

City of McAllen, Texas

Comprehensive Annual Financial Report

For The Fiscal Year

Ended

September 30, 2006



CITY OF McALLEN, TEXAS

Comprehensive Annual Financial Report

For the Fiscal Year Ended September 30, 2006

**Prepared by:
Department of Finance**

CITY OF McALLEN, TEXAS
COMPREHENSIVE ANNUAL FINANCIAL REPORT
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2006

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INTRODUCTORY SECTION



December 1, 2006

RICHARD F. CORTEZ, Mayor
JAN M. KLINCK, Mayor Pro-Tem and Commissioner District 6
SCOTT C. CRANE, Commissioner District 1
MARCUS C. BARRERA, Commissioner District 2
HILDA SALINAS, Commissioner District 3
AIDA RAMIREZ, Commissioner District 4
JOHN J. INGRAM, Commissioner District 5

MIKE R. PEREZ, City Manager

Honorable Mayor
Members of the City Commission
Members of the Public Utility Board of Trustees
Citizens of McAllen
City of McAllen
McAllen, Texas 78505

State and local law requires that the City of McAllen publish annually a complete set of financial statements presented in conformity with generally accepted accounting principles (GAAP) in the United States of America and audited in accordance with generally accepted auditing standards by a firm of licensed certified public accountants. Accordingly, we hereby respectfully submit the Comprehensive Annual Financial Report of the City of McAllen for the fiscal year ended September 30, 2006.

This report contains management's representations relating to the finances of the City of McAllen. Therefore, management assumes full responsibility for the completeness and reliability of all of the information presented in this report. In order to provide for a reasonable basis for making these representations, management has established a comprehensive internal control framework that is designed both to protect the City's assets from loss, theft or misuse as well as to compile sufficient reliable information for the preparation of the City of McAllen's financial statements in conformity with GAAP. Since the cost of internal controls should not outweigh their benefits, the City of McAllen's comprehensive framework of internal controls has been designed to provide reasonable rather than absolute assurance that the financial statements will be free from material misstatement. We, as management, assert that, to the best of our knowledge and belief, this financial report is complete and reliable in all material respects.

The Comprehensive Annual Financial Report is presented in the four traditional sections: introductory, financial, statistical and single audit. The introductory section, which is unaudited, includes this letter of transmittal, an organizational chart and a list of the City of McAllen's principal elected and appointed officials. The financial section includes the basic financial statements, including the related notes, which are covered by the independent auditors' opinion. Required supplementary information, which includes Management's Discussion and Analysis is also included, however, is not covered by the independent auditors' opinion, although the auditors are associated with this information and do apply limited procedures. The financial section also includes various combining and individual fund financial statements and schedules, which are covered by the auditors' opinion, however, only in relation to the basic financial statements taken as a whole. The statistical section, which is unaudited, includes selected financial and demographic information, generally presented on a multi-year basis.

The City of McAllen is required to undergo an annual single audit in conformity with the provisions of the Single Audit Act of 1984 and the U.S. Office of Management and Budget's Circular A-133, *Audits of State and Local Governments and Non-Profit Organizations*. Information related to this single audit, including a schedule of expenditures of federal awards, the independent auditors' reports on internal controls and compliance with applicable laws and regulations, and a schedule of findings and questioned costs are included in the single audit section of this report.

The financial reporting entity (the government) includes all the funds the primary government (i.e., the City of McAllen as legally defined). The City of McAllen provides a full range of services including police and fire protection, recreational and cultural activities, water, sewer, sanitation and recycling services, a municipal golf course, a civic center, an international airport, intermodal transit terminal, a transit system and an international toll bridge operation.

The City acts in the capacity of fiduciary for the Firemen's Relief and Retirement Fund and Developer's Fund; therefore, these activities are included in the reporting entity. However, the McAllen Independent School District (MISD), McAllen Chamber of Commerce (MCC), McAllen Economic Development Corporation (MEDC), McAllen Affordable Homes, Inc. (MAHI), and the Texas Municipal Retirement System (TMRS) do not meet the established criteria for inclusion in the reporting entity, and accordingly are excluded from this report.

Generally accepted accounting principles require that management provide a narrative introduction, overview and analysis to accompany the basic financial statements in the form of Management's Discussion and Analysis (MD&A). This letter of transmittal is designed to complement MD&A and should be read in conjunction with it. The City of McAllen's MD&A can be found immediately following the report of the independent auditors.

CITY STRUCTURE, LOCAL ECONOMIC CONDITION AND OUTLOOK

The City of McAllen, incorporated in 1911 and the largest city in Hidalgo County, is located at the intersection of U. S. Highway 83 and State Highway 336. It is approximately 230 miles south of San Antonio, 150 miles north of Monterrey, Nuevo Leon, Mexico, a city with a population of over 5 million including the surrounding suburbs, and just 7 miles north of Reynosa, Tamps. Mexico. Within a 150-mile radius of McAllen, its trade area represents approximately 10 million people. According to the 2000 census, McAllen's population was 106,414, increasing 26.7% since 1990. Over the last 10 to 15 years, the City's economy has undergone a significant transformation, characterized by a decreasing reliance on agriculture. As a consequence of this transformation, the City has experienced substantial economic growth that has spurred growth in employment with a corresponding decline in its unemployment rate.

According to the Texas Workforce Commission, over the last 15 years the McAllen-Edinburg-Mission MSA employment in the nonagricultural sector has grown from 103,500 in 1991 to 205,400 in 2006—a 99% increase. Currently with total employment at 255,393, the employment rate is 6.6%. Some of the more significant employment numbers by industry, include government; trade, transportation and utilities; education and health services; and leisure and hospitality.

The Maquiladora "Twin Plant" Program, under which U.S. firms locate manufacturing facilities in Mexico accompanied by warehousing facilities in McAllen's foreign trade zone in order to cut

labor costs and remain competitive, has been responsible for a large part of the job growth. Since 1988 the McAllen Economic Development Corporation has been responsible for bringing 223 new companies, representing 16,921 new jobs to McAllen. Its efforts have also resulted in 292 new companies, representing 72,301 new jobs for Reynosa. The impact of the North American Free Trade Agreement (NAFTA), as it continues to develop, has also played a major role in increased trade with Mexico for the City as well as it the State of Texas. During 2005 Texas exported \$50B to Mexico, which represented over 39% of Texas' total exports—making Mexico its Number One Trading Partner. As NAFTA continues to mature, the City of McAllen's international toll bridge, connecting Hidalgo, Texas with Reynosa, will continue to facilitate trade between Mexico and the U. S.; and, more particularly the City with its proximity to Mexico and strong social, economic and cultural ties with the people of Mexico.

As a result of the job growth created by this transforming economy, the City's unemployment rate declined by 65% over the last ten years. McAllen's unemployment rate, which in September 1996 was 13.4%, declined to 4.7% as of September 2006.

By almost any growth index, the City is experiencing, and indications are, will continue to experience substantial growth. Contributors to the City's growth include its position as a regional trade center and medical center, which covers the Lower Rio Grande Valley and Northern Mexico--almost 10 million people, its tourist trade consisting of "Winter Texans"--mostly retired from the northern and Midwestern states escaping the cold grip of winter for 4-6 months and visitors from Mexico, its maquiladora industry, and the effects of NAFTA.

The City is empowered to levy a property tax on both real and business personal property located within its boundaries. The City also has the power by state statute to extend its corporate limits by annexation, which it has done from time to time, as deemed appropriate by the City Commission.

The City has operated under the council-manager form of government since 1911. Policymaking and legislative authority is vested in the City Commission, which currently consists of a mayor and a six-member commission. The City Commission is responsible, among other things, for passing ordinances, adopting the budget, appointing committees and hiring the City Manager, City Secretary, Police Chief, Fire Chief, the City Attorney and the Municipal Judges. The City Manager is responsible for carrying out the policies and ordinances of the City Commission, for overseeing the day-to-day operations of the City, and for appointing the heads of the City's departments. The City Commission is elected on a non-partisan basis. In May 2000 the voters decided in favor of single member district representation. Under this system, City Commission members are elected to four-year staggered terms with three elected every two years. The Mayor was and will continue to be elected at large to four-year terms.

MAJOR INITIATIVES For the Year 2005-06

The City's staff, following specific directives of the City Commission and the City Manager, has been involved in a variety of projects throughout the year. These projects reflect the City's commitment of ensuring that its citizens are able to live and work in a highly desirable community and include the following:

Improve City Traffic Flow and Storm Drainage by:

- Hire Consultant to Update Traffic Master Plan
Management's Response: Hired Kimberly Horn
- beginning Bentsen Road reconstruction: Expressway to Pecan
Management's Response: With utilities relocation complete, construction is underway.
- beginning first phase of widening Bentsen: Pecan to 3-Mile by placing irrigation canal underground
Management's Response: Design is complete. Irrigation district is to let canal project in FY 2006-07.
- beginning first phase of Bicentennial Parkway north of Nolana to Dove by relocation of railroad facilities
Management's Response: Design is 65% complete. Railroad issue is still in negotiations.
- beginning TX DOT design process for upgrade of Nolana: Jackson to 10th Street
Management's Response: Interlocal agreements are complete. Public hearings have been held on 8/15/2006 and 9/11/2006.
- completing new traffic signals along 23rd Street corridor
Management's Response: Signals have been installed on 23rd Street @ Sara and Elmira.
- completing new drainage facilities in STC/Quince area, 4th and 8th Streets, bubbles 7 2nd and Quamasia, 27th to 29th from Olga to Sarah
Management's Response: All have been completed with the exception of Olga to Sarah, which is under construction and expected to be completed October 2006.
- coordinating new drainage outfall for STC Pecan Campus
Management's Response: Completed.
- continuing alley and street resurfacing program to provide new surface every eight years for arterial and ten years for residential streets
Management's Response: Completed.
- beginning the acquisition of 10 parcels of right-of-way for Ware Road upgrade, 3-mile to 5 mile, for TX DOT construction in 2008
Management's Response: Not completed. Awaiting TX DOT right-of-way map.
- beginning the design process with TX DOT relating to the Federal Highway Bill earmarked for the relocation of 10th Street (SH 336) due to the need to extend the airport runway
Management's Response: This is a TX DOT project.
- completing specific traffic consultation studies for intersection improvements, access management, signal timing and roadway expansion
Management's Response: Consultant studies are underway by Kimberly Horn.
- bidding and receiving replacement transit system buses
Management's Response: Four (4) buses delivered and in service.

- opening and operating the City's first regional storm drainage detention facility and combination city/school parks at Jackson and McAuliffe Elementary Schools
Management's Response: Completed and operational. Need surface landscape installed to finish in October 2006.

Continue Efforts to Make McAllen an "International Shopping Destination" by;

- continuing construction on the McAllen Convention Center, scheduled for opening in Spring 2007 with site improvements scheduled for completion during FY 2005-06 and bookings of conventions to begin for 2007
Management's Response: Construction is 85% complete, on target for March 22, 2007 opening.
- completing the sale of property for a major new retail shopping and restaurant area at the 70 acres south of the new Convention Center site
Management's Response: Completed. Site improvements are underway.
- recruiting Convention Center Hotel Developer for City-designated site
Management's Response: Proposals were received 9/11/2006.
- beginning the planning for the new Performing Arts building at the New Convention Center site
Management's Response: On hold. No activity.
- opening Quinta Mazatlan in March 2006 as Wing of World Birding Center and small conference center
Management's Response: Completed. Opened March 4, 2006.
- providing partial funding for TX DOT landscape of Expressway 83 right-of-ways in McAllen city limits
Management's Response: Design completed by TX DOT. Ready for review and bidding in January 2007.
- construction of new covered entrance and enhance passenger amenities at McAllen Bus Terminal
Management's Response: Architect hired. Schematics completed.
- provide additional parking spaces downtown
Management's Response: Construction of parking garage at Beaumont and 15th Streets underway.
- continuing to market McAllen-Miller International Airport for additional flights to Mexico and Orlando, Florida
Management's Response: Orlando flights resumed in December 2005 and non-stop service to Atlanta began in 2006.
- beginning the construction of Anzalduas International Bridge
Management's Response: Rating agency trip complete for bond sale, new cost estimates complete. Coast Guard Permit pending along with General Services Administration to issue order to commence design/build of U.S. facility, which will trigger the City to bid Bridge Project.

- develop a marketing plan for the McAllen-Hidalgo-Reynosa International Bridge to provide better customer service

Management's Response: Partially Complete. A toll-free (800) number has been established from Mexican Nationals, who encounter problems crossing the bridge, to call the McAllen Chamber of Commerce for assistance. In addition, the Customs and Border Protection personnel have agreed to give them the telephone number of the Mexican Consulate's Office in McAllen for assistance. Also a dedicated commuter lane is being constructed on the bridge to facilitate entry into the U.S. for those which have been cleared by the federal government, which are considered low-risk travelers. The U.S. side is complete and operational. The Mexico side is currently being developed and is expected to be operational by March 2007. This will allow for the entire dedicated commuter lane to be operational from the entry point in Mexico to and through the bridge and inspection facilities on the U.S. side.

- continue to aggressively attract maquila supplier companies to locate in the McAllen MSA
Management's Response: MEDC committed ten (10) companies.
- planning the establishment of Historical Districts with the completion of City Historical Building and Sites Inventory
Management's Response: Inventory complete.
- develop a plan to attract higher-end retailers to McAllen
Management's Response: Retail incentives study completed by Deputy City Manager and MEDC CEO.

Improve Customer Service by:

- implementing recommendations to improve the development process
Management's Response: Majority of 83 recommendations complete. Process has been improved. Architect selection is underway for one-stop location for development services for renovation of former Texas Workforce Commission Building.
- providing greater access to city services by opening of Los Encinos Neighborhood Police Station @ Olga and 28th Street in October 2005
Management's Response: Completed and opened 4/22/2006.
- starting construction of New Fire Station One @ Cedar and 22nd site
Management's Response: Design completed for bidding in October 2006.
- implement customer training for City staff
Management's Response: Development Service Training completed by Planning Department.

Improve Water & Wastewater Services by:

- completing Bentsen Road water and sanitary sewer improvements from Expressway to Daffodil
Management's Response: Completed.
- finishing construction of sanitary sewer collection system from Airport to South

Wastewater Plant

Management's Response: 85% Completed.

- o completing design for increased capacity @ North Wastewater Plant and South Water Plant

Management's Response: North plant design is 90% complete.

- o beginning design and acquiring site for replacement of force main along the Bicentennial extension route

Management's Response: Design underway by S&B.

- o continuing recycling program for green waste/sewer sludge to produce 7,600 tons of bio-solids compost for private and public use

Management's Response: Not completed.

Improve Quality of Life in McAllen by:

- o providing funding for operations of the City's "Heart of the City Committee"

Management's Response: Completed.

- o converting public housing @ Vine Terrace to homeownership by rehabilitating 49 units

Management's Response: Project has been postponed.

- o continuing funding for McAllen Affordable Housing for scattered site vacant lots in the heart of the City for new home construction

Management's Response: Los Encinos III Subdivision completed for homebuilding in FY 2006-07.

- o developing a plan for funding improvements to former Kaepler property on north 23rd Street as City park as well as parkland acquisition locations

Management's Response: Not completed.

- o opening south loop on 2nd Street of the Hike and Bike Trail, which will add 2.5 miles to the existing City trail network

Management's Response: Project open. Need irrigation improvements.

- o opening Gonzales City School Park

Management's Response: Completed and opened May 8, 2006.

- o beginning construction of Summer Breeze and La Ventana Parks

Management's Response: Summer Breeze Park is under construction. La Ventana Park bids taken.

- o completing new landscape project on South Bicentennial entrance to Airport and La Piedad Cemetery access improvements

- o **Management's Response:** Majority of construction complete. Fence to be completed in October 2006.

- o completing consultant selection and beginning the process to update "Foresight McAllen" Overall Master Plan

Management's Response: Consultants hired. Project expected to be completed in 2007.

