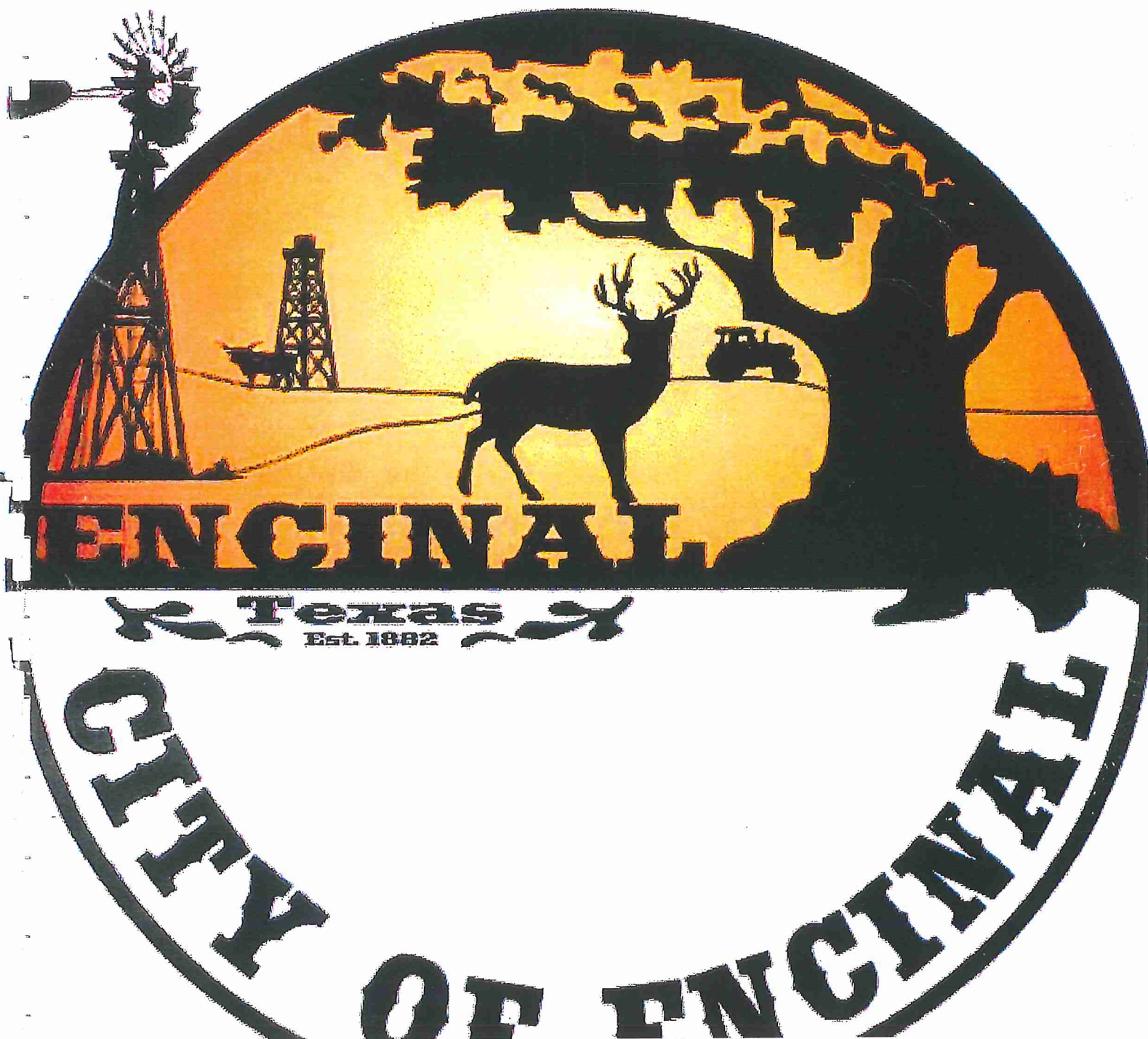


CITY OF ENCINAL, TEXAS

*AUDITED FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION*

FOR THE YEAR ENDED SEPTEMBER 30, 2010



City of Encinal, Texas

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Financial Statements

FLORES AUDITING, PLLC

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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, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Encinal, Texas, as of and for the year ended September 30, 2010, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Encinal, Texas, as of September 30, 2010, 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.

