susceptible to accrual; i.e., both measurable and available. "Available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Expenditures are generally recognized under the modified accrual basis of accounting when the related liability is incurred. The exceptions to this general rule is that debt service expenditures, compensated absences and claims and judgments, are recognized when due.

In applying the "susceptible to accrual" concept to intergovernmental revenues pursuant to GASB Statement #33, the provider should recognize liabilities and expenses and the recipient should recognize receivables and revenues when the applicable eligibility requirements, including time requirements, are met. Resources transmitted before the eligibility requirements are met should under most circumstances, be reported as advances by the provider and deferred revenues by the recipient.

2. FINANCIAL STATEMENT PRESENTATION

The financial transactions of the City are recorded in individual funds. Each fund is accounted for by providing a separate set of self-balancing accounts that comprise its assets, liabilities, reserves, fund equity, revenues, and expenditures, or expenses as appropriate. The various funds are reported by generic classification within the financial statements. Governmental resources allocated to, and accounted for, in the individual funds are based on the specific activities in accordance with laws, regulations, or other restrictions.

GOVERNMENTAL FUNDS:

The focus of Governmental Funds measurement (in the Fund Financial Statements) is upon determination of financial position and changes in financial position (sources, uses, and balances of financial resources) rather than upon net income. The following is a description of the Governmental Funds of the City:

NOTE 2 MEASUREMENT FOCUS, BASIS OF ACCOUNTING, AND FINANCIAL STATEMENT PRESENTATION (continued)

General Fund is the general operating fund of the City. It is used to account for all financial resources except those required to be accounted for in another fund.

Special Revenue Funds are used to account for the proceeds of specific revenue sources that are legally restricted to expenditures for specified purposes.

Debt Service Funds are used to account for the accumulation of funds for the periodic payment of principal and interest on governmental bonds, loans, and capital leases.

Capital Projects Funds are used to account for the financial resources to be used for the acquisition and construction of major capital facilities (other than those financed by Business-type/Proprietary Funds).

Non-Current Governmental Assets/Liabilities:

GASB Statement #34 eliminates the presentation of Account Groups, but provides for these records to be maintained and incorporates the information into the Governmental column in the government-wide Statement of Net Assets.

Fund Balance Designations

Certain fund balances or portions thereof have been reserved to indicate amounts that are not appropriated for expenditures or are legally segregated for a specific future purpose. Designation of a portion of the fund balance is established to indicate tentative plans for financial resource utilization in a future period.

Fund Balance Classification

The governmental fund financial statements present fund balances based on classifications that comprise a hierarchy that is based primarily on the extent to which the District is bound to honor constraints on the specific purposes for which amounts in the respective governmental funds can be spent. The classifications used in the governmental fund financial statements are as follows:

Nonspendable - This classification includes amounts that cannot be spent because they are either (a) not in spendable form, or (b) they are legally or contractually required to be maintained intact. Nonspendable items are not expected to be converted to cash, or are not expected to be converted to cash within the next year.

Restricted - This classification includes amounts for which the constraints that have been placed on the use of the resources are either (a) externally imposed by creditors, grantors, contributors, or by laws or regulations of other governments, or (b) imposed by law through constitutional provisions or by enabling legislation.

Committed - This classification includes amounts that can be used only for specific purposes pursuant to constraints imposed by order of the Board of Directors, the District's highest level of decision making authority. These amounts cannot be used for any other purpose unless the Board of Directors removes or changes the specified use by taking the same type of action that was employed when the fund were initially committed.

NOTE 2 MEASUREMENT FOCUS, BASIS OF ACCOUNTING, AND FINANCIAL STATEMENT PRESENTATION (continued)

Assigned - This classification includes amounts that are constrained by the District's intent to be used for a specific purpose but are neither restricted nor committed.

Unassigned - This classification includes the residual fund balance for the General Fund.

NOTE 3 ASSETS, LIABILITIES AND FUND EQUITY

1. Cash and Investments

The City's cash at September 30, 2011 totaled $12,806. These deposits were covered by federal depository insurance. Therefore, the City considers all of its deposits to be category 2, in that the Collateral is in the City's name and held by the Bank.