MAJOR GOALS FOR FISCAL YEAR 2006-07

The goals adopted by the Mayor and City Commission for FY 2006-07 are as follows:

Improve City Traffic Flow and Storm Drainage

- Finish Bentsen Rd Reconstruction: Expressway to Pecan
- Begin First Phase of Widening Bentsen: Pecan to 3-Mile by placing Irrigation Canal Underground
- Complete Dove Street Improvements, Bentsen to Ware, Jackson to McColl
- Begin First Phase of Bicentennial Parkway: North of Nolana to Dove with ROW acquisition and finish RR issues
- Reconstruct Ash St: 29th to Ware Rd
- Construction of 1st phase of Storm Drainage, 20th, 21st, 22nd, Cedar to Gumwood. (CDBG)
- Construction of Balboa Ditch outfall east of 23rd
- Partial Funding of MISD new elementary school streets @ Incarnate Word, N. Main , and Auburn for Fall 07 Opening
- Completion of new Traffic Signals along 23rd Street Corridor
- Begin the Acquisition of 100 Parcels of Right -of-way for Ware Road upgrade, 3-mile to 5 mile, For TX dot Construction in 2008
- Begin Right-of-way Acquisition: 29th: 6 mile to SH 107
- Begin the Design Process with TX DOT Federal Highway Bill earmark for the Relocation of 10th Street (SH 336) due to the need to extend the airport runway
- Complete specific Kimberly Horn traffic studies for Intersection improvements, access management, signal timing, and roadway expansion by August 2007

Continue Efforts to Make McAllen an "International Shopping Destination" By:

- Opening of McAllen Convention Center in March 2007
- Expedite Construction of "Palm Crossing" commercial site for opening in the fall 2007
- Provide partial funding for TX DOT Landscape of Expressway 83 Right-of -Ways in McAllen City Limits for bidding Feb 2007
- Construct new covered entrance and enhanced passenger amenities at McAllen Bus Terminal

- Open City Parking Garage at Beaumont and 15th Street in July 2007
- Continue to Market McAllen -Miller Airport for Additional Flights to Mexico and Domestic Markets
- Implement Paid Parking at Airport
- Construction to begin on Anzalduas International Bridge. U.S. permits are in place. Board of Trustees is currently waiting on a Mexican concessionaire to be named which will trigger our construction process
- Complete Design and Bid EDA funded utilities at Anzalduas
- Open designated commuter lane at McAllen- Hidalgo-Reynosa International Bridge for northbound low risk travelers
- Continue to Aggressively Attract maquila supplier companies to locate in the McAllen MSA. 15 Companies to be recruited
- Improve Landscape @ City Buildings
- Implement a new pilot program for commercial matching landscape grants

Leisure, Cultural and Entertainment

- Celebrate McAllen's heritage @ First Annual "Palmfest" October 7-8, 2006 in Municipal Park and 3rd Annual "Futures Golf Tournament" in April 2007
- Begin Design Process for New Main Library at 23rd and Nolana (old Wal-mart) Site
- Determine Feasibility of Reuse of Old Main Library
- Begin Planning and design of "Central Park" destination
- Continue Operational funding for IMAS and plan for future Planetarium
- Begin Planning for New Performing Arts Building at New Convention Center Site
- Continue to market Quinta Mazatlan as Wing of World Birding Center & small conference center. Continue upgrade of facility

Improve Customer Service

- Renovation of City development center at Broadway and Galveston to open fall 2007
- Finish and Approve Update of "Foresight McAllen" Overall Master Plan
- Increasing Library Hours from 61 to 71 per week
- Create "on-demand" Brush and Bulky waste Pick ups
- Increased Funding for Demolition of sub-standard dwellings

- More Aggressive Code enforcement including maintenance of Commercial Landscape
- Planning of Northwest Neighborhood Police Station @ 29th and Oxford
- Begin New Transit Routes to Foreign Trade Zone and New Convention Center
- Start Construction of New Fire Station 1 at Cedar and 22nd Site and Rebuild Station 3
- Begin Design of New Fire Station Seven at 34th and Vine
- Make the current Geographic Information System more customer friendly with dedicated City Staffer
- Provide additional Janitorial services @ Community Centers
- Begin Web cast and "Video on demand" by City Cable Network
- Fund materials for Rezoning notification signs
- Better maintenance of Park Irrigation systems by Addition of Plumber/ Irrigation Tech
- Design & Install new "Wi-fi" network for City use within 1 Sq.Mile of City Hall
- New Carpet and lighting upgrades at Branch Libraries

Create Investment by Private Sector

- Provide Partial Funding to MEDC for "Rails to Trucks" development at Foreign Trade Zone
- Determining incentives for "destination retail projects" On as-needed basis
- Explore feasibility of establishing New Higher Education facilities in McAllen
- Complete a Business Plan to determine the feasibility of converting Boeye Reservoir to a Commercial and "Central Park" site
- Recruit Hotel Developer for City Convention Center Designated Site
- Recruit Retail/Restaurants to Parking Garage First Floor
- Coordinate Planning for new Private retail development at 10th and Trenton Road

Improve Water & Wastewater Services

- Complete Construction for Increased Capacity at North Waste Water Plant (8 to 18 mgd) and New Lift Station. (22 million)
- Design and Expand North Water Plant. (8 to 16 mgd)
- Construct Replacement of Sanitary Force Main Along the Bicentennial Extension Route

- Begin Construction of 29th Street Sanitary Sewer: Expressway to Balboa Lift Station
- If Feasible, Design and Acquire Site for Relocation of Boeye Reservoir Using Non-PUB Funding

Improve Quality of Life in McAllen

- Convert Public Housing at Vine Terrace to Homeownership by Rehab of 49 units.
- Continue Affordable Homes Purchase of Scattered Site Vacant Lots in Heart of the City for New Home Construction
- Develop plan for funding improvements to Former Kaepler Property on N 23rd Street as "Mesquite Trails" City Park
- Purchase Southeast side Park site
- Complete improvements to South Loop on 2nd St. of the Hike and Bike Trail, Palm view & Garcia Parks
- Open and operate our first Regional Storm Drainage Detention facilities and Combination City & School parks at Jackson and McAuliffe Elementary Schools
- Begin Construction on Dove Landing, La Ventana, Reynolds Parks
- Reconstruct Bill Shupp Park lake, New Lighting @ McHi Tennis Courts
- Open Summer Breeze Park on Bentsen Road
- Construct Irrigation, cart path, and bridge upgrades at Palm view Golf Course

FINANCIAL INFORMATION

Management of the City is responsible for establishing and maintaining an internal control structure designed to ensure that the assets of the City are protected from loss, theft, or misuse and to ensure that adequate accounting data are compiled to allow for the preparation of financial statements in conformity with generally accepted accounting principles. The internal control structure is designed to provide reasonable, but not absolute, assurance that these objectives are met. The concept of reasonable assurance recognizes that: 1) the cost of a control should not exceed the benefits likely to be derived; and 2) the valuation of costs and benefits requires estimates and judgments by management.

As a recipient of federal, state and local financial assistance, the City is also responsible for ensuring that an adequate internal control structure is in place to ensure and document compliance with applicable laws and regulations related to these programs. This internal control structure is subject to periodic evaluation by management and the internal audit staff of the City.

As part of the City's single audit, described earlier, tests were made of the City's internal control structure and of its compliance with applicable laws and regulations, including those related to

federal and state financial assistance programs. Although this testing was not sufficient to support an opinion of the City's internal control system or its compliance with laws and regulations related to non-major federal financial assistance programs, the audit for the year ended September 30, 2006, disclosed no material internal control weakness or material violations of laws and regulations.

In addition, the City maintains budgetary controls. The objective of these controls is to ensure compliance with legal provisions embodied in the annual appropriated budget approved by the City Commission. Activities of the general fund, certain special revenue funds, the debt service fund, and the proprietary funds are included in the annual appropriated budget. Project-length budgets are prepared for the capital projects funds. The level of budgetary control (i.e., the level at which expenditures cannot legally exceed the appropriated amount) is the departmental level within each fund. The City also maintains an encumbrance accounting system as one method of maintaining budgetary control. Encumbered amounts lapse at year-end. However, outstanding encumbrances generally are re-appropriated as part of the following year's budget.

As demonstrated by the statements and schedules included in the financial section of this report, as well as the tables and discussion that follows, the City continues to meet its responsibility for sound financial management.

Debt Administration

At year-end, the City had six debt issues outstanding, amounting to \$50M, most of which are revenue bonds. Of this amount, \$43.2M is related to the Water and Sewer Funds; \$1.5M, to the Bridge Fund; and \$300K, to the Development Corp, which is secured by sales tax receipts. Although at the beginning of the fiscal year the City was debt-free with respect to general obligation bonds, during the year a tax note was issued for \$4.8M to partially fund a new downtown elevated garage. Subsequent to yearend, in conjunction with the issue of water and sewer refunding and improvement revenue bonds, Fitch Ratings upgraded the credit from AA- to AA, while S&P reaffirmed AA-. Also during the year the rating agencies undertook a review of the City's general obligation credit, with Fitch Ratings upgrading it from AA- to AA and S&P reaffirming AA-. S&P also reviewed and upgraded the sales tax revenue bonds from A+ to AA- as well. Texas statutes do not prescribe a debt limit; however, by custom, an economic debt of 5% of the assessed valuation on the tax roll is considered practical.

Risk Management

In 1989 the City initiated a risk management program for workers' compensation and general liability insurance. Under this program, various risk control techniques, including employee accident prevention training, have been implemented to minimize accident-related losses. Third-party coverage is currently maintained for workers' compensation claims in excess of \$250,000 as the City self-funds the first \$250,000 in claims. Third-party coverage is also currently maintained for general liability claims in excess of \$10,000. User funds provide revenues to this fund on the basis of what the state manual rates would otherwise be if the City purchased traditional level premium coverage.

Cash Management Policies and Practices

Cash temporarily idle during the year was invested in interest-earning demand deposit accounts, certificates of deposit, obligations of the United States of America, its agencies and instrumentalities, all of which were authorized under the Public Funds Investment Act of 1987, as amended by the 76th Legislature, effective September 1, 1999, "the Act" (Chapter 2256 of the Local Government Code). "The Act" requires cities and other political subdivisions, among other things, to adopt a written investment policy, conduct an annual review of the policy, have an annual compliance audit performed, all those designed as investment officers to undergo training and prepare and submit quarterly reports to the governing body.

The current bank depository agreement provides for rates on demand accounts, at the 91-day TBill rate plus 24 basis points; and certificate of deposits, at the treasury bill/note rate of equal maturities plus 20-50 basis points, depending the term ranging from 1 day to over a year. A significant amount of the City's portfolio has been allocated to certificates of deposit. The bank contract requires that any amount deposited with the bank, including accrued interest, be 110% collateralized by FDIC insurance, obligations of the United States of America, its agencies and instrumentalities. Collateral securing the City's funds is required to be kept at the Federal Reserve Bank of Boston. Collateral is valued weekly.

As stated in the City's investment policy, its objectives are safety, liquidity and yield, in that order. Investment maturities range from 1 day to 4 years. All investments held by the City during the year and at September 30, 2006 are classified in the category of lowest custodial risk as defined by the Governmental Accounting Standards Board. During the year, the City recognized \$8.3M in investment earnings, net of the amount reported in the Firemen's Relief & Retirement Fund, an increase of \$3.8M from prior year, which is inclusive of the \$1M net positive change in the mark-to-market adjustment. The blended rate for this year was in the range of 4% compared to 2 ½% to 3% for last year.

Other Information *Independent Audit*

State statutes require an annual audit by independent certified public accountants. The firm of Long, Chilton, L.L.P., was selected by the City to perform this function. In addition to meeting the requirements set forth in state statutes, the audit was also designed to meet the requirements of the Single Audit Act and OMB Circular A-133. Generally accepted auditing standards and the standards set forth in the General Accounting Office's *Government Auditing Standards* were used by the auditors in conducting the engagement. The auditors' report on the basic financial statements and required supplementary information as well as the individual fund statements and schedules are included in the financial section of this report. The auditors' reports on internal controls and compliance with applicable laws and regulations can be found in the single audit section of this report.

Awards

The Government Finance Officers Association (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the City for its comprehensive annual financial report for the year ended September 30, 2005. This was the nineteenth consecutive year and the twentieth overall that the City has received this prestigious award. In order to be awarded a Certificate of Achievement, the City published an easily readable and efficiently organized comprehensive annual financial report. This report satisfies both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe that our current comprehensive annual financial report continues to meet the Certificate of Achievement Program's requirements and we are submitting it to the GFOA to determine its eligibility for another certificate.

In addition, the City also received the GFOA's Award for Distinguished Budget Presentation for its annual appropriated budget dated October 1, 2005. The budget for October 1, 2006 has been submitted for review and notification of an award is awaited. In order to qualify for the Distinguished Budget Presentation Award, the City's budget document is judged on proficiency in several categories including policy documentation, financial planning and organization.

Acknowledgments

The preparation of this report could not have been accomplished without the efficient and dedicated services of the entire Finance Department staff. Due credit also should be given to the Mayor, City Commission, McAllen Public Utilities Board of Trustees, the Bridge Board, Development Corp Board and management for their interest and support in planning and conducting the operations of the City in a responsible and progressive manner.

Respectfully submitted,



Jerry W. Dale, CPA CGFO
Finance Director

Certificate of Achievement for Excellence in Financial Reporting

Presented to

City of McAllen
Texas

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
September 30, 2005

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.



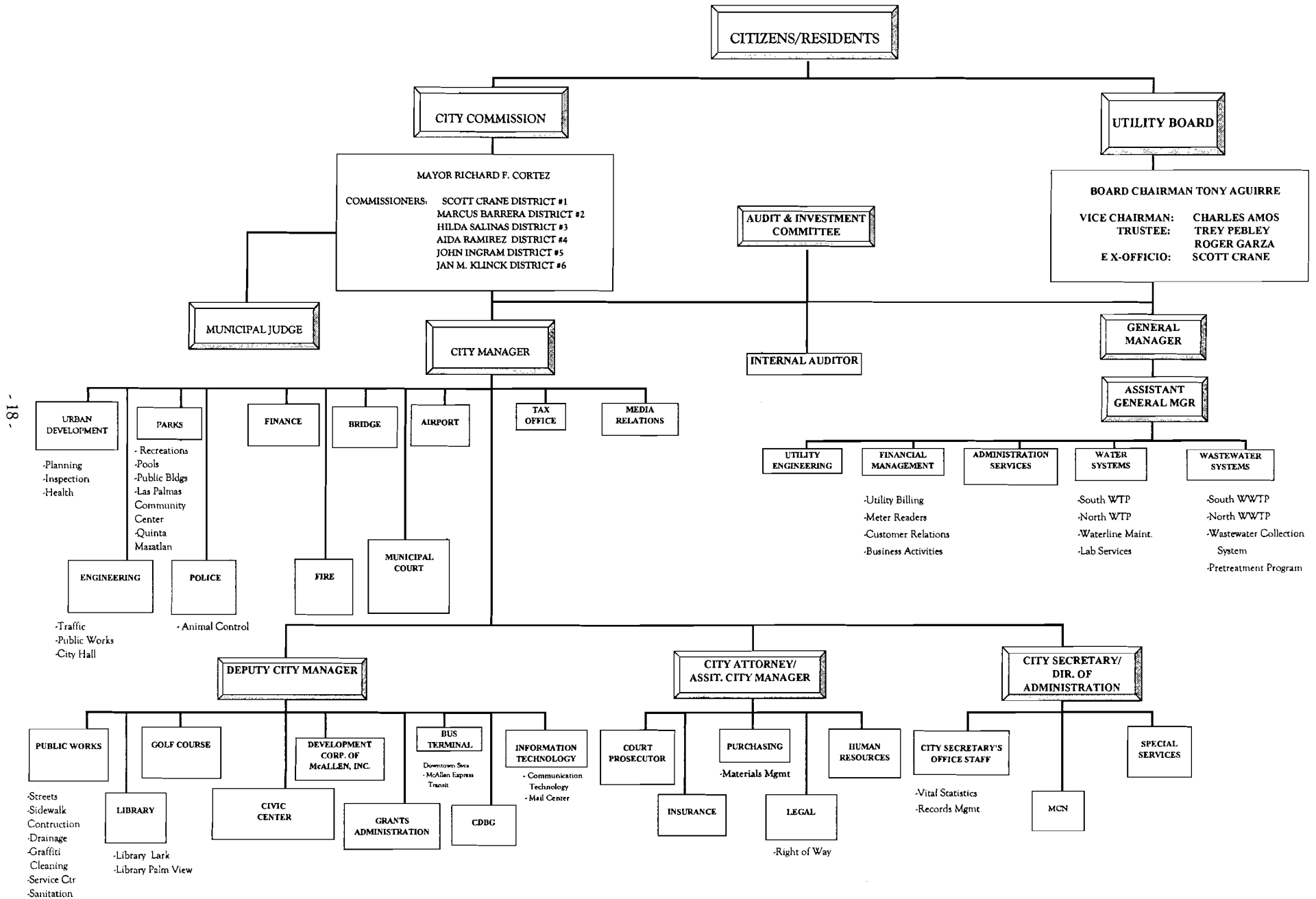
A handwritten signature in black ink, appearing to read "Ronald J. Hawn".