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 16 through 17 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.

Flores Auditing, PLLC

Flores Auditing, PLLC

Laredo, TX

December 14, 2012

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, 2010. 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 2010 by \$290,959 (total net assets). Of this amount, \$68,256 (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 \$24,462 during 2010.

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 \$92,458, an increase of \$17,544 in comparison with the prior year.
- At the end of the current fiscal year, unreserved fund balance for the general fund was \$49,428, or 16% of total general fund expenditures.
- For the fiscal year ended September 30, 2010, general fund revenues totaled \$356,218, an increase of \$106,226 over the prior fiscal year.
- For the fiscal year ended September 30, 2010, general fund expenditures totaled \$321,587, an increase of \$71,372 over the prior fiscal year.

City of Encinal, Texas
Statement of Net Assets
September 30, 2010

	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash and equivalents	\$ 9,134	\$ -	\$ 9,134
Cash and equivalents - restricted	38,772	-	38,772
Receivables	62,020	-	62,020
Other current assets	1,360	-	1,360
Capital assets			
Infrastructure	273,754	-	273,754
Buildings and improvements	10,750	-	10,750
Equipment and furniture	28,819	-	28,819
Less: accumulated depreciation	(63,713)	-	(63,713)
Total capital assets	<u>249,610</u>	<u>-</u>	<u>249,610</u>
Total assets	<u>360,896</u>	<u>-</u>	<u>360,896</u>
LIABILITIES			
Accounts payable and accrued expenses	-	-	-
Notes payable	69,937	-	69,937
Total liabilities	<u>69,937</u>	<u>-</u>	<u>69,937</u>
NET ASSETS			
Invested in capital assets, net of related debt	179,673	-	179,673
Restricted for:			
Economic Development Board	43,030	-	43,030
Unrestricted	68,256	-	68,256
Total net assets	<u>\$ 290,959</u>	<u>\$ -</u>	<u>\$ 290,959</u>

The accompanying notes are an integral part of these financial statements

City of Encinal, Texas
Statement of Activities
For the Year Ended September 30, 2010

Functions/Programs	Program Revenue			Net (Expense) Revenue and Changes in Net Assets		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Primary Government Business-type Activities
Primary Government						
Governmental activities						
General government	\$ 190,407	\$ 4,486	\$ -	\$ -	\$ (185,921)	\$ -
Public safety	-	-	-	-	-	-
Public service	179,819	56,119	-	55,000	(68,700)	-
Infrastructure and environmental services	-	-	-	-	-	-
Total governmental activities	370,226	60,605	-	55,000	(254,621)	-
Business-type activities						
Total business-type activities	-	-	-	-	-	-
Total primary government	\$ 370,226	\$ 60,605	\$ -	\$ 55,000	(254,621)	(254,621)
General revenues:						
Taxes:						
Property taxes, levied for general purposes					76,283	76,283
Sales Tax					179,680	179,680
Franchise Fees					23,120	23,120
Miscellaneous					-	-
Transfers					-	-
Total general revenues, special items, and transfers					279,083	279,083
Change in net assets					24,462	24,462
Net Assets-beginning					266,497	273,755
Net Assets-ending					\$ 290,959	\$ 298,217

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

City of Encinal, Texas
Balance Sheet
Governmental Funds
September 30, 2010

	General Fund	Economic Development Corporation	Total Governmental Funds
ASSETS			
Cash and cash equivalents	\$ 9,134	\$ -	\$ 9,134
Cash and cash equivalents - restricted	-	38,772	38,772
Due from other funds	-	4,258	4,258
Taxes receivable, net	18,828	-	18,828
Accounts receivable	43,192	-	43,192
Other current assets	1,360	-	1,360
Total assets	<u>72,514</u>	<u>43,030</u>	<u>115,544</u>
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts Payable	-	-	-
Due to other funds	4,258	-	4,258
Deferred revenue	18,828	-	18,828
Total liabilities	<u>23,086</u>	<u>-</u>	<u>23,086</u>
Fund balances:			
Unassigned, reported in:			
General fund	49,428	-	49,428
Restricted for Special Revenue	-	-	-
Restricted for Debt Service	-	-	-
Restricted for Economic Development	-	43,030	43,030
Total fund balances	<u>49,428</u>	<u>43,030</u>	<u>92,458</u>
Total liabilities and fund balances	<u>\$ 72,514</u>	<u>\$ 43,030</u>	<u>\$ 115,544</u>

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, 2010

Total fund balance, governmental funds	\$ 92,458
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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	313,323
Deduct - accumulated depreciation	(63,713)

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.