The City reporting entity considers highly liquid investments with an original maturity of three months or less when purchased to be cash equivalents.

The City had no investments at September 30, 2011.

2. Capital Assets and Depreciation

Capital Assets which include property, plant, equipment and infrastructure assets (e.g. roads and similar immovable items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements.

Capital assets are defined as assets with an initial, individual cost of more than $5,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair 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's lives are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed.

Capital assets of the City are depreciated using the straight-line method over the estimated useful life of the assets as follows:

Buildings and improvements	15 to 40 years
Equipment (computer, office and vehicles)	5 years
Infrastructure-water and wastewater lines and pump stations	40 years

3. INTERFUND TRANSACTIONS

During the course of normal operations, the City has many transactions between funds. The accompanying Fund Level financial statements reflect as transfers the expenditures and transfers of resources to provide services, construct assets and meet debt service requirements. The effect of interfund activity has been eliminated in the Government-wide financial statements, except for transactions between the governmental and business-type activities.

NOTE 3 ASSETS, LIABILITIES AND FUND EQUITY (continued)

4. DUE FROM OTHER GOVERNMENTAL UNITS

To recognize resources available for Special Revenue Funds and Capital Projects Funds, the City records amounts due from grantors upon receipt of the award and records the award as deferred revenue. For grants that require expenditures for eligible grant purposes in order to earn the award, revenues are recognized when expenditures are made. For other grants and financial assistance, the amounts due from other governmental units and deferred revenue are reduced upon receipt of payment and revenues are them recognized.

5. FUND EQUITY

Certain fund balances or portions thereof have been reserved to indicate amounts that are not appropriated for expenditures or are legally segregated for a specific future purpose. Designation of a portion of the fund balance is established to indicate tentative plans for financial resource utilization in a future period.

6. CAPITAL GRANT

Capital grants restricted for capital acquisitions or construction are accounted for in the applicable Capital Projects Funds. Grant monies restricted for acquisition of Enterprise Fund capital assets are recorded as contributed equity in the applicable enterprise fund. Therefore, depreciation expense relating to fixed assets contributed or acquired with grant monies is deducted from the applicable contributed capital.

7. COMPENSATED ABSENCES

The City's personnel policy does not allow for eligibility of vacation and/or sick leave.

8. BUDGETARY INFORMATION

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

A. The City Mayor is the budget officer and has the responsibility of preparing the City's budgeted expenditures.

B. All City departments and organizations submit their budget requests to the City Mayor for the fiscal year commencing the following October 1, by July 1.

C. During July, City Council conducts informal budget workshops with each department head to discuss their budget requests.

D. On or about July 31, the City Mayor prepares a proposed budget to cover all proposed expenditures of the City for the current year. The proposed budget is available for inspection by taxpayers.

NOTE 3 ASSETS, LIABILITIES AND FUND EQUITY (continued)

E. After the filing of the proposed budget, on a date after August 15th, but prior to September 30 of the current year, City Council conducts a public hearing on the City's proposed budget. Any taxpayer of the City of City of Encinal had the right to present and participate in the hearing. At the conclusion of the hearing, the proposed budget, as prepared by the City Mayor, is acted upon by the City Council. The Court had the authority to make such changes in the budget, as in its judgment the facts and the law warrant and the interest of the taxpayers demand, provided the amounts budgeted for current expenditures from the various funds for the City do not exceed the balances in these funds as of October 1 plus the anticipated revenue for the current year for which the budget is made, as estimated by the City Mayor.

F. Under no circumstances can City Council authorize expenditures that will exceed appropriations. City Council must authorize budget amendments transferring funds among different departments within the same fund.

Anytime any revisions are necessary that alter the total appropriations of any fund, City Council must enter an order setting forth how the budget is to be amended, declaring an emergency, finding that grave public necessity exists to meet unusual and unforeseen conditions which could not, by reasonably diligent thought and attention, have been included in the original budget.