President

A handwritten signature in black ink, appearing to read "Jeffrey R. Enen".

Executive Director

CITY OF McALLEN, TEXAS



CITY OF McALLEN, TEXAS

LIST OF PRINCIPAL OFFICIALS

SEPTEMBER 30, 2006

Mayor	Richard Cortez
Mayor Pro-Tem-Commissioner District 6.....	Jan M. Klinck
Commissioner District 1	Scott Crane
Commissioner District 2	Marcus Barrera
Commissioner District 3.....	Hilda Salinas
Commissioner District 4.....	Aida Ramirez
Commissioner District 5.....	John Ingram
Public Utility Board Chairman.....	Tony Aguirre
Public Utility Board Vice-Chairman	Charles Amos
Trustee Place 3	Trey Pebley
Trustee Place 4	Roger Garza
Ex-Officio Member	Scott Crane
City Manager.....	Mike R. Perez
General Manager	Roel Rodriguez, P.E.
Deputy City Manager	Brent Branham
Assistant City Manager	Wendy Smith-Sturgis
Director of Engineering	Pilar Rodriguez, P.E.
Attorney.....	James E. Darling
Administrator of Financial Services.....	Jerry W. Dale
Administrator of Internal Services	Alfredo Garcia
Administrator of Urban Development.....	Julianne Rankin
Aviation Director.....	Philip K. Brown
Bridge Superintendent.....	George Ramon
City Secretary	Annette Villarreal
Fire Chief.....	Rogelio Rubio
Parks and Recreation Director.....	Larry Pressler
Human Resources Director.....	Joseph LaBeau
Police Chief.....	Victor Rodriguez

FINANCIAL SECTION

INDEPENDENT AUDITORS' REPORT

The Honorable Mayor,
Members of the City Commission,
Utility Chairman, and Trustees
City of McAllen, Texas

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of City of McAllen, Texas (the "City") as of and for the year ended September 30, 2006, which collectively comprise the City's basic financial statements as listed in the Table of Contents. These basic financial statements are the responsibility of City of McAllen, Texas' management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, 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 basic financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of City of McAllen, Texas at September 30, 2006, and the respective changes in financial position and cash flows, where applicable, thereof and the respective budgetary comparison for the General Fund and the Development Corporation Fund 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 a report dated December 1, 2006, on our consideration of City of McAllen's internal control over financial reporting and 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 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 accompanying Management's Discussion and Analysis on pages 25 through 37 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 express no opinion on it.

The accompanying Schedule of Expenditures of Federal and State Awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Nonprofit Organizations* and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Our audit was performed for the purpose of forming an opinion on the financial statements that collectively comprise City of McAllen, Texas' basic financial statements. The introductory section, combining and individual nonmajor fund financial statements, budgetary comparison schedules and statistical data as listed in the Table of Contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining and individual nonmajor fund financial statements and budgetary comparison schedules have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The introductory section and statistical data, as listed in the Table of Contents herein, have been summarized from City of McAllen, Texas' records and were not subjected to the audit procedures applied in the audit of the basic financial statements; accordingly, we do not express an opinion on such data. The accompanying supplemental information on the Texas Municipal Retirement System and the Firemen's Relief and Retirement Fund is presented for purposes of additional analysis and is not a required part of the basic financial statements. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit this information and express no opinion on it.

Long Chilton C.P.

LONG CHILTON, LLP
Certified Public Accountants

McAllen, Texas
December 1, 2006

MANAGEMENT'S DISCUSSION AND ANALYSIS

This discussion and analysis is intended to provide an overview of the City's financial performance for the fiscal year ended September 30, 2006 and the related effect on the City's financial condition. Please read it in conjunction with the transmittal letter on pages 3-16 and the City's financial statements, which begin on page 41.

FINANCIAL HIGHLIGHTS

City's Change in Net Assets – Governmental and Business-Type Activities

Total government-wide net assets increased \$63M as a result of this year's operations. Governmental activities contributed \$25M with the balance of \$38M resulting from business-type activities.

- **Governmental Activities – Revenues and Expenses Compared to Last Year** – Total revenues increased \$11M over last year. Leading the increase was sales tax, which increased \$5M. Property taxes increased \$1.5M due to growth in the property values as the tax rate remained unchanged. Other general revenues increased \$3M due to increased investment earnings, reflecting higher yields, a settlement with the gas company offset by a decrease in oil and gas royalties. Expenditures increased \$5M or 6%, which is largely attributable to highways and streets as well as culture and recreation.
- **Business-Type Activities – Revenues and Expenses Compared to Last Year** – Total revenues increased \$24M--\$3M of which is related to charges for services; \$4M, grants and contributions; with the balance of \$17M in the other general revenues category and is largely the result of the sale of land contiguous to the new convention center site. Expenses increased \$3M or 7% over last year with increases of \$1M each attributable to water, sanitation and bus services.
- **City as a Whole – Revenues and Expenses Compared to Last Year** – Both governmental and business-type activity revenues increased \$35M or 20% over last year while expenses increased by \$8M or 6%.

General Fund Performance

As a result of this year's operations, the General Fund reported a \$15M increase to fund balance before transfers out to the Capital Improvement Fund. After transferring \$30M to that fund, which represents a build up of surplus, fund balance was reduced to a level more representative of the City's policy. Taxes, investment earnings, charges for services, royalties and the gas settlement, in particular, as well as other less significant revenue increases resulted in revenues exceeding the amended budget by \$11M, while expenditures and transfers-out were \$61K over the amended budget—all of which resulted in fund balance settling in at \$39M.

USING THE ANNUAL REPORT

The annual report consists of a series of financial statements. The Statement of Net Assets and the Statement of Activities (on pages 41 and 42-43) provide information about the activities of the City as a whole and present a longer-term view of the City's finances. Fund financial statements start on page 48.

For governmental activities, these statements tell how these services were financed in the short term as well as what remains for future spending. Fund financial statements also report the City's operations in more detail than the government-wide statements by providing information about the City's most significant funds. The remaining statements provide financial information about activities for which the City acts solely as a trustee or agent for the benefit of those outside of the government.

Reporting the City as a Whole

The Statement of Net Assets and the Statement of Activities

One of the central concerns in assessing any City's finances could be summarized in the question, "Is the City as a whole better off or worse off as a result of the year's activities?" Our analysis addressing this question begins on page 28-29. The analysis includes a condensed summary of the government-wide financial statements—The Statement of Net Assets and the Statement of Activities, which present information about the City in way that facilitates answering this question. These statements are presented much like the private-sector companies—including *all* assets and liabilities using the *accrual basis of accounting*. All revenues and expenses for the current year are reported without regard to when cash is received or paid.

These government-wide financial statements report both net assets and changes thereto. Net assets are reported in the Statement of Net Assets. The City's net assets, which is the difference between assets and liabilities, is one indicator of the City's financial well-being or *financial position* at one point in time. Increases or decreases to net assets over a period of time is an indication whether its financial well-being is improving or deteriorating. Of course, other non-financial considerations enter into the determination of the City's overall health, which would include such things as changes in the City's property tax base and the condition of its streets.

Changes to net assets are reported in the Statement of Activities, which divides all City functions into two categories:

Governmental activities—Most of the City's basic services are reported in this category, which includes public safety (including police and fire), highways and streets, health and welfare, culture and recreation and general administration. These activities are primarily supported by sales and property taxes and franchise fees.

Business-type activities—Certain services that the City provides are paid for from fees that are charged to customers. Water, sewer, garbage collection, civic center, golf course, airport, transit terminal, transit services and the bridge are activities that are reported in this category.

Reporting the City's Most Significant Funds

Fund Financial Statements

Our analysis of the City's major funds commences on page 28. The fund financial statements are presented on pages 41 through 73. These statements present detailed information about the City's more significant funds as opposed to the City as a whole. Funds are established for various reasons—some are required by state law; others, by bond covenants. Some funds are established by the City Commission to assist in managing money that is to be spent for particular purposes. For example, the Community Development Block Grant Fund was established to demonstrate that the money received from the U. S.

Department of Housing and Urban Development was used for purposes established by the federal government. The City has two categories of funds, which can be used for public purpose—*governmental* and *proprietary*. Each category uses a different accounting approach.

Governmental funds—Most of the City's basic services are reported in governmental funds. These funds focus on the flow of money into and out of the funds and the balance left over at the end of the year that is available for future spending. Governmental funds use a method of accounting called modified accrual. The purpose of this method is to measure cash and other *financial* assets that can readily be converted to cash. This approach provides a detailed short-term perspective of the City's general government operations and the basic services it provides. This view of the City's operations provides information that helps to determine the extent to which financial resources are available to spend in the near future to finance City programs. The relationship between these governmental fund financial statements and the governmental activities column shown in the government-wide financial statements is shown in the form of a reconciliation presented on the page following each governmental fund financial statement.

Proprietary funds—Services provided to either outside customers or to another unit of the City, where a fee is charged, are generally reported in proprietary funds. Proprietary funds are reported the same way that is used in the government-wide financial statements. Matter of fact, the City's enterprise funds (a component of proprietary funds) are substantially the same as the business-type activities column of the government-wide financial statements but provide more detail including cash flows. The other component of proprietary funds is internal service funds. These funds are used to report services that are provided for other City funds—such as the Fleet and Materials Management Fund, which reports maintenance activities for all City vehicles.

The City as Trustee

Reporting the City's Fiduciary Responsibilities

The City is the trustee, or fiduciary, for the Firemen's Pension Fund and Developers' Fund. This activity is reported in separate Statements of Fiduciary Net Assets and Changes in Fiduciary Net Assets on pages 74 and 75. These activities are not included with the City's other government-wide financial information since the City cannot use these assets to finance its programs or operations. The City's is responsible for ensuring that these funds are used for their intended purpose.

THE CITY AS A WHOLE

The City's Condensed Statement of Net Assets is presented in the table below.

Net Assets (in Millions)

	Governmental Activities		Business-type Activities		Total Primary Government	
	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>
Current and other assets	\$126	\$117	\$84	\$85	\$210	\$202
Capital assets	<u>172</u>	<u>151</u>	<u>250</u>	<u>212</u>	<u>422</u>	<u>363</u>
Total assets	<u>298</u>	<u>268</u>	<u>334</u>	<u>297</u>	<u>632</u>	<u>565</u>
Long-term debt outstanding	11	6	49	52	60	58
Other liabilities	9	9	12	10	21	19
Total liabilities	20	15	61	62	81	77
Net assets:						
Invested in capital assets,						
Net of debt	172	151	209	174	381	325
Restricted	18	12	45	47	63	59
Unrestricted	<u>88</u>	<u>90</u>	<u>19</u>	<u>14</u>	<u>107</u>	<u>104</u>
Total net assets	<u>\$278</u>	<u>\$253</u>	<u>\$273</u>	<u>\$235</u>	<u>\$551</u>	<u>\$488</u>

Net assets of the City's governmental activities increased \$25M or 10% of last year's amount. The increase is reflected in two of the components of net assets, namely, invested in capital assets, net of related debt and restricted, offset by a \$2M decrease in unrestricted net assets. Unrestricted net assets is the portion of net assets, which can be utilized to finance day-to-day operations, free of any constraints established by debt covenants, enabling legislation or other legal requirements. The decrease in the unrestricted portion is primarily due to spending down of financial resources within the Capital Improvement Fund for major capital projects.

The net assets of the City's business-type activities increased \$38M 16% over last year's amount. Generally the City can only use these net assets to finance continuing operations and capital expenditures of all of the enterprise funds, which include water and sewer operations, sanitation, civic center, airport and international bridge.

The table on the following page presents more detail on revenues and expenses.

Changes in Net Assets
(in Millions)

	<u>Governmental</u> <u>Activities</u>		<u>Business-type</u> <u>Activities</u>		<u>Total</u> <u>Primary</u> <u>Government</u>	
	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>
Revenues						
Program revenues:						
Charges for services	\$7	\$7	\$56	\$53	\$63	\$60
Federal grants and contributions	11	11	9	5	20	16
State grants	-	-	-	-	-	-
General revenues:						
Property taxes	25	23	-	-	25	23
Sales tax	54	49	-	-	54	49
Other taxes	10	9	-	-	10	9
Federal entitlements	-	-	-	-	-	-
Other general revenues	<u>13</u>	<u>10</u>	<u>21</u>	<u>4</u>	<u>34</u>	<u>14</u>
Total revenues	120	109	86	62	206	171
Program expenses						
General government	18	17	-	-	18	17
Public safety	42	42	-	-	42	42
Highways and streets	18	15	-	-	18	15
Health and welfare	3	4	-	-	3	4
Culture and recreation	14	12	-	-	14	12
Interest on long-term debt	-	-	Incl	Incl		
Water	-	-	13	12	13	12
Sewer	-	-	9	9	9	9
Sanitation	-	-	11	10	11	10
Golf	-	-	1	1	1	1
Transit terminal	-	-	1	1	1	1
Civic center	-	-	1	1	1	1
Airport	-	-	5	5	5	5
Bus services	-	-	1	-	1	-
Bridge	-	-	<u>6</u>	<u>6</u>	<u>6</u>	<u>6</u>
Total expenses	<u>95</u>	<u>90</u>	<u>48</u>	<u>45</u>	<u>143</u>	<u>135</u>
Excess (deficiency)						
Before special items						
And transfers	25	19	38	17	63	36
Transfers	-	(1)	-	1	-	-
Increase (decrease)						
In net assets	<u>\$25</u>	<u>\$18</u>	<u>\$38</u>	<u>\$18</u>	<u>\$63</u>	<u>\$36</u>

Total revenues generated from both governmental and business-type activities this year amounted to \$206M, representing an increase of \$35M or 21% over last year. The most significant part of the increase was a sale of land contiguous to the new convention center, which generated a gain of \$16M. Expenses came in at \$143M, \$8M or 6% over last year, leaving \$63M as an increase to net assets. The following analysis considers separately the operations of governmental and business-type activities.

Governmental Activities

Total revenues generated from governmental activities this year amounted to \$120M. Expenses came in at \$95M, leaving \$25M as an increase to net assets.

The cost of all governmental activities this year was \$95M. However, as shown on the Statement of Activities on pages 42-43, the amount that our taxpayers ultimately financed for these activities through taxes and other general revenues was \$77M. The other \$18M to finance these programs was paid by those who directly benefited from them (\$7M) and by other governments that subsidized certain programs with grants (\$11M).

The table below presents the cost of each of the City's five largest programs as well as each program's net cost (total cost less revenues generated by the activities). The net cost shows the financial burden that was placed on the City's taxpayers by each of these functions.