18,828

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.

(69,937)

Net Assets of Governmental Activities in the Statement of Net Assets	<u>\$ 290,959</u>
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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, 2010

	General Fund	Economic Development Corporation	Total Governmental Funds
REVENUES			
Taxes	\$ 240,613	\$ 44,920	\$ 285,533
Licenses and permits	4,486	-	4,486
Intergovernmental	55,000	-	55,000
Interest	-	-	-
Charges for services	56,119	-	56,119
Miscellaneous	-	-	-
Total revenues	<u>356,218</u>	<u>44,920</u>	<u>401,138</u>
EXPENDITURES			
Current:			
General government	193,493	-	193,493
Debt Service	10,282	-	10,282
Public service	117,812	62,007	179,819
Total expenditures	<u>321,587</u>	<u>62,007</u>	<u>383,594</u>
Excess (deficiency) of revenues over expenditures	<u>34,631</u>	<u>(17,087)</u>	<u>17,544</u>
OTHER FINANCING SOURCES (USES)			
Transfers in	-	-	-
Transfers out	-	-	-
Other financing sources	-	-	-
Total other financing sources and uses	<u>-</u>	<u>-</u>	<u>-</u>
Net change in fund balances	34,631	(17,087)	17,544
Fund balances - beginning	14,797	60,117	74,914
Fund balances - ending	<u>\$ 49,428</u>	<u>\$ 43,030</u>	<u>\$ 92,458</u>

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, 2010

Net change in fund balances - total governmental funds:	\$ 17,544
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 \$21,428 exceeded depreciation \$13,123 in the current period	8,305
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.	5,063
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.	(6,450)
Change in net assets of governmental activities	<u>\$ 24,462</u>

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

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

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.

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

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 :

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

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.

NOTE 3 ASSETS, LIABILITIES AND FUND EQUITY

1. Cash and Investments

The City's cash at September 30, 2010 totaled \$47,906. 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, 2010.

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.

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

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.

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 then 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.

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

- 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.
- 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 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:

<u>Due From</u>	<u>Amount</u>
<i>Capital Projects</i>	
Texas Dept. of Housing & Community Affairs	\$ 0
Office of Rural Community Affairs	<u>0</u>
	<u>\$ 0</u>

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

NOTE 5 CAPITAL ASSETS

Governmental Activities

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

	Balance 10/1/2009	Additions	Deletions	Balance 9/30/2010
Buildings and improvements	\$ 10,000	\$ 750	\$ 0	\$ 10,750
Furniture and equipment	28,359	460	0	28,819
Infrastructure	253,536	20,218	0	273,754
	<u>\$ 291,895</u>	<u>\$ 21,428</u>	<u>\$ 0</u>	<u>313,323</u>
Less accumulated depreciation				(63,713)
Totals				<u>\$ 249,610</u>

Depreciation expense for governmental activities for the year September 30, 2010 was \$13,123.

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 2009 tax roll (for the period October 1, 2009 to September 30, 2010 was \$0.52345 per \$100 valuation. This roll year tax was used to the City's 2010 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.

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

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 2010 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

A. 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, 2010, the City had no lawsuits pending that are expected to have a material effect on the City's financial condition.

B. Federal Grants

In the normal course of operation, the City receives funds from various federal and state agencies. Although these programs have been audited in accordance with the Single Audit Act Amendments of 1996 and U. S. Office of Management and Budget Circular A-133, "Audits of State, Local Governments, and Non-Profit Organizations" through September 30, 2010, the grant programs are still subject to audit by agents of the granting authority, the purpose of which is to ensure compliance with conditions precedent to the granting of funds. Any liability for reimbursement which may arise as the result of these audits is not believed to be material.