Budgets adopted on an annual basis are consistent with generally accepted accounting principles. Annual appropriated budgets are adopted for the general, non-grant special revenue, and debt service funds. All annual appropriations lapse at fiscal year end. Budgetary integration is not employed for capital projects funds, because they include projects which extend over a period of several years.

NOTE 4 DUE FROM OTHER GOVERNMENTS

Significant amounts due from other governments include:

Due From	Amount
Capital Projects	
Texas Dept. of Housing & Community Affairs	$ 0
Office of Rural Community Affairs	0
	$ 0

NOTE 5 CAPITAL ASSETS

Governmental Activities
Details of changes in capital assets for the year September 30, 2010 are as follows:

	Balance 10/1/2010	Additions	Deletions	Balance 9/30/2011
Buildings and improvements	$ 10,750	$ 21,418	$ 0	$ 32,168
Furniture and equipment	28,819	19,397	0	48,216
Infrastructure	273,754	364,528	0	638,282
	$ 313,323	$ 405,343	$ 0	718,666
Less accumulated depreciation				(99,866)
Totals				$ 618,800

Depreciation expense for governmental activities for the year September 30, 2011 was $36,153.

NOTE 6 DETAILED NOTES ON FUNDS, ACCOUNT GROUPS AND COMPONENT UNITS

A. Assets

Property Taxes Receivable and Property Tax Calendar

Property is appraised and a lien on such property becomes enforceable as of January 1, subject certain procedures for rendition, appraisal, appraisal review, and judicial review. Property taxes are levied by October 1 of year in which assessed, or as soon thereafter as practicable. Taxes are due and payable from October 1 of the year in which levied until January 31 of the following year without penalty or interest.

Collections of the current year's levy are reported as current collections if received by June 30, (within 9 months of the October 1 due date). Collections received thereafter are reported as delinquent collections. The City's taxes on real property are a lien against such property until paid. The City may foreclose on real property upon which it has a lien for unpaid taxes.

Tax Rates

The 2010 tax roll (for the period October 1, 2010 to September 30, 2011 was $0.52345 per $100 valuation. This roll year tax was used to the City's 2011 fiscal year operations.

B. Liabilities

Risk Management- Claims and Judgments

The City is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; and natural disasters for which the City carries commercial insurance.

NOTE 6 DETAILED NOTES ON FUNDS, ACCOUNT GROUPS AND COMPONENT UNITS (continued)

Liabilities are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. Liabilities include an amount for claims that have been incurred but not reported (IBNRs). Claim liabilities are calculated considering the effects of inflation, recent claim settlement trends including frequency and amount of pay-outs and other economic and social factors. The liability for claims and judgments is reported in the general long-term debt account group because it is not expected to be liquidated with expendable available financial resources. The City did not have any such financial activity at the beginning, during, or the ending of the 2011 fiscal year. There were no significant reductions in insurance coverage from coverage in the prior year. Also, the amount of settlements did not exceed insurance coverage in past three years.

NOTE 7 RETIREMENT PLANS

Plan Descriptions, Contribution Information and Fund Policies

The City does not provide pension benefits for its full-time employees.

NOTE 8 CONTINGENCIES

Litigation

The City is contingently liable in respect of lawsuits and other claims in the ordinary course of its operations. Should such contingencies become a real liability, funds would have to be appropriated in future budgets for settlement.

At September 30, 2011, the City had no lawsuits pending that are expected to have a material effect on the City's financial condition.