Governmental Activities (in Millions)

	<u>Total Cost Of Services</u>		<u>Net Cost Of Services</u>	
	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>
Police	\$27	\$28	\$22	\$20
Fire	11	10	11	10
Street Construction	8	6	-	2
Parks	6	3	6	3
Drainage	<u>5</u>	<u>-</u>	<u>5</u>	<u>-</u>
Total	<u>\$57</u>	<u>\$47</u>	<u>\$44</u>	<u>\$35</u>

Business-type Activities

Total revenues generated from business-type activities this year amounted to \$86M. Expenses came in at \$48M, leaving \$38M as an increase to net assets.

More details will be provided about governmental and business-type activities' operations later in this discussion and analysis.

GOVERNMENTAL FUNDS – A Detailed Discussion (General Fund, Special Revenue Funds, Debt Service Fund and Capital Project Funds)

As a result of this year's operations, governmental funds (as reflected in the balance sheet on page 48-49) increased combined fund balance to \$92M, an increase of \$7M from last year. The increase came about largely due to an increase in the Development Corp Fund, Capital Improvement Fund and Parking Garage Construction Funds offset by a decrease in the General Fund. The General Fund decreased as a result of transferring excess fund balance to the Capital Improvement Fund, which is attributable to its increase.

Revenues and Transfers-In

The following table presents a summary of general fund, special revenue funds, debt service fund and capital projects funds revenues and transfers-in for the years ended September 30, 2006 and 2005.

<u>Revenues & Transfers-In</u>	<u>2006 Amount</u>	<u>% of Total</u>	<u>2005 Amount</u>	<u>Amount of Increase (Decrease)</u>	<u>% Increase (Decrease)</u>
Taxes	\$87,632,429	56.73%	\$80,911,770	\$6,720,659	8.31%
Licenses & permits	1,486,878	.96%	1,481,650	5,228	.35%
Intergovernmental	3,261,928	2.11%	5,985,818	-2,723,890	-45.51%
Charges for services	3,969,257	2.57%	3,385,392	583,865	17.25%
Fines and Forfeitures	2,214,624	1.43%	2,204,354	10,270	.47%
Investment Income	4,177,110	2.70%	2,067,760	2,109,350	102.01%
Miscellaneous	9,210,804	5.96%	7,998,219	1,212,585	15.16%
Transfers-in	37,747,066	24.43%	15,644,414	22,102,652	141.28%
Bond Proceeds	<u>4,800,000</u>	<u>3.11%</u>	<u>0</u>	<u>4,800,000</u>	<u>N/A</u>
Total	<u>\$154,500,096</u>	<u>100.00%</u>	<u>\$119,679,377</u>	<u>\$34,820,719</u>	<u>29.10%</u>

Taxes

The most significant increase in taxes this year is attributable to sales tax, which increased \$4.8M or 10% over last year. It was followed by property tax, which posted a \$1.5M or 7% increase. Also contributing to the increase, but to a lesser extent in terms of dollars, franchise taxes increased 5% and hotel occupancy tax, by 3%.

Intergovernmental

A decrease in grant activity translated into a decrease in this revenue by \$2.7M—including a decline in the Community Development Block Program.

Investment Income

Investment income increased generally due to a pick-up in yields and to a larger portfolio, to a lesser extent.

Miscellaneous

The most significant influence in the \$1.2M increase miscellaneous revenues was a \$2.3M settlement with the gas company, FINA Total, offset by a drop in oil and gas royalties of 900K—declining to \$4.8M.

Transfers-In

This year the General Fund transferred \$30M to the Capital Improvement Fund, which represented surplus fund balance in the General Fund.

Bond Proceeds

During this fiscal year, the City issued a \$4.8M tax note for the purpose of partially funding an elevated downtown parking garage.

Expenditures and Transfers-Out

The following table presents a summary of general fund, special revenue funds, debt service fund and capital projects funds expenditures, transfers-out and other financing uses for the years ended September 30, 2006 and 2005.

<u>Expenditures & Transfers-Out</u>	<u>2006 Amount</u>	<u>Percent of Total</u>	<u>2005 Amount</u>	<u>Amount of Increase (Decrease)</u>	<u>Percent of Increase (Decrease)</u>
General government	\$25,147,297	17.02%	\$17,356,283	\$7,791,014	44.89%
Public safety	43,489,720	29.40%	42,590,348	899,372	2.11%
Highways & streets	18,853,289	12.77%	18,059,597	793,692	4.39%
Health & welfare	3,333,002	2.26%	4,011,452	-678,450	-16.91%
Culture & recreation	19,153,460	12.98%	16,698,716	2,454,744	14.70%
Debt service:					
Principal	25,000	0.02%	25,000	0	0.00%
Interest & fiscal charges	15,762	0.01%	17,472	-1,710	-9.79%
Transfers-out and other financing uses	<u>37,710,900</u>	<u>25.54%</u>	<u>16,753,532</u>	<u>20,957,368</u>	<u>125.09%</u>
Total	<u>\$147,728,430</u>	<u>100.00%</u>	<u>\$115,512,400</u>	<u>\$32,216,030</u>	<u>27.89%</u>

The increase in total expenditures and transfers-out this year was primarily due to an unusually large amount of transfers-out—primarily from the General Fund to the Capital Improvement Fund, which was previously addressed. The growth in spending in the general government category was largely the result of increased capital expenditures over last year—the most significant part of which was for land acquisition. The decrease in health and welfare resulted from a lower level of spending for capital projects undertaken through the Community Development Block Grant Fund. The increase in culture and recreation reflects the capital projects this year—primarily the regional detention facilities/parks both at Gonzales and McAuliffe elementary schools.

Fund Balances

Combined fund balance for the governmental fund types increased \$7M, from a balance of \$85M in the prior year to \$92M as of the current fiscal yearend. Fund balances by major fund are discussed below.

General Fund

Due to the strong performance from property tax and sales tax revenues as well as keeping expenditures as a whole under control, the increase to fund balance before transfers-out increased by \$14.6M. Transfers-out to the Capital Improvement Fund amounted to \$30.2M, in order to bring to fund balance in closer alignment to the fund balance policy and provide funding for future capital projects. As of September 30, 2006, fund balance was reduced to \$39.3M. Of that amount, \$1.4M is reserved for an interfund advance to the Sanitation Fund, as well as \$210K reserved for encumbrances—leaving \$37.7M unreserved and therefore currently available for future spending. During fiscal year 1997-98, the City adopted, by resolution, a financial policy requiring, minimum of 140 days of operating expenses in fund balance. Based upon next year's operating budget, exclusive of capital outlay and transfers-out, fund balance represents 163 days, which is 23 days in excess of the minimum requirement.

Development Corp Fund

The fund balance of the Development Corp Fund increased from \$8.6M in the prior year to \$15.1M—an increase of \$6.5M. Net of reservations, unreserved fund balance is \$9.2M

Capital Improvement Fund

The fund balance of the Capital Improvement Fund increased \$11.7M—from \$18M in the prior year to \$29.7M.

PROPRIETARY FUND TYPES (Enterprise Funds and Internal Service Funds)

Enterprise Funds

The City's enterprise operations consist of the McAllen Public Utility (Water and Sewer Funds), Sanitation Fund, Palm View Golf Course, Transit Terminal Fund, McAllen International Civic Center Fund, McAllen International Airport Fund, McAllen Express Transit Fund and the McAllen International Toll Bridge Fund. In the aggregate, the proprietary funds reported a \$38M increase to net assets—from \$233M in the prior year to \$271M. Water and Sewer Funds accounted for \$8M; and, the Civic Center Fund, \$26M. The Civic Center increase is primarily attributable to the sale of land contiguous to the new Convention Center property to Simon Properties and well as transfers-in in both from the Hotel Occupancy Tax Fund and the Development Corp, which provided partial funding for the new Convention Center.

McAllen Public Utilities (MPU) – Water and Sewer Funds

Water Fund

Operating revenues increased by 12%--largely attributable to water sales due to increased consumption, brought about primarily by a decline in rainfall. Operating expenses increased somewhat proportionally to 12% over last year, which was largely due to increases in raw water costs as well as processing costs of the treatment plants. Other income increased substantially due to improved investment yields—leaving income before contributions and transfers at \$3.8M. Working capital, not considering liabilities payable from restricted assets, which are included in current liabilities, as of year-end amounted to \$8.9M, which represents 299 days of operating expenditures budgeted for next year's operations. The board policy is a minimum of 120 days.

Sewer Fund

Operating revenues increased by \$1M or 10%, primarily due to increased consumption and to a lesser extent to an increase in the commodity rate. Operating expenses were 13% over last year—driven by chemical, electricity as well as other operating costs. Other income increased substantially due to improved investment yields. The increase to net assets amounted to \$4.3M. Working capital, not considering liabilities payable from restricted assets, which are included in current liabilities, as of year-end amounted to \$10.9M, which represents 550 days of operating expenditures budgeted for next year's operations. The board policy is a minimum of 120 days.

Sanitation Fund

This year's operating revenues, representing charges for services, increased \$312K or 3% over prior year, which primarily represents growth in the customer base. As a whole, operating expenses increased \$880K, which resulted primarily from an increase in staffing, maintenance costs as well as increased landfill cost due to increased volume—leaving an operating income of \$379K. Considering the effect of non-operating revenues, net assets increased by \$772M. Working capital, not considering liabilities payable from restricted assets, which are included in current liabilities, as of year-end amounted to \$1.6M.

McAllen International Civic Center Fund

With operating revenues increasing \$59K and expenses increasing \$29K, the Civic Center operated at a loss amounting to \$1M. With an increase in interest earnings, but primarily the sale of land contiguous to the new convention center, which provided a net gain of \$16M, the net income before transfers amounted to \$16M. Funding, provided by a \$4M capital developer contribution, a transfer from a portion of hotel occupancy taxes, which increased over last year and a transfer from the Development Corporation to its restricted account for construction of the new convention center, net assets increased to \$26M. As a result of this year's activities, working capital, not considering liabilities payable from restricted assets, which are included in current liabilities, increased to \$547K.

McAllen International Airport Fund

Operating revenues increased this year by 10% from last year's levels, while operating expenses increased by only 4%. As a result the operating loss amounted to \$1.3M. Considering other income, the net before contributions and transfers was reduced to \$888K. Capital contributions from the Passenger Facility Charge as well as the FAA amounted to \$2.9M. Transfers-out to the City amounted to \$1M to reimburse for public safety personnel assigned to the Airport. As a result, an increase in net assets of \$1M is reported. Working capital, not considering liabilities payable from restricted assets, which are included in current liabilities, has increased to \$731K.

McAllen International Toll Bridge Fund

After the two years following 9-11, in which southbound car crossings declined by 7% in fiscal year 2002-03, slowing to 4% in fiscal year 2003-04, substantially flat in fiscal year 2004-05, this year experienced a decline of 3%.

<u>Category</u>	<u>FY 05-06</u>	<u>FY 04-05</u>	<u>Inc</u> <u>(Dec)</u>	<u>% Inc</u> <u>(Dec)</u>
Cars	5,275,085	5,440,901	(165,816)	(3.00%)
Trucks	15,583	20,484	(4,901)	(23.93%)
Buses	28,231	24,311	3,920	16.12%
People	14,049,695	14,111,631	(61,936)	(0.44%)

The increase in net assets from operating income increased \$93K over last year.

Operating revenues increased by \$354K or 3%, despite the decline in southbound car and truck crossings. Over the last several years, the bridge has been redirecting truck traffic to the neighboring international bridge in Pharr, Texas in order to alleviate congestion in downtown Reynosa, Tamualipas, Mexico, which borders the bridge port of entry as well as avoid shipments of hazardous materials.

With operating expenses increasing by \$275K, operating income approached the \$10M range.

Net assets increased \$1.5M as a result of this year's operations primarily due to the 25c increase in the car toll rate, becoming effective on February 1, 2005 and amounting to \$1.4M. This increase was implemented for the purpose of establishing the Anzalduas Start-Up Fund to supplement the Anzalduas International Bridge Fund—both of which, as restricted accounts, are intended to assist in funding operations of a planned new bridge through its start-up period.

Net assets, and its components, over time serve as a meaningful measure of the Bridge's financial position. The Bridge's assets exceed liabilities by \$22.5M at September 30, 2006. Working capital, not considering liabilities payable from restricted assets, which are included in current liabilities, at year end amounted to \$976K.

General Fund Budgetary Highlights

During the year the City Commission amended the budget several times. One category of adjustments related to requests not considered during the normal budgetary process.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At the end of the fiscal year, the City had \$422M in capital assets.

Capital Assets at Year-end (Net of Depreciation, in Millions)

	Governmental Activities		Business-type Activities		Total Primary Government	
	2006	2005	2006	2005	2006	2005
Land	\$29	\$23	\$16	\$16	\$45	\$39
Buildings and improvements	51	42	134	135	185	177
Equipment	18	17	12	10	30	27
Infrastructure	68	63	20	11	88	74
Construction in progress	6	6	65	38	71	44
Capitalized interest	-	-	1	-	1	-
Water rights	=	=	2	2	2	2
Totals	<u>\$172</u>	<u>\$151</u>	<u>\$250</u>	<u>\$212</u>	<u>\$422</u>	<u>\$363</u>

This year's major additions included the following projects (in millions):

Land acquisition for planned fire stations and other purposes	\$7
Landscaping	1
Park development, including those in conjunction with regional detention facilities	4
Street projects financed by the City directly and dedicated by developers (\$6)	9
Drainage projects	2
Water and sewer improvement projects	13
Construction in progress – new convention center	29
Airport improvement projects	3
Total	<u>\$68</u>

For more detailed information on capital asset activity, refer to the notes to financial statements (refer to pages 94 and 96).

Debt

At the end of the fiscal year, the City had \$50M in bonds outstanding—as shown in the following table:

	Outstanding Debt at Year-end (in Millions)				Total Primary Government	
	Governmental Activities		Business-type Activities		2006	2005
	2006	2005	2006	2005		
General obligation bonds (backed by the City)	\$5	\$-	\$-	\$-	\$5	\$-
Revenue bonds (backed By specific tax and fee Revenues	-	-	-	-	-	-
Totals	<u>\$-</u>	<u>\$-</u>	<u>\$48</u>	<u>\$48</u>	<u>\$50</u>	<u>\$48</u>

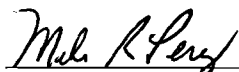
For more detailed information on long term debt activity, refer to the notes to financial statements (refer to page 107).

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

During the budget process for fiscal year 2006-07 the elected and appointed officials considered many factors including the forces driving the economy—among which were job growth, growth in new housing, bank deposits, retail sales growth, the unemployment rate, and inflation. As a result of the deliberations, property tax rates were left unchanged. Within the governmental funds, revenues are conservatively budgeted to remain at approximately the same level. Expenditures on the other hand, were budgeted with a \$35M increase, which primarily represents spending down fund balance in the Capital Improvement Fund.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to inform the citizens, taxpayers and customers of the City of McAllen as well as its investors and creditors about the City's finances and to provide accountability for the public support that it receives. If you have any questions about the report or need additional financial information, contact the Finance Director's Office at the City of McAllen, 1300 Houston, McAllen, Texas 78505.