Supplementary Information

CITY OF ENCINAL, TEXAS
GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
YEAR ENDED SEPTEMBER 30, 2010

	<u>Budgeted Amounts</u>		<u>Actual Amounts,</u>	<u>Variance with</u>
	<u>Original</u>	<u>Final</u>	<u>Budgetary Basis</u>	<u>Final Budget</u>
				<u>Positive</u>
				<u>(Negative)</u>
REVENUES:				
Taxes:				
Current Property Taxes	\$ 38,000	\$ 38,000	\$ 82,733	\$ 44,733
Sales Tax	127,500	127,500	134,760	7,260
Franchise Fees	33,000	33,000	23,120	(9,880)
Total taxes	198,500	198,500	240,613	42,113
Intergovernmental	-	-	55,000	55,000
Licenses and permits:				
Permits	1,000	1,000	4,486	3,486
Total licenses and permits	1,000	1,000	4,486	3,486
Charges for services:				
Garbage Fees	50,000	50,000	56,119	6,119
Total charges for services	50,000	50,000	56,119	6,119
Other:				
Refunds, Reimbursements and Other	2,500	2,500	-	(2,500)
Total Other	2,500	2,500	-	(2,500)
TOTAL REVENUES	\$ 252,000	\$ 252,000	\$ 356,218	\$ 104,218
EXPENDITURES:				
GENERAL GOVERNMENT				
City Hall				
Personal Services	\$ 46,464	\$ 46,464	\$ 47,882	\$ (1,418)
Supplies	18,000	18,000	14,146	1,854
Other Services and Charges	57,500	57,500	110,037	(52,537)
Capital Outlay	-	-	21,428	(21,428)
Total City Hall Expenses	119,964	119,964	193,493	(73,529)
Total General Government	119,964	119,964	193,493	(73,529)
DEBT SERVICE				
Principal	5,755	5,755	5,063	692
Interest	4,426	4,426	5,219	(793)
Total Debt Service	10,181	10,181	10,282	(101)
PUBLIC SERVICE				
Sanitation				
Personal	51,080	51,080	37,379	13,701
Supplies	13,000	13,000	7,019	5,981
Other Services and Charges	52,000	52,000	73,414	(21,414)
Total Sanitation	116,080	116,080	117,812	(1,732)
Total Public Service	116,080	116,080	117,812	(1,732)
TOTAL EXPENDITURES	246,225	246,225	321,587	(75,362)
Excess (deficiency) of revenues over expenditures	5,775	5,775	34,631	28,856
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	5,775	5,775	34,631	28,856
FUND BALANCE AT BEGINNING OF YEAR	14,797	14,797	14,797	-
FUND BALANCE AT END OF YEAR	\$ 20,572	\$ 20,572	\$ 49,428	\$ 28,856

CITY OF ENCINAL, TEXAS
ENCINAL ECONOMIC DEVELOPMENT CORPORATION
STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCE
FOR THE YEAR ENDED SEPTEMBER 30, 2010

	Budget	Current Year	Variance
REVENUES:			
Intergovernmental	\$ 44,920	\$ 44,920	\$ -
Interest	-	-	-
Total Revenues	<u>44,920</u>	<u>44,920</u>	<u>-</u>
 EXPENDITURES:			
Public Service			
Administration	-	-	-
Marketing and Promotion	56,176	62,007	(5,831)
Total Expenditures	<u>56,176</u>	<u>62,007</u>	<u>(5,831)</u>
 Excess (deficiency) of revenues over expenditures	<u>(11,256)</u>	<u>(17,087)</u>	<u>(5,831)</u>
 Other Financing Sources (Uses):			
Operating Transfers In	-	-	-
Operating Transfers Out	-	-	-
Net Other Financing Sources (Uses)	<u>-</u>	<u>-</u>	<u>-</u>
 Excess (deficiency) of revenues and other financing sources over expenditures and other financing uses	<u>(11,256)</u>	<u>(17,087)</u>	<u>(5,831)</u>
 Fund Balance at beginning of year	<u>60,117</u>	<u>60,117</u>	<u>-</u>
Fund Balance at end of year	<u>\$ 48,861</u>	<u>\$ 43,030</u>	<u>\$ (5,831)</u>