Supplementary Information

CITY OF ENCINAL, TEXAS

GENERAL FUND

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE

BUDGET AND ACTUAL

YEAR ENDED SEPTEMBER 30, 2011

	Budgeted Amounts Original	Budgeted Amounts Final	Actual Amounts, Budgetary Basis	Variance with Final Budget Positive (Negative)
REVENUES:				
Taxes:				
Current Property Taxes	$ 62,225	$ 62,225	$ 60,665	$ (1,560)
Sales Tax	135,000	135,000	192,244	57,244
Franchise Fees	22,000	22,000	31,142	9,142
Total taxes	219,225	219,225	284,051	64,826
Fines and Fees	-	-	45,012	45,012
Intergovernmental	-	-	364,528	364,528
Licenses and permits:				
Permits	1,000	1,000	1,271	271
Total licenses and permits	1,000	1,000	1,271	271
Charges for services:				
Garbage Fees	54,000	54,000	60,552	6,552
Total charges for services	54,000	54,000	60,552	6,552
Other:				
Refunds, Reimbursements and Other	2,500	2,500	-	(2,500)
Total Other	2,500	2,500	-	(2,500)
TOTAL REVENUES	$ 276,725	$ 276,725	$ 755,414	$ 478,689
EXPENDITURES:				
GENERAL GOVERNMENT				
City Hall				
Personal Services	$ 36,944	$ 36,944	$ 26,627	$ 10,317
Supplies	21,000	21,000	28,754	(7,754)
Other Services and Charges	52,500	52,500	135,614	(83,114)
Capital Outlay	-	-	364,528	(364,528)
Total City Hall Expenses	110,444	110,444	555,523	(445,079)
Total General Government	110,444	110,444	555,523	(445,079)
DEBT SERVICE				
Principal	6,086	6,086	6,086	-
Interest	4,196	4,196	4,400	(204)
Total Debt Service	10,282	10,282	10,486	(204)
JUDICIAL				
Municipal Court				
Personal Services	-	-	-	-
Supplies	-	-	127	(127)
Other Services and Charges	-	-	16,579	(16,579)
Capital Outlay	-	-	-	-
Total Municipal Court	-	-	16,706	(16,706)
Total Judicial	-	-	16,706	(16,706)

CITY OF ENCINAL, TEXAS

GENERAL FUND

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE

BUDGET AND ACTUAL

YEAR ENDED SEPTEMBER 30, 2011

	Budgeted Amounts		Actual Amounts,	Variance with Final Budget Positive
	Original	Final	Budgetary Basis	(Negative)
PUBLIC SAFETY				
Police Department				
Personal	-	-	-	-
Supplies	-	-	6,259	(6,259)
Other Services and Charges	-	-	53,475	(53,475)
Capital Outlay	-	-	-	-
Total Police Department	-	-	59,734	(59,734)
Total Public Safety	-	-	59,734	(59,734)
PUBLIC SERVICE				
Sanitation				
Personal	58,344	58,344	22,708	35,636
Supplies	18,000	18,000	722	17,278
Other Services and Charges	60,000	60,000	89,641	(29,641)
Total Sanitation	136,344	136,344	113,071	23,273
Total Public Service	136,344	136,344	113,071	23,273
TOTAL EXPENDITURES	257,070	257,070	755,520	(498,450)
Excess (deficiency) of revenues over expenditures	19,655	19,655	(106)	(19,761)
Other Financing Sources (Uses):				
Operating transfers in	-	-	-	-
Operating transfers out	-	-	-	-
Other financing uses-loan proceeds	-	-	-	-
Net other financing sources (uses)	-	-	-	-
Excess (deficiency) of revenues and other financing sources over expenditures and other financing uses	19,655	19,655	(106)	(19,761)
FUND BALANCE AT BEGINNING OF YEAR	49,428	49,428	49,428	-
FUND BALANCE AT END OF YEAR	$ 69,083	$ 69,083	$ 49,322	$ (19,761)

CITY OF ENCINAL, TEXAS
ENCINAL ECONOMIC DEVELOPMENT CORPORATION
STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCE
FOR THE YEAR ENDED SEPTEMBER 30, 2011