Mike R. Perez
City Manager



Jerry W. Dale, CPA, CGFO
Finance Director

**BASIC FINANCIAL
STATEMENTS**

CITY OF McALLEN, TEXAS
STATEMENT OF NET ASSETS
September 30, 2006

	Primary Government		
	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash	\$ 1,552,789	\$ 1,294,663	\$ 2,847,452
Certificate of deposits	47,847,112	10,352,769	58,199,881
Investments	54,637,183	10,293,273	64,930,456
Receivables, net	17,457,430	5,166,072	22,623,502
Internal balances	4,131,733	(4,131,733)	-
Inventories	-	407,900	407,900
Notes receivable	-	176,838	176,838
Restricted assets	-	57,710,435	57,710,435
Capital assets not being depreciated:			
Land	29,372,443	16,328,623	45,701,066
Construction in progress	5,692,048	66,445,725	72,137,773
Capital assets being depreciated:			
Buildings	41,365,135	77,409,650	118,774,785
Equipment	44,586,199	26,764,806	71,351,005
Improvements	28,535,297	125,245,970	153,781,267
Infrastructure	139,794,799	46,776,598	186,571,397
Water rights	-	3,603,100	3,603,100
Accumulated depreciation	(117,059,298)	(112,339,022)	(229,398,320)
Other assets	-	2,139,182	2,139,182
Total assets	<u>\$ 297,912,870</u>	<u>\$ 333,644,849</u>	<u>\$ 631,557,719</u>
LIABILITIES			
Accounts payable and accrued liabilities	\$ 7,397,693	\$ 10,390,234	\$ 17,787,927
Unearned revenues	652,200	1,818,752	2,470,952
Other	1,099,166	8,844	1,108,010
Non-current liabilities:			
Due within one year	4,087,500	2,725,000	6,812,500
Due in more than one year	6,845,607	45,827,441	52,673,048
Total liabilities	<u>20,082,166</u>	<u>60,770,271</u>	<u>80,852,437</u>
NET ASSETS			
Invested in capital assets, net of related debt	171,986,623	209,134,340	381,120,963
Restricted for:			
Capital projects	17,921,869	37,285,239	55,207,108
Debt service	-	1,416,251	1,416,251
Distribution of net surplus revenues	-	5,870,202	5,870,202
Other purposes	210,885	-	210,885
Unrestricted	<u>87,711,327</u>	<u>19,168,546</u>	<u>106,879,873</u>
Total net assets	<u>277,830,704</u>	<u>272,874,578</u>	<u>550,705,282</u>
Total liabilities and net assets	<u>\$ 297,912,870</u>	<u>\$ 333,644,849</u>	<u>\$ 631,557,719</u>

BTA "Other purposes" the total amount represents future distribution of surplus revenue.

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

CITY OF McALLEN, TEXAS
STATEMENT OF ACTIVITIES
For the Year Ended September 30, 2006

Functions/Programs	Expenses	Program Revenues	
		Operating	Capital
		Charges for Services	Grants and Contributions
			Grants and Contributions
Governmental activities:			
General government	\$ 17,758,574	\$ 1,861,027	\$ 698,608
Public safety	41,964,290	3,950,042	954,107
Highways and streets	18,056,177	609,428	215,655
Health and welfare	3,322,904	71,060	-
Culture and recreation	14,182,788	773,555	48,811
Interest on long-term debt	29,704	-	-
Total governmental activities	<u>95,314,437</u>	<u>7,265,112</u>	<u>1,917,181</u>
Business-type activities:			
Water services	13,011,620	15,209,812	-
Sewer services	9,110,829	11,552,515	-
Sanitation services	10,960,409	11,483,355	-
Golf course services	1,419,748	1,174,346	-
Civic center services	1,481,792	414,188	-
Airport services	4,655,977	3,464,381	204,534
Transit services	748,048	298,932	36,441
Bus services	1,051,887	228,951	250,276
Bridge services	6,105,402	12,939,661	-
Total business-type activities	<u>48,545,712</u>	<u>56,766,141</u>	<u>491,251</u>
Total primary government	<u>143,860,149</u>	<u>64,031,253</u>	<u>2,408,432</u>
General revenues:			
Property taxes			
Hotel occupancy tax			
Sales taxes			
Franchise taxes			
Unrestricted investment earnings			
Royalties			
Gain on sale of capital assets			
Miscellaneous			
Transfers			
Total general revenues, special items, and transfers			
Change in net assets			
Net assets - beginning			
Net assets - ending			

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

Net (Expenses) Revenues and Changes in Net Assets		
Primary Government		
Governmental Activities	Business-type Activities	Total
\$ (15,198,939)	\$ -	\$ (15,198,939)
(36,437,221)	-	(36,437,221)
(9,898,720)	-	(9,898,720)
(2,323,058)	-	(2,323,058)
(13,297,553)	-	(13,297,553)
(29,704)	-	(29,704)
(77,185,195)	-	(77,185,195)
-	2,211,012	2,211,012
-	2,897,766	2,897,766
-	522,946	522,946
-	(244,452)	(244,452)
-	3,122,445	3,122,445
-	1,931,414	1,931,414
-	(376,763)	(376,763)
-	237,422	237,422
-	6,863,961	6,863,961
-	17,165,751	17,165,751
(77,185,195)	17,165,751	(60,019,444)
24,666,561	-	24,666,561
3,475,170	-	3,475,170
53,449,062	-	53,449,062
6,246,017	-	6,246,017
4,926,087	3,396,648	8,322,735
4,773,487	34,666	4,808,153
81,418	16,296,038	16,377,456
3,992,983	1,423,734	5,416,717
36,166	(36,166)	-
101,646,951	21,114,920	122,761,871
24,461,756	38,280,671	62,742,427
253,368,948	234,593,907	487,962,855
\$ 277,830,704	\$ 272,874,578	\$ 550,705,282

CITY OF McALLEN, TEXAS
STATEMENT OF NET ASSETS
September 30, 2005

	Primary Government		
	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash	\$ 923,920	\$ 1,228,534	\$ 2,152,454
Certificate of deposits	34,616,172	5,865,460	40,481,632
Investments	60,116,426	12,706,842	72,823,268
Receivables, net	15,972,394	4,784,248	20,756,642
Internal balances	5,033,631	(5,033,631)	-
Inventories	-	466,145	466,145
Notes receivable	-	189,722	189,722
Restricted assets	-	62,428,280	62,428,280
Capital assets, net	151,222,944	211,612,301	362,835,245
Other assets	-	2,237,268	2,237,268
Total assets	<u>\$ 267,885,487</u>	<u>\$ 296,485,169</u>	<u>\$ 564,370,656</u>
LIABILITIES			
Accounts payable and accrued liabilities	\$ 6,898,704	\$ 8,565,012	\$ 15,463,716
Unearned revenues	724,627	1,779,605	2,504,232
Other	902,454	19,847	922,301
Non-current liabilities:			
Due within one year	3,110,000	3,552,330	6,662,330
Due in more than one year	2,880,754	47,974,468	50,855,222
Total liabilities	<u>14,516,539</u>	<u>61,891,262</u>	<u>76,407,801</u>
NET ASSETS			
Invested in capital assets, net of related debt	151,721,693	173,466,134	325,187,827
Restricted for:			
Capital projects	10,954,393	39,757,473	50,711,866
Debt service	-	1,480,670	1,480,670
Distribution of net surplus revenues	-	5,795,431	5,795,431
Other purposes	823,749	-	823,749
Unrestricted	89,869,113	14,094,199	103,963,312
Total net assets	<u>253,368,948</u>	<u>234,593,907</u>	<u>487,962,855</u>
Total liabilities and net assets	<u>\$ 267,885,487</u>	<u>\$ 296,485,169</u>	<u>\$ 564,370,656</u>

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

CITY OF McALLEN, TEXAS
STATEMENT OF ACTIVITIES
For Fiscal Year Ended September 30, 2005

		Program Revenues		
			Operating	Capital
	Expenses	Charges for Services	Grants and Contributions	Grants and Contributions
Functions/Programs				
Governmental activities:				
General government	\$ 16,625,820	\$ 1,608,627	\$ 655,565	\$ 173,738
Public safety	41,608,209	3,768,756	3,009,183	1,304,707
Highways and streets	14,884,137	555,666	172,145	3,946,040
Health and welfare	4,024,532	54,613	-	1,464,514
Culture and recreation	12,478,352	676,694	98,266	178,129
Interest on long-term debt	17,377	-	-	-
Total governmental activities	<u>89,638,427</u>	<u>6,664,356</u>	<u>3,935,159</u>	<u>7,067,128</u>
Business-type activities:				
Water services	11,829,462	13,548,751	-	65,927
Sewer services	8,644,246	10,506,385	-	41,760
Sanitation services	10,053,540	11,171,374	-	14,169
Golf course services	1,336,992	1,068,863	-	153,092
Civic center services	1,463,999	355,601	-	-
Airport services	4,497,261	3,151,110	193,415	3,109,428
Transit services	634,498	281,539	-	29,924
Bus services	768,139	148,637	-	847,896
Bridge services	<u>5,868,513</u>	<u>12,571,155</u>	<u>-</u>	<u>874,528</u>
Total business-type activities	<u>45,096,650</u>	<u>52,803,415</u>	<u>193,415</u>	<u>5,136,724</u>
Total primary government	<u>134,735,077</u>	<u>59,467,771</u>	<u>4,128,574</u>	<u>12,203,852</u>
General revenues:				
Property taxes				
Hotel occupancy tax				
Sales taxes				
Franchise taxes				
Unrestricted investment earnings				
Royalties				
Miscellaneous				
Transfers				
Total general revenues, special items, and transfers				
Change in net assets				
Net assets - beginning				
Net assets - ending				

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

Net (Expenses) Revenues and Changes in Net Assets		
Primary Government		
Governmental Activities	Business-type Activities	Total
\$ (14,187,890)	\$ -	\$ (14,187,890)
(33,525,563)	-	(33,525,563)
(10,210,286)	-	(10,210,286)
(2,505,405)	-	(2,505,405)
(11,525,263)	-	(11,525,263)
(17,377)	-	(17,377)
(71,971,784)	-	(71,971,784)
-	1,785,216	1,785,216
-	1,903,899	1,903,899
-	1,132,003	1,132,003
-	(115,037)	(115,037)
-	(1,108,398)	(1,108,398)
-	1,956,692	1,956,692
-	(323,035)	(323,035)
-	228,394	228,394
-	7,577,170	7,577,170
-	13,036,904	13,036,904
(71,971,784)	13,036,904	(58,934,880)
22,967,254	-	22,967,254
3,309,317	-	3,309,317
48,590,129	-	48,590,129
6,046,640	-	6,046,640
2,406,266	2,053,804	4,460,070
5,635,649	33,261	5,668,910
2,284,804	1,251,140	3,535,944
(1,109,118)	1,109,118	-
90,130,941	4,447,323	94,578,264
18,159,157	17,484,227	35,643,384
235,209,791	217,109,680	452,319,471
\$ 253,368,948	\$ 234,593,907	\$ 487,962,855

CITY OF McALLEN, TEXAS
BALANCE SHEET
GOVERNMENTAL FUNDS
September 30, 2006

	<u>General</u>	<u>Development Corp.</u>
ASSETS		
Current assets:		
Cash	\$ 990,407	\$ 24,178
Certificates of deposit	15,323,669	7,532,041
Investments	21,564,665	3,012,699
Receivables, net:		
Taxes	3,250,540	-
Accounts	8,695,676	2,194,592
Accrued interest	728,191	234,836
Other	778,063	-
Due from other funds	417,039	-
Due from other governments	980	-
Interfund loan	<u>1,400,000</u>	<u>3,400,000</u>
 Total assets	 <u><u>\$ 53,149,230</u></u>	 <u><u>\$ 16,398,346</u></u>
 LIABILITIES AND FUND BALANCES		
Liabilities:		
Accounts payable	\$ 1,426,364	\$ 166,993
Accrued liabilities	1,734,475	-
Due to other funds	-	-
Deferred revenues	9,583,743	1,176,733
Other	<u>1,099,165</u>	<u>-</u>
 Total liabilities	 <u>13,843,747</u>	 <u>1,343,726</u>
 Fund balances:		
Reserved for encumbrances	210,164	-
Reserved for interfund loan	1,400,000	3,400,000
Unreserved-designated for economic development	-	2,469,092
Unreserved, reported in non-major funds:		
Special revenue funds	-	-
Capital projects funds	-	-
Unreserved	<u>37,695,319</u>	<u>9,185,528</u>
 Total fund balances	 <u>39,305,483</u>	 <u>15,054,620</u>
 Total liabilities and fund balances	 <u><u>\$ 53,149,230</u></u>	 <u><u>\$ 16,398,346</u></u>

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

<u>Capital Improvement</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
\$ 116,632	\$ 328,665	\$ 1,459,882
8,433,419	6,740,636	38,029,765
22,297,999	478,866	47,354,229
-	-	3,250,540
-	266,224	11,156,492
443,441	71,272	1,477,740
-	25	778,088
-	-	417,039
-	342,045	343,025
<u>352,716</u>	<u>-</u>	<u>5,152,716</u>
<u>\$ 31,644,207</u>	<u>\$ 8,227,733</u>	<u>\$ 109,419,516</u>
\$ 1,491,773	\$ 250,756	\$ 3,335,886
434,403	72,339	2,241,217
-	507,612	507,612
-	-	10,760,476
<u>-</u>	<u>-</u>	<u>1,099,165</u>
<u>1,926,176</u>	<u>830,707</u>	<u>17,944,356</u>
-	-	210,164
352,716	-	5,152,716
-	-	2,469,092
-	3,078,131	3,078,131
-	4,318,895	4,318,895
<u>29,365,315</u>	<u>-</u>	<u>76,246,162</u>
<u>29,718,031</u>	<u>7,397,026</u>	<u>91,475,160</u>
<u>\$ 31,644,207</u>	<u>\$ 8,227,733</u>	<u>\$ 109,419,516</u>

CITY OF McALLEN, TEXAS
Reconciliation of the Balance Sheet of the Governmental Funds
to the Statement of Net Assets
September 30, 2006

Net change in fund balances--total governmental funds (refer to page 49) \$ 91,475,160

Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds. 165,807,304

Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds. 10,108,277

Internal service funds are used by management to charge the costs of certain activities, such as fleet management and insurance, to individual funds. The assets and liabilities of certain internal service funds are included in governmental activities in the statement of net assets. 21,352,920

Some liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds. (10,912,957)

Net assets of governmental activities \$ 277,830,704

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

CITY OF McALLEN, TEXAS
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
For the Year Ended September 30, 2006

	<u>General</u>	<u>Development Corp</u>
REVENUES		
Taxes	\$ 70,794,995	\$ 13,362,264
Licenses and permits	1,478,705	-
Intergovernmental	445,240	-
Charges for services	3,670,134	-
Fines and forfeitures	2,098,820	-
Investment earnings	2,678,741	322,596
Net decrease (increase) in the fair value of investments	331,914	29,694
Other	7,573,408	3,222
Total revenues	<u>89,071,957</u>	<u>13,717,776</u>
EXPENDITURES		
Current:		
General government	14,872,273	1,159,124
Public safety	39,864,071	-
Highways and streets	12,558,676	-
Health and welfare	999,270	1,404,946
Culture and recreation	13,064,500	-
Debt service:		
Principal	-	25,000
Interest and fiscal charges	-	15,762
Total expenditures	<u>81,358,790</u>	<u>2,604,832</u>
Excess of revenues over (under) expenditures	7,713,167	11,112,944
OTHER FINANCING SOURCES (USES)		
Transfers in	6,899,395	-
Transfers out	(30,195,759)	(4,640,107)
Bond proceeds	-	-
Net other financing sources (uses)	<u>(23,296,364)</u>	<u>(4,640,107)</u>
Net change in fund balances	(15,583,197)	6,472,837
Fund balances at beginning of year	<u>54,888,680</u>	<u>8,581,783</u>
Fund balances at end of year	<u><u>\$ 39,305,483</u></u>	<u><u>\$ 15,054,620</u></u>

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

<u>Capital Improvement</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
\$ -	\$ 3,475,170	\$ 87,632,429
-	8,173	1,486,878
-	2,816,687	3,261,927
-	299,123	3,969,257
-	115,804	2,214,624
631,891	162,219	3,795,447
19,869	186	381,663
478,709	1,155,466	9,210,805
<u>1,130,469</u>	<u>8,032,828</u>	<u>111,953,030</u>
7,305,919	1,809,981	25,147,297
1,531,024	2,094,625	43,489,720
5,688,417	606,196	18,853,289
-	928,786	3,333,002
5,771,421	317,539	19,153,460
-	-	25,000
-	-	15,762
<u>20,296,781</u>	<u>5,757,127</u>	<u>110,017,530</u>
(19,166,312)	2,275,701	1,935,500
30,847,671	-	37,747,066
-	(2,875,034)	(37,710,900)
-	4,800,000	4,800,000
<u>30,847,671</u>	<u>1,924,966</u>	<u>4,836,166</u>
11,681,359	4,200,667	6,771,666
<u>18,036,672</u>	<u>3,196,359</u>	<u>84,703,494</u>
<u>\$ 29,718,031</u>	<u>\$ 7,397,026</u>	<u>\$ 91,475,160</u>

CITY OF McALLEN, TEXAS
Reconciliation of the Statement of Revenues
Expenditures, and Changes in Fund Balances of Governmental Funds
to the Statement of Activities
September 30, 2006

Amounts reported for governmental activities in the statement of activities are different because:

Net change in fund balances--total governmental funds (refer to page 53)	\$ 6,771,666
Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays (\$28,495,362) exceeded depreciation, net of depreciation (\$8,907,347) in the current period	19,588,015
In the statement of activities, only the gain on the sale of assets is reported, whereas in the governmental, the proceeds from the sale increase financial resources. Thus, the change in net assets differs from the change in fund balance by the cost of the assets sold.	(234,294)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.	204,189
Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.	25,000
Bond proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net assets.	(4,800,000)
Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.	(173,645)
Internal service funds are used by management to charge the costs of certain activities, such as fleet management and insurance, to individual funds. The net revenue (expense) of certain internal service funds is reported with governmental activities.	<u>3,080,825</u>
Change in net assets of governmental activities	<u>\$ 24,461,756</u>

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

CITY OF McALLEN, TEXAS
GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL
For the Year Ended September 30, 2006

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual Amount</u>	<u>Variance with Final Budget Positive (Negative)</u>
Revenues:				
Taxes:				
Property	\$ 23,828,162	\$ 23,828,162	\$ 24,462,180	\$ 634,018
Sales	37,249,548	37,249,548	40,086,798	2,837,250
Franchise	<u>5,374,000</u>	<u>5,374,000</u>	<u>6,246,017</u>	<u>872,017</u>
Total taxes	<u>66,451,710</u>	<u>66,451,710</u>	<u>70,794,995</u>	<u>4,343,285</u>
Licenses and permits:				
Business licenses and permits	47,000	47,000	35,353	(11,647)
Occupational	103,325	103,325	91,591	(11,734)
Non-business licenses and permits	<u>1,212,000</u>	<u>1,212,000</u>	<u>1,351,761</u>	<u>139,761</u>
Total licenses and permits	<u>1,362,325</u>	<u>1,362,325</u>	<u>1,478,705</u>	<u>116,380</u>
Intergovernmental revenues:				
State shared revenues	<u>375,000</u>	<u>375,000</u>	<u>445,240</u>	<u>70,240</u>
Total intergovernmental revenues	<u>375,000</u>	<u>375,000</u>	<u>445,240</u>	<u>70,240</u>
Charges for services:				
General government	1,271,600	1,271,600	1,450,369	178,769
Public safety	353,500	353,500	544,419	190,919
Highways and streets	561,000	281,000	306,867	25,867
Health	398,200	398,200	640,885	242,685
Culture and recreation	<u>672,600</u>	<u>672,600</u>	<u>727,594</u>	<u>54,994</u>
Total charges for services	<u>3,256,900</u>	<u>2,976,900</u>	<u>3,670,134</u>	<u>693,234</u>
Fines and forfeitures:				
Corporations court	1,817,346	2,061,337	1,945,400	(115,937)
Other fines	<u>250,768</u>	<u>150,634</u>	<u>153,420</u>	<u>2,786</u>
Total fines and forfeitures	<u>2,068,114</u>	<u>2,211,971</u>	<u>2,098,820</u>	<u>(113,151)</u>
Investment earnings	<u>1,100,000</u>	<u>1,100,000</u>	<u>2,678,741</u>	<u>1,578,741</u>

CITY OF McALLEN, TEXAS
GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL
For the Year Ended September 30, 2006

	Original Budget	Final Budget	Actual Amount	Variance with Final Budget Positive (Negative)
Net increase (decrease) in fair value of investments	\$ -	\$ -	\$ 331,914	\$ 331,914
Other:				
Royalties	3,500,000	3,500,000	4,773,487	1,273,487
Rents and concessions	40,000	40,000	45,217	5,217
Reimbursements	77,000	77,000	-	(77,000)
Other	129,000	129,000	2,754,704	2,625,704
Total other revenues	3,746,000	3,746,000	7,573,408	3,827,408
Total revenues	78,360,049	78,223,906	89,071,957	10,848,051
Expenditures:				
General government:				
City commission	98,998	100,846	140,174	(39,328)
Special service	629,800	654,800	654,081	719
City manager	529,786	568,400	628,937	(60,537)
City secretary	594,153	556,264	468,878	87,386
Audit office	161,297	165,546	169,526	(3,980)
Municipal court	969,921	1,241,312	1,172,577	68,735
Finance	902,177	924,201	884,054	40,147
Tax office	769,273	775,421	749,767	25,654
Purchasing and contracting	315,099	323,015	350,765	(27,750)
Legal	805,854	1,035,193	1,118,758	(83,565)
Grant administration	179,658	184,814	193,268	(8,454)
Right of way	135,701	139,427	163,173	(23,746)
Human resources	1,535,176	793,175	749,566	43,609
Risk management	1,151,761	1,151,761	1,151,761	-
Planning	1,175,222	1,197,257	881,320	315,937
Information technology	1,183,157	1,201,881	1,119,626	82,255
Information services	398,932	410,393	370,063	40,330
City hall	746,297	754,925	755,617	(692)
Building maintenance	407,524	417,080	493,855	(76,775)
Non-departmental activities	2,246,576	2,496,576	2,478,239	18,337
Total general government	15,078,797	15,286,631	14,872,273	414,358

CITY OF McALLEN, TEXAS
GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL
For the Year Ended September 30, 2006

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual Amount</u>	<u>Variance with Final Budget Positive (Negative)</u>
Public safety:				
Police	\$ 25,192,273	\$ 25,336,606	\$ 25,241,173	\$ 95,433
Animal control	177,966	182,152	212,441	(30,289)
Communication technology	156,331	159,089	128,851	30,238
Fire	11,173,864	11,197,912	11,179,358	18,554
Traffic operations	1,892,068	1,917,629	2,032,988	(115,359)
Downtown services	508,179	260,175	254,936	5,239
Inspection	831,007	849,338	814,324	35,014
Total public safety	<u>39,931,688</u>	<u>39,902,901</u>	<u>39,864,071</u>	<u>38,830</u>
Highways and streets:				
Engineering services	2,034,566	2,081,901	1,801,403	280,498
Street cleaning	373,763	378,795	426,338	(47,543)
Street maintenance	5,617,275	6,491,261	6,350,461	140,800
Street lighting	1,773,141	1,773,141	1,850,310	(77,169)
Sidewalk construction	617,087	624,220	592,414	31,806
Drainage	1,517,179	1,535,272	1,537,750	(2,478)
Total highways and streets	<u>11,933,011</u>	<u>12,884,590</u>	<u>12,558,676</u>	<u>325,914</u>
Health and welfare:				
Health	613,864	627,079	615,217	11,862
Graffiti cleaning	136,624	139,041	136,180	2,861
Other agencies	252,493	252,493	247,873	4,620
Total health and welfare	<u>1,002,981</u>	<u>1,018,613</u>	<u>999,270</u>	<u>19,343</u>
Culture and recreation:				
Parks and recreation administration	438,706	450,469	510,659	(60,190)
Parks	3,900,053	3,960,535	4,578,008	(617,473)
Recreation	918,487	924,877	1,216,963	(292,086)
Pools	605,153	608,392	833,214	(224,822)
Las palmas community center	298,672	305,299	317,763	(12,464)
Recreation center-Lark	385,400	392,276	413,479	(21,203)
Recreation center-Palmview	440,515	447,084	455,405	(8,321)

CITY OF McALLEN, TEXAS
GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL
For the Year Ended September 30, 2006

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual Amount</u>	<u>Variance with Final Budget Positive (Negative)</u>
Quinta mazatlan	\$ 191,852	\$ 193,550	\$ 290,063	\$ (96,513)
Library	2,538,035	2,593,413	2,248,346	345,067
Library branch-Lark	483,499	496,987	482,751	14,236
Library branch-Palmview	492,802	503,234	434,274	68,960
Other agencies	546,500	616,500	611,500	5,000
Museums	<u>712,075</u>	<u>712,075</u>	<u>672,075</u>	<u>40,000</u>
 Total culture and recreation	 <u>11,951,749</u>	 <u>12,204,691</u>	 <u>13,064,500</u>	 <u>(859,809)</u>
 Total expenditures	 <u>79,898,226</u>	 <u>81,297,426</u>	 <u>81,358,790</u>	 <u>(61,364)</u>
 Excess of revenues over expenditures	 <u>(1,538,177)</u>	 <u>(3,073,520)</u>	 <u>7,713,167</u>	 <u>10,786,687</u>
 Other financing sources (uses)				
Transfers in	6,872,194	6,872,194	6,899,395	27,201
Transfers out	<u>(4,500,000)</u>	<u>(30,195,759)</u>	<u>(30,195,759)</u>	<u>-</u>
 Net other financing sources (uses)	 <u>2,372,194</u>	 <u>(23,323,565)</u>	 <u>(23,296,364)</u>	 <u>27,201</u>
 Net change in fund balances	 834,017	 (26,397,085)	 (15,583,197)	 10,813,888
 Fund balances at begining of year	 <u>54,888,680</u>	 <u>54,888,680</u>	 <u>54,888,680</u>	 <u>-</u>
 Fund balances at end of year	 <u>\$ 55,722,697</u>	 <u>\$ 28,491,595</u>	 <u>\$ 39,305,483</u>	 <u>\$ 10,813,888</u>

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

CITY OF McALLEN, TEXAS
DEVELOPMENT CORPORATION FUND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL
For Fiscal Year Ended September 30, 2006

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual Amount</u>	<u>Variance with Final Budget Positive (Negative)</u>
Revenues:				
Sales tax	\$ 12,416,516	\$ 12,416,516	\$ 13,362,264	\$ 945,748
Investment earnings	109,479	109,479	322,596	213,117
value of investments	-	-	29,694	29,694
Other	-	-	3,222	3,222
Total revenues	<u>12,525,995</u>	<u>12,525,995</u>	<u>13,717,776</u>	<u>1,191,781</u>
Expenditures:				
Current:				
General government	1,740,241	1,740,241	1,159,124	581,117
Health and welfare	1,500,000	1,500,000	1,404,946	95,054
Debt service:				
Principal	25,000	25,000	25,000	-
Interest and fiscal charges	<u>15,763</u>	<u>15,763</u>	<u>15,762</u>	<u>1</u>
Total expenditures	<u>3,281,004</u>	<u>3,281,004</u>	<u>2,604,832</u>	<u>676,172</u>
Excess (deficiency) of revenues over expenditures	<u>9,244,991</u>	<u>9,244,991</u>	<u>11,112,944</u>	<u>1,867,953</u>
Other financing uses:				
Transfers out	<u>(12,953,269)</u>	<u>(12,953,269)</u>	<u>(4,640,107)</u>	<u>8,313,162</u>
Total other financing sources (uses)	<u>(12,953,269)</u>	<u>(12,953,269)</u>	<u>(4,640,107)</u>	<u>8,313,162</u>
Net changes in fund balances	(3,708,278)	(3,708,278)	6,472,837	10,181,115
Fund balances--beginning	<u>8,581,783</u>	<u>8,581,783</u>	<u>8,581,783</u>	<u>-</u>
Fund balances--ending	<u>\$ 4,873,505</u>	<u>\$ 4,873,505</u>	<u>\$ 15,054,620</u>	<u>\$ 10,181,115</u>

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

CITY OF McALLEN, TEXAS
PROPRIETARY FUNDS
STATEMENT OF NET ASSETS
September 30, 2006

	Business Type Activities-Enterprise Funds				
	Water	Sewer	Sanitation	McAllen International Civic Center	McAllen International Airport
ASSETS					
Current assets:					
Cash	\$ 29,305	\$ 3,078	\$ 112,171	\$ 23,372	\$ 12,789
Certificate of deposit	2,142,201	6,529,839	567,384	409,453	500,000
Investments	5,213,118	3,006,280	142,665	66,135	20,407
Receivables, net:					
Accounts	1,655,072	1,417,017	1,359,605	1,355	300,583
Accrued interest	165,188	192,401	19,383	9,447	10,416
Other	-	24,715	-	-	-
Due from other funds	20,000	-	-	77,823	-
Inventories, at cost	34,034	-	-	-	-
Restricted assets:					
Cash and cash equivalents	138,222	108,392	12,819	13,498	6,042
Total current assets	9,397,140	11,281,722	2,214,027	601,083	850,237
Noncurrent assets:					
Restricted assets:					
Investments	15,967,015	11,394,347	2,749,893	10,073,448	2,633,087
Other	-	-	-	116,735	10,656
Total noncurrent restricted assets	15,967,015	11,394,347	2,749,893	10,190,183	2,643,743
Capital assets:					
Land	2,295,619	880,450	928,277	6,526,110	3,251,781
Buildings and systems	49,070,946	1,948,375	1,822,853	1,886,940	31,874,290
Improvements other than buildings	36,672,834	60,628,592	510,200	7,164,428	34,218,380
Machinery and equipment	3,241,863	5,109,987	12,604,526	549,016	1,136,117
Construction in progress	2,649,127	9,859,774	-	52,238,055	1,698,769
Water rights	3,603,100	-	-	-	-
Less accumulated depreciation	(33,597,802)	(31,468,643)	(8,607,278)	(2,460,379)	(26,028,233)
Total capital assets (net of accumulated depreciation)	63,935,687	46,958,535	7,258,578	65,904,170	46,151,104
Other noncurrent assets					
Loans receivable	88,419	88,419	-	-	-
Other assets, net	836,005	641,630	-	-	-
Total other noncurrent assets	924,424	730,049	-	-	-
Total noncurrent assets	80,827,126	59,082,931	10,008,471	76,094,353	48,794,847
Total assets	\$ 90,224,266	\$ 70,364,653	\$ 12,222,498	\$ 76,695,436	\$ 49,645,084

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

Business-type Activities-Enterprise Funds			Governmental Activities
McAllen International Toll Bridge	Other Proprietary Funds	Total	Internal Service Funds
\$ 201,090	\$ 209,818	\$ 591,623	\$ 795,947
-	203,892	10,352,769	9,817,347
1,606,280	238,388	10,293,273	7,282,954
-	5,977	4,739,609	137,909
-	4,913	401,748	313,636
-	-	24,715	-
-	-	97,823	-
-	-	34,034	373,866
98,523	48,364	425,860	-
1,905,893	711,352	26,961,454	18,721,659
14,017,677	254,920	57,090,387	-
183,532	-	310,923	-
14,201,209	254,920	57,401,310	-
573,798	1,872,588	16,328,623	-
10,372,616	3,750,573	100,726,593	-
2,046,674	7,446,778	148,687,886	17,739
960,183	2,835,130	26,436,822	12,122,012
-	-	66,445,725	-
-	-	3,603,100	-
(5,589,286)	(4,366,867)	(112,118,488)	(5,535,245)
8,363,985	11,538,202	250,110,261	6,604,506
-	-	176,838	-
661,547	-	2,139,182	-
661,547	-	2,316,020	-
23,226,741	11,793,122	309,827,591	6,604,506
<u>\$ 25,132,634</u>	<u>\$ 12,504,474</u>	<u>\$ 336,789,045</u>	<u>\$ 25,326,165</u>

Continued

CITY OF McALLEN, TEXAS
PROPRIETARY FUNDS
STATEMENT OF NET ASSETS-(Continued)
September 30, 2006