	Budget	Current Year	Variance
REVENUES:			
Intergovernmental	$ 64,081	$ 64,081	$ -
Interest	-	-	-
Total Revenues	64,081	64,081	-
EXPENDITURES:			
Public Service			
Administration	-	-	-
Marketing and Promotion	64,081	89,925	(25,844)
Total Expenditures	64,081	89,925	(25,844)
Excess (deficiency) of revenues over expenditures	-	(25,844)	(25,844)
Other Financing Sources (Uses):			
Operating Transfers In	-	-	-
Operating Transfers Out	-	-	-
Net Other Financing Sources (Uses)	-	-	-
Excess (deficiency) of revenues and other financing sources over expenditures and other financing uses	-	(25,844)	(25,844)
Fund Balance at beginning of year	43,030	43,030	-
Fund Balance at end of year	$ 43,030	$ 17,186	$ (25,844)

SOUTH TEXAS DEVELOPMENT COUNCIL

SCHEDULE OF REVENUES, EXPENDITURES AND QUESTIONED COSTS

TEXAS DEPARTMENT OF TRANSPORTATION STREETS & DRAINAGE PROJECT

	Approved Budget	Cumulative through 9/30/2010	Current Year	Project Total	Reference to Questioned Costs
REVENUES					
State and federal:					
Received	$ 331,453	$ 102,419	$ 229,034	$ 331,453	
Receivable (deferred)	-	-	-	-	
Local Funds	25,703	25,703	-	25,703	
Total revenues	$ 357,156	$ 128,122	$ 229,034	$ 357,156	
EXPENDITURES					
Direct:					
Streets & Drainage	$ 357,156	$ 128,122	$ 229,034	$ 357,156	
Total direct expenditures	357,156	128,122	229,034	357,156	
Indirect expenditures	-	-	-	-	
Total expenditures	$ 357,156	$ 128,122	$ 229,034	$ 357,156	
EXCESS OF REVENUES OVER EXPENDITURES	$ -	$ -	$ -	$ -	

CITY OF ENCINAL, TEXAS

SCHEDULE OF REVENUES, EXPENDITURES
AND QUESTIONED COSTS

BORDER COLONIA
STREETS AND DRAINAGE PROJECT

	Approved Budget	Current Year	Project Total	Reference to Questioned Costs
REVENUES				
State and federal:				
Received	$ 163,410	$ 163,410	$ 163,410	
Receivable (deferred)	-	-	-	
Local Funds	-	-	-	
Total revenues	$ 163,410	$ 163,410	$ 163,410	
EXPENDITURES				
Direct:				
Streets and Drainage	$ 163,410	$ 163,410	$ 163,410	
Total direct expenditures	163,410	163,410	163,410	
Indirect expenditures	-	-	-	
Total expenditures	$ 163,410	$ 163,410	$ 163,410	
EXCESS OF REVENUES OVER EXPENDITURES	$ -	$ -	$ -	

CITY OF ENCINAL, TEXAS

SCHEDULE OF REVENUES, EXPENDITURES
AND QUESTIONED COSTS

TEXAS DEPARTMENT OF RURAL AFFAIRS
WEATHERIZATION

	Approved Budget	Current Year	Project Total	Reference to Questioned Costs
REVENUES				
State and federal:				
Received	$ 23,030	$ 23,030	$ 23,030	
Receivable (deferred)	-	-	-	
Local Funds	-	-	-	
Total revenues	$ 23,030	$ 23,030	$ 23,030	
EXPENDITURES				
Direct:				
Weatherization	$ 23,030	$ 23,030	$ 23,030	
Total direct expenditures	23,030	23,030	23,030	
Indirect expenditures	-	-	-	
Total expenditures	$ 23,030	$ 23,030	$ 23,030	
EXCESS OF REVENUES OVER EXPENDITURES	$ -	$ -	$ -	

FLORES AUDITING, PLLC

3112 SPRING CREEK
LAREDO, TX 78045
Tel: (956) 717-4193; Fax (956) 717-1484

Gloria E. 'Gigi' Flores, CPA **Jorge C. Flores, Manager**

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

To the City Council
City of Encinal, Texas

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of City of Encinal, Texas, as of and for the year ended September 30, 2011, which collectively comprise the City of Encinal, Texas's basic financial statements and have issued our report thereon dated June 14, 2013. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

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

Flores Auditing, PLLC

Flores Auditing, PLLC

Laredo, TX
June 14, 2013