	Business Type Activities-Enterprise Funds				
	Water	Sewer	Sanitation	McAllen International Civic Center	McAllen International Airport
LIABILITIES					
Current liabilities:					
Accounts payable	\$ 779,770	\$ 617,157	\$ 781,537	\$ 1,221,382	\$ 98,236
Accrued expenses	320,953	456,165	70,723	3,033,698	88,670
Due to other funds	-	20,000	-	-	-
Due to other government agencies	-	-	-	-	-
Current portion of revenue bonds	940,800	739,200	-	-	-
Customer deposits	1,571,894	-	-	15,368	-
Other	38	-	-	442	-
Total current liabilities	3,613,455	1,832,522	852,260	4,270,890	186,906
Other noncurrent liabilities:					
Advances from other funds	-	-	1,400,000	-	-
Revenue bonds, net of current portion and discount	23,259,600	18,275,400	-	-	-
Accumulated unpaid compensated absences	234,658	189,145	130,371	25,776	42,130
Notes payable	-	-	-	2,000,000	-
Bond premium	540,461	424,648	-	-	-
Deferred revenues	257,774	1,015,000	184,240	61,761	193,032
Total other noncurrent liabilities	24,292,493	19,904,193	1,714,611	2,087,537	235,162
Total liabilities	27,905,948	21,736,715	2,566,871	6,358,427	422,068
NET ASSETS					
Invested in capital assets, net of related debt	39,757,331	31,029,605	7,258,578	65,904,170	46,151,104
Restricted for:					
Capital projects	13,574,577	7,398,933	2,484,499	3,972,932	2,639,193
Debt service	313,601	246,400	-	-	-
Distribution of net surplus revenues	-	-	-	-	-
Unrestricted	8,672,809	9,953,000	(87,450)	459,907	432,719
Total net assets	62,318,318	48,627,938	9,655,627	70,337,009	49,223,016
Total liabilities and net assets	\$ 90,224,266	\$ 70,364,653	\$ 12,222,498	\$ 76,695,436	\$ 49,645,084

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

Business-type Activities-Enterprise Funds			Governmental Activities
McAllen International Toll Bridge	Other Proprietary Funds	Total	Internal Service Funds
\$ 71,949	\$ 58,758	\$ 3,628,789	\$ 670,821
27,913	29,717	4,027,839	1,529,053
103,985	-	123,985	-
751,761	-	751,761	-
225,000	-	1,905,000	-
-	-	1,587,262	-
8,364	-	8,844	-
<u>1,188,972</u>	<u>88,475</u>	<u>12,033,480</u>	<u>2,199,874</u>
-	3,752,716	5,152,716	-
1,295,000	-	42,830,000	-
128,576	67,960	818,616	69,165
-	-	2,000,000	-
-	-	965,109	-
<u>14,143</u>	<u>92,804</u>	<u>1,818,754</u>	<u>-</u>
<u>1,437,719</u>	<u>3,913,480</u>	<u>53,585,195</u>	<u>69,165</u>
<u>2,626,691</u>	<u>4,001,955</u>	<u>65,618,675</u>	<u>2,269,039</u>
7,370,161	11,538,202	209,009,151	6,604,506
6,911,821	303,284	37,285,239	-
856,250	-	1,416,251	-
5,870,202	-	5,870,202	-
<u>1,497,509</u>	<u>(3,338,967)</u>	<u>17,589,527</u>	<u>16,452,620</u>
<u>22,505,943</u>	<u>8,502,519</u>	<u>271,170,370</u>	<u>23,057,126</u>
<u>\$ 25,132,634</u>	<u>\$ 12,504,474</u>	<u>\$ 336,789,045</u>	<u>\$ 25,326,165</u>

Concluded

CITY OF MCALLEN, TEXAS
Reconciliation of the Statement of Net Assets of the Proprietary Funds
to the Government-Wide Statement of Net Assets
September 30, 2006

Fund equity - total proprietary funds (page 63)	\$ 271,170,370
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Some amounts reported for business-type activities in the statement of net assets are different because certain internal service fund assets and liabilities are included with business-type activities.

1,704,208

Net assets of business-type activities
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\$ 272,874,578

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

CITY OF McALLEN, TEXAS
PROPRIETARY FUNDS
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
For the Year Ended September 30, 2006

	Business Type Activities-Enterprise Funds			
	Water	Sewer	Sanitation	McAllen International Civic Center
Operating revenues				
Charges for services	\$ 15,209,812	\$ 11,552,515	\$ 11,483,355	\$ 105,679
Rentals	-	-	-	308,509
Other	-	-	-	-
Total operating revenues	15,209,812	11,552,515	11,483,355	414,188
Operating expenses				
Salaries, wages and employee benefits	4,020,267	2,573,420	4,046,566	754,958
Supplies	2,867,694	556,318	149,983	29,761
Contractual and other services	2,414,833	2,785,981	3,845,500	450,215
Repairs and maintenance	585,431	499,030	2,142,612	54,631
Depreciation and amortization	2,967,959	2,162,431	919,899	129,204
Self insurance claims	-	-	-	-
Other	8,781	60,358	-	-
Total operating expenses	12,864,965	8,637,538	11,104,560	1,418,769
Operating income (loss)	2,344,847	2,914,977	378,795	(1,004,581)
Non operating revenues (expenses)				
Intergovernmental	-	-	-	-
Investment earnings	918,838	931,257	172,928	597,839
Net increase (decrease) in fair value of investments	52,776	43,946	1,749	-
Interest expense	(1,202,211)	(952,950)	-	(100,000)
Capitalized interest	561,142	440,897	-	-
Gain (loss) on sale of capital assets	(583)	15,273	50,778	16,225,424
Other	1,160,793	485,116	168,201	11,727
Net non-operating revenues (expenses)	1,490,755	963,539	393,656	16,734,990
Income (loss) before contributions and transfers	3,835,602	3,878,516	772,451	15,730,409
Capital contributions	12,816	456,080	-	4,190,049
Transfers in	-	-	-	5,748,350
Transfers out	-	-	-	-
Change in net assets	3,848,418	4,334,596	772,451	25,668,808
Total net assets-beginning	58,469,900	44,293,342	8,883,176	44,668,201
Total assets—ending	\$ 62,318,318	\$ 48,627,938	\$ 9,655,627	\$ 70,337,009

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

Business Type Activities-Enterprise Funds				Governmental Activities
McAllen International Airport	McAllen International Toll Bridge	Other Proprietary Funds	Total	Internal Service Funds
\$ 743,782	\$ 11,254,995	\$ 1,702,230	\$ 52,052,368	\$ 5,713,268
2,720,599	1,477,446	-	4,506,554	-
-	207,220	-	207,220	10,889,715
<u>3,464,381</u>	<u>12,939,661</u>	<u>1,702,230</u>	<u>56,766,142</u>	<u>16,602,983</u>
992,660	1,343,162	1,645,591	15,376,624	1,045,367
47,019	90,872	160,355	3,902,002	27,809
993,885	577,877	429,699	11,497,990	4,786,826
325,394	181,119	397,658	4,185,875	42,100
2,368,750	457,081	612,511	9,617,835	1,463,711
-	-	-	-	7,268,100
-	-	-	69,139	26,569
<u>4,727,708</u>	<u>2,650,111</u>	<u>3,245,814</u>	<u>44,649,465</u>	<u>14,660,482</u>
<u>(1,263,327)</u>	<u>10,289,550</u>	<u>(1,543,584)</u>	<u>12,116,677</u>	<u>1,942,501</u>
204,534	-	286,717	491,251	-
130,316	432,723	54,329	3,238,230	715,743
-	38,935	-	137,406	54,246
-	(73,315)	-	(2,328,476)	-
-	-	-	1,002,039	-
2,574	1,332	1,240	16,296,038	(37,704)
<u>38,199</u>	<u>(3,404,976)</u>	<u>24,360</u>	<u>(1,516,580)</u>	<u>816,889</u>
<u>375,623</u>	<u>(3,005,301)</u>	<u>366,646</u>	<u>17,319,908</u>	<u>1,549,174</u>
(887,704)	7,284,249	(1,176,938)	29,436,585	3,491,675
2,918,476	29,702	846,944	8,454,067	15,333
-	-	1,114,879	6,863,229	-
<u>(1,103,965)</u>	<u>(5,795,430)</u>	<u>-</u>	<u>(6,899,395)</u>	<u>-</u>
926,807	1,518,521	784,885	37,854,486	3,507,008
<u>48,296,209</u>	<u>20,987,422</u>	<u>7,717,634</u>	<u>233,315,884</u>	<u>19,550,118</u>
<u>\$ 49,223,016</u>	<u>\$ 22,505,943</u>	<u>\$ 8,502,519</u>	<u>\$ 271,170,370</u>	<u>\$ 23,057,126</u>

CITY OF MCALLEN, TEXAS
Reconciliation of the Statement Revenues, Expenses and Changes in Fund Net Assets of the Proprietary Funds
to the Government-Wide Statement of Net Assets
September 30, 2006

Change in net assets - total proprietary funds (page 67)	\$ 37,854,486
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Some amounts reported for business-type activities in the statement of activity are different because the net revenue (expense) of certain internal service funds is reported with business-type activities.

426,185

Net assets of business-type activities

\$ 38,280,671

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

CITY OF McALLEN, TEXAS
PROPRIETARY FUNDS
STATEMENT OF CASH FLOWS
For the Year Ended September 30, 2006

	Business Type Activities			
	Water	Sewer	Sanitation	McAllen International Civic Center
Cash flows from operating activities:				
Receipts from customers	\$ 15,171,862	\$ 11,349,338	\$ 11,563,674	\$ 458,212
Payments to employees	(3,999,783)	(2,542,658)	(4,012,815)	(747,695)
Payments to suppliers	(6,236,834)	(4,667,643)	(5,832,320)	1,015,282
Other receipts (payments)	1,160,793	485,116	168,201	11,727
Net cash provided (used) by operating activities	6,096,038	4,624,153	1,886,740	737,526
Cash flows from noncapital financing activities:				
Transfers from other funds	-	-	-	5,748,350
Transfers to other funds	-	-	-	-
Advance from other funds	-	-	-	-
Subsidy from federal grant	-	-	-	-
Non operating revenues (expenses)	-	-	-	-
Distribution of income to City of Hidalgo	-	-	-	-
Net cash provided by (used for) noncapital financing activities	-	-	-	5,748,350
Cash flows from capital and related financing activities:				
Capital contributions	-	-	-	4,190,049
Purchases of capital assets	(3,682,160)	(8,553,846)	(1,927,885)	(29,579,449)
Proceeds from sale of capital assets	583	15,273	50,778	17,243,628
Principal repayments-bonds	(753,200)	(1,136,800)	-	-
Interest paid	(1,209,714)	(962,569)	-	(100,000)
Net cash provided used by capital and related financing activities	(5,644,491)	(10,637,942)	(1,877,107)	(8,245,772)
Cash flows from investing activities:				
Proceeds from sales and maturities of investments	16,448,896	27,258,339	4,642,232	30,591,302
Purchase of investments	(17,525,430)	(21,891,722)	(4,652,224)	(29,445,953)
Receipt of interest	566,793	645,480	102,366	523,779
Net cash provided (used) by investing activities	(509,741)	6,012,097	92,374	1,669,128
Net increase (decrease) in cash	(58,194)	(1,692)	102,007	(90,768)
Cash at beginning of year	225,721	113,162	22,983	127,638
Cash at end of year	\$ 167,527	\$ 111,470	\$ 124,990	\$ 36,870

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

Business Type Activities				Governmental Activities
McAllen International Airport	McAllen International Toll Bridge	Other Proprietary Funds	Total	Internal Service Funds
\$ 3,870,224 (1,009,858) (1,528,701) 40,773	\$ 12,940,750 (1,313,495) (932,525) 6	\$ 1,701,510 (1,642,415) (1,026,913) 25,601	\$ 57,055,570 (15,268,719) (19,209,654) 1,892,217	\$ 16,611,610 (1,015,147) (12,897,207) 841,162
1,372,438	10,694,736	(942,217)	24,469,414	3,540,418
- (1,103,965) - 204,534 - -	- (5,760,597) - - (102,993) (3,304,244)	1,114,879 - (100,000) 36,441 - -	6,863,229 (6,864,562) (100,000) 240,975 (102,993) (3,304,244)	- - - - - -
(899,431)	(9,167,834)	1,051,320	(3,267,595)	-
2,918,476 (2,537,955) - - -	- (380,130) 1,332 (210,000) (74,102)	1,060,358 (1,059,818) - - -	8,168,883 (47,721,243) 17,311,594 (2,100,000) (2,346,385)	- (3,191,124) 8,239 - -
380,521	(662,900)	540	(26,687,151)	(3,182,885)
4,678,507 (5,624,110) 64,809	21,981,552 (23,261,158) 378,370	572,485 (563,505) 42,888	106,173,313 (102,964,102) 2,324,485	2,376,377 (3,052,656) 508,870
(880,794)	(901,236)	51,868	5,533,696	(167,409)
(27,266)	(37,234)	161,511	48,364	190,124
46,097	336,847	96,671	969,119	605,823
<u>\$ 18,831</u>	<u>\$ 299,613</u>	<u>\$ 258,182</u>	<u>\$ 1,017,483</u>	<u>\$ 795,947</u>

Continued

CITY OF McALLEN, TEXAS
PROPRIETARY FUNDS
STATEMENT OF CASH FLOWS-(Continued)
For the Year Ended September 30, 2006

	Business Type Activities			
	Water	Sewer	Sanitation	McAllen International Civic Center
Reconciliation of operating income (loss) to net cash provided by operating activities				
Operating income (loss)	\$ 2,344,847	\$ 2,914,977	\$ 378,795	\$ (1,004,581)
Adjustment to reconcile operating income (loss) to net cash provided by operating activities:				
Depreciation and amortization	2,967,959	2,162,431	919,899	129,204
Miscellaneous income (expense)	1,160,793	485,116	168,201	11,727
(Increase) decrease in accounts receivable	(17,950)	(203,177)	80,319	4,105
(Increase) decrease in due from other governments	-	-	-	-
(Increase) decrease in due from other funds	(20,000)	-	-	39,919
(Increase) decrease in inventories	11,682	-	-	-
Increase (decrease) in accounts payable	277,667	(277,410)	384,390	(13,027)
Increase (decrease) in customer deposits payable	(5,068)	-	-	-
Increase (decrease) in compensated absences payable	8,258	20,813	17,328	3,220
Increase (decrease) in accrued expenses	14,163	(158,691)	16,423	1,574,517
Increase (decrease) in due to other funds	-	20,000	(80,092)	-
Increase (decrease) in other current liabilities	(643,393)	(279,906)	-	375
Increase (decrease) in deferred revenues	(2,920)	(60,000)	1,477	(7,933)
Total adjustments	3,751,191	1,709,176	1,507,945	1,742,107
Net cash provided by (used for) operating activities	<u>\$ 6,096,038</u>	<u>\$ 4,624,153</u>	<u>\$ 1,886,740</u>	<u>\$ 737,526</u>
Noncash investing, capital and financing activities:				
Contributions of capital assets	12,816	456,080	-	-
Increase (decrease) in fair value of investments	52,776	43,946	1,749	-

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

Business Type Activities				Governmental Activities
McAllen International Airport	McAllen International Toll Bridge	Other Proprietary Funds	Total	Internal Service Funds
\$ (1,263,327)	\$ 10,289,550	\$ (1,543,585)	\$ 12,116,676	\$ 1,942,501
2,368,750	457,081	612,511	9,617,835	1,463,711
40,773	6	25,601	1,892,217	841,162
(80,030)	1,089	(719)	(216,363)	8,627
485,873	-	-	485,873	-
-	-	-	19,919	-
-	-	-	11,682	46,563
(25,412)	13,540	(58,655)	301,093	203,843
-	-	-	(5,068)	-
(20,079)	25,731	(2,316)	52,955	25,257
75,674	(92,205)	5,492	1,435,373	(947,343)
(308,380)	-	-	(368,472)	(42,796)
-	8,364	-	(914,560)	-
98,596	(8,420)	19,454	40,254	(1,107)
2,635,765	405,186	601,368	12,352,738	1,597,917
<u>\$ 1,372,438</u>	<u>\$ 10,694,736</u>	<u>\$ (942,217)</u>	<u>\$ 24,469,414</u>	<u>\$ 3,540,418</u>
-	29,702	36,862		
	38,935	-		69,579

Concluded

CITY OF McALLEN , TEXAS
STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
September 30, 2006

	<u>Pension Trust</u>	<u>Agency</u>
	<u>Firemen's Relief and Retirement Fund</u>	<u>Developer's Fund</u>
ASSETS		
Cash and cash equivalents	\$ 539,279	\$ 128,553
Receivables:		
Interest	-	134,474
Other	-	320
Investments, at fair value:		
Certificate of deposit	-	4,004,540
U.S Government securities	6,539,005	1,484,687
Corporate bonds and stocks	18,853,789	-
Alternate investments	<u>4,326,700</u>	<u>-</u>
 Total investments	 <u>29,719,494</u>	 <u>5,489,227</u>
 Total assets	 <u>30,258,773</u>	 <u><u>\$ 5,752,574</u></u>
LIABILITIES		
Accounts payable	-	44,904
Escrow payables	<u>-</u>	<u>5,707,670</u>
 Total liabilities	 <u>-</u>	 <u><u>\$ 5,752,574</u></u>
NET ASSETS		
Held in trust for pension benefits	<u><u>\$ 30,258,773</u></u>	

The accompanying notes are an integral part of these statements.

CITY OF McALLEN , TEXAS
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
For the Year Ended September 30, 2006

	<u>Pension Trust</u>
	<u>Firemen's Relief and Retirement Fund</u>
ADDITIONS	
Contributions:	
Member	\$ 715,065
Employer	791,259
Developers	<u>-</u>
Total contributions	<u>1,506,324</u>
Investment earnings:	
Interest and dividends	1,806,966
Net appreciation in fair value of investments	<u>762,552</u>
Total investment earnings	2,569,518
Less: investment expense	<u>(354,273)</u>
Net investment earnings	<u>2,215,245</u>
Total additions (deductions)	<u>3,721,569</u>
DEDUCTIONS	
Benefits	1,216,859
Refund of contributions	88,047
Administrative expense	12,593
Capital assets contribution	<u>-</u>
Total deductions	<u>1,317,499</u>
Changes in net assets	2,404,070
Net assets—beginning	<u>27,854,703</u>
Net assets—ending	<u><u>\$ 30,258,773</u></u>

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

CITY OF McALLEN, TEXAS

NOTES TO FINANCIAL STATEMENTS

September 30, 2006

I. Summary of significant accounting policies

(A) Reporting Entity

The City of McAllen, Texas (the City) is a municipal corporation, which was incorporated February 20, 1911 under Article XI, Section 5 of the Texas Constitution. The City operates under the commission-manager form of government and provides a full range of municipal services as authorized by its charter. The governing body consists of an elected mayor and a six-member commission. Services provided include those typically provided by general-purpose local governments, namely public safety (principally police and fire,) highways and streets, health and welfare, culture and recreation (principally library, parks and recreation) and general government. Other services provided include water and sewer utilities, sanitation, golf course, intermodal transit terminal, bus transit system, civic center, international airport, and an international bridge with Mexico.

The accompanying financial statements present the reporting entity which consists of the primary government, organizations for which the primary government is financially accountable and other organizations for which the primary government is not accountable, but for which the nature and significance of their relationship with the primary government are such that exclusion could cause the City's general purpose financial statements to be misleading or incomplete.

Financial accountability exists if a primary government appoints a voting majority of an organization's governing Board and either is able to impose its will on that organization or there is a potential for the organization to provide specific financial benefits to, or impose specific financial burdens on, the primary government. A primary government may also be financially accountable for governmental organizations with a separately elected governing Board, a governing Board appointed by another government, or a jointly appointed Board that is fiscally dependent on the primary government.

In accordance with Governmental Accounting Standards Board requirements, the City has reviewed other entities and activities for possible inclusion in the reporting entity and has determined that there are none except for the Firemen's Relief and Retirement Fund (Firemen's Fund). The City is represented on the governing board of the Firemen's Fund; therefore, the Firemen's Fund is included as a pension trust fund in the accompanying financial statements.

The accompanying financial statements have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body

CITY OF McALLEN, TEXAS

NOTES TO FINANCIAL STATEMENTS

September 30, 2006

for establishing governmental accounting and financial reporting principles. Pronouncements of the Financial Accounting Standards Board (FASB) issued after November 30, 1989 are not applied in the preparation of the financial statements of the business-type activities of the government-wide or enterprise fund financial statements in accordance with GASB Statement No. 20. One of the most significant statements issued by GASB recently is Statement No. 34.

In June 1999, GASB issued Statement No. 34, *Basic Financial Statements and Management Discussion and Analysis for State and Local Governments*, which represents the single most significant change in the history of state and local governmental financial reporting. According to its implementation schedule, the City of McAllen was required to begin reporting under most of the new standards no later than fiscal year ending 2002. The exception is the requirement to retroactively report infrastructure (streets, bridges, drainage systems) that were acquired or significantly improved within the last twenty years. This requirement allows for an additional four-year delay in implementation until fiscal year ending 2006. The City elected implementation of all the requirements of this statement, including retroactive reporting of infrastructure, beginning with fiscal year ending 2002.

Under GASB No. 34, sometimes referred to as *the new reporting model*, much of the information presented in the basic financial statements of the previous model has been retained although restructured. In addition, the new model reaches beyond the familiar to new information that is intended to reflect the City's financial position and operations more like the private sector. It is intended to be more comprehensive and easier to understand. The basic financial statements include both the new government-wide as well as the restructured traditional fund financial statements.

(B) Government-wide and fund financial statements

Government-wide Financial Statements

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

The statement of activities reflects the extent to which direct expenses of each function are offset by program revenues. *Direct expenses* are those that are attributable to a specific function and are clearly identifiable. *Program revenues* include charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided

CITY OF McALLEN, TEXAS

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September 30, 2006

by a specific function as well as grants and contributions that are restricted to meeting the operational or capital requirements of a specific function. Taxes and other items not appropriately included with program revenues are shown as *general revenues*.

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

(C) Measurement focus, basis of accounting and financial statement presentation

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

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. The City considers revenues to be available if they are collected within 30 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, consistent with accrual accounting. However, debt service expenditures, as well as those related to compensated absences and claims and judgments are recognized only when payment is made.

Property taxes, sales taxes, franchise 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 cash is received by the government.

The City reports the following fund types and related major governmental funds:

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

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

CITY OF McALLEN, TEXAS

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September 30, 2006

for specified purposes. The only special revenue fund reported as a major fund is the *Development Corp. Fund*. It is used to account for the additional ½¢ sales tax for economic development.

The *capital projects funds* are used to account for all resources allocated for the acquisition and/or construction of capital facilities except those financed by proprietary fund types. The *capital improvements fund* is the only fund of this type that is reported as a major fund.

The governing body has adopted the policy that the development corp. fund and the capital improvement fund are to be considered major funds, without regard to the major fund criteria, due to them being particularly important to the users of these financial statements.

The City reports the following major *proprietary fund types* and related funds:

The following *enterprise funds* are used to account for City operations for which a fee is charged to external users for goods or services. These funds must be used for activities, whose debt is backed solely by fees and charges or there is a legal requirement to recover cost, including capital cost, or a policy decision has been made to recover cost, including capital cost. Enterprise funds, which are reported as major funds include:

The *Water Fund*, which accounts for the activities of the City's water system.

The *Sewer Fund*, which accounts for the activities of the City's sewer system.

The *Sanitation Fund*, which accounts for the activities of the City-owned residential and commercial garbage and brush collection as well as recycling systems.

The *Civic Center Fund*, which accounts for the activities of the City's civic center.

The *Airport Fund*, which accounts for the activities of the City-owned international airport.

The *Toll Bridge Fund*, which accounts for the operations of the City-owned international bridge connecting with Mexico.

Also, the City also reports, although not as major funds, the *internal service funds as proprietary funds*. These fund types were established to finance and account for goods and services provided to various departments of the City, and on a limited basis to other local agencies, on a cost-reimbursement basis. They account for fleet management, health

CITY OF McALLEN, TEXAS

NOTES TO FINANCIAL STATEMENTS

September 30, 2006

insurance, general insurance provided to other operating funds of the City as well as the general depreciation, which is a capital replacement fund for rolling stock used within departments of the general fund.

The City reports *fiduciary fund types*, in which the City accounts for assets received and held by the City in the capacity of trustee, agent or custodian. Expenditures are made only in accordance with the purpose for which the assets are received and cannot be used to support the City's programs. Within this category of fund types, the *pension trust fund* accounts for the activities of the Firemen's Relief and Retirement Fund, this accumulates resources for pension benefit payments to qualified firefighters. It also accounts for developers' contributions for future infrastructure development in the *developers' fund*, an agency fund.

Generally, with regard to enterprise fund, the City follows private-sector standards of accounting and financial reporting issued prior to December 1, 1989—to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the *option* of following subsequent private-sector guidance for the business-type activities and enterprise funds, subject to the same limitation. The City has elected not to follow subsequent private-sector guidance.

Generally, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general statement are charges between the City's water and sewer function and various other functions of the City. Eliminating these charges would distort the direct costs and program revenues reported by the respective functions.

Amounts reported in *program revenues* include 1) charges to customers or applicants for goods, services or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions. Internally dedicated resources are reported as *general revenues*, which include all taxes, as opposed to program revenues.

Proprietary funds distinguish *operating* revenues and expenses from *non-operating* items. Operating revenues and expenses typically are the result from activities specific to a particular proprietary fund's operations. Operating revenues include charges for services. Operating expenses include costs of services as well as materials, contracts, personnel and depreciation. All other revenues and expenses are reported as non-operating revenues and expenses.

When an expense is incurred for purposes for which both restricted and unrestricted net assets are available, the City typically first applies restricted resources, as appropriate opportunities arise, but reserves the right to selectively defer the use thereof to a future project or replacement equipment acquisition.

CITY OF McALLEN, TEXAS

NOTES TO FINANCIAL STATEMENTS

September 30, 2006

(D) Assets, liabilities, and net assets or equity

(1) Deposits and investments

The City's cash and cash equivalents are considered to be cash on hand and demand deposits.

The Public Funds Investment Act for the state of Texas allows municipalities to invest in the following:

- Obligations of, or guaranteed by governmental entities, including:
 - Obligations of the United States or its agencies or instrumentalities
 - Direct obligations of this state or its agencies and instrumentalities
 - Collateralized mortgage obligations directly issued by a federal agency or instrumentality of the United States, the underlying security for which is guaranteed by an agency or instrumentality of the United States.
 - Other obligations, the principal and interest of which are unconditionally guaranteed or insured by or backed by the full faith and credit of, this state or the United States or their respective agencies and instrumentalities
 - Obligations of states, agencies, counties, cities, and other political subdivisions of any state rated as to investment quality by a nationally recognized investment rating firm not less than A or its equivalent
 - Bonds issued, assumed, or guaranteed by the State of Israel
- Certificates of deposit
- Fully collateralized repurchase agreements
- Bankers' acceptances
- Commercial paper
- No-load mutual funds
- Guaranteed investment contracts
- Investment pools

The City's investment policy further restricts investments to the following:

- U.S. Treasury obligations and government agency securities, specifically those issued by the Federal Home Land Bank, the Federal National Mortgage Association, the Federal Home Loan Mortgage Corporation, and the Federal Farm Credit Bank, excluding mortgage-backed securities (i.e., those issued by the Government National Mortgage Association (Ginnie Mae), Student Loan Marketing Association (Sallie Mae) and Tennessee Valley Authority (TVA).
- Certificates of Deposit

CITY OF McALLEN, TEXAS

NOTES TO FINANCIAL STATEMENTS

September 30, 2006

(1) Deposits and investments-Continued

- Local government investment pools

The City's investments are reported at fair value.

(2) Receivables and payables

Lending/borrowing between funds that results in amounts outstanding at the end of the fiscal year are referred to as either "due to/from other funds" or "advances to from other funds". "Due to/from other funds" represents the current portion of interfund loans. "Advances to/from other funds" represents the non-current portion of interfund loans. With respect to the government-wide financial statements, any residual balances outstanding between the governmental activities and business-type activities are reported as "internal balances."

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

All trade and property tax receivables are shown net of an allowance for uncollectible.

Property taxes are levied on October 1 based on the assessed value of property as listed on the previous January 1, on which date a tax lien attaches. Assessed values are an approximation of market value. A valuation of all property must be made at least every three (3) years. However, due to growth, the appraisal district conducts annual valuation by property category.

(3) Inventories and prepaid items

Inventories for all governmental funds are valued at the lower of cost or market on the first-in, first-out basis. The consumption method is used to account for inventories. Under the consumption method, all inventory purchases are recorded as inventory acquisitions (current assets) at the time of purchase and expended when used.

Inventories of proprietary funds are valued at the lower of cost or market on the first-in, first-out basis as well.

Payments to vendors, reflecting costs applicable to future accounting periods, are recorded as prepaid items in both government-wide and fund financial statements.

CITY OF McALLEN, TEXAS

NOTES TO FINANCIAL STATEMENTS

September 30, 2006

(4) Restricted assets

Proceeds of the City's enterprise funds' and sales tax revenue bonds as well as certain resources set aside for their repayment, are classified as restricted assets on the balance sheet due to their use being limited by applicable bond covenants. The "revenue bond current debt service" account is used to report segregated assets accumulated for debt service payments over the next twelve months. The "revenue bond future debt service" account is used to report resources set aside to make up potential future deficiencies in the revenue bond current debt service account. The "revenue bond contingency" account is used to report resources set aside to subsidize potential deficiencies from the bridge fund's operation that could adversely affect debt service payments. In addition to assets restricted by bond covenants, the water and sewer funds' "depreciation" and "capital improvement" accounts, the sanitation fund's "depreciation" account, a portion of the hotel occupancy tax proceeds received by the civic center fund for facility expansion, the airport fund's capital improvement as well as the airport passenger facility charge, and the toll bridge funds "capital improvement" and "anzalduas bridge" accounts are presented as restricted assets.

(5) Capital assets

Capital assets, which includes property, plant, equipment and infrastructure assets (e.g., roads, bridges, sidewalks and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the City as assets with an initial, individual cost of \$2,500 or more and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated assets are reflected at estimated fair market value at the date of donation.

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

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

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

CITY OF McALLEN, TEXAS

NOTES TO FINANCIAL STATEMENTS

September 30, 2006

(5) Capital assets-Continued

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

Buildings and improvements	10 – 50 years
Equipment	5 – 15 years
Infrastructure	15 – 40 years

(6) Compensated absences

Accumulated unpaid compensated absences are accrued when incurred in proprietary funds. The liability for governmental funds is recorded only in the governmental activities column of the government-wide financial statements. The expense is recognized in the governmental fund financial statements when paid or expected to be paid with current financial resources. Compensated absences are reported in governmental funds only if they have matured.

(7) Long-term obligations

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

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. Premiums received on debt issuances are reported as other financing sources and discounts are reported as other

CITY OF McALLEN, TEXAS

NOTES TO FINANCIAL STATEMENTS

September 30, 2006

financing uses. Issuance costs, whether or not withheld from debt proceeds, are reported as debt service expenditures.

(8) Fund equity

In the governmental fund financial statements, fund balance that represents amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose are reported as reservations of fund balance. Amounts representing tentative management plans, which are subject to change, are reported as designations of fund balance.

(9) Comparative data/reclassifications

Comparative total data for the prior year have been presented in the government-wide.

II. Stewardship, compliance and accountability

(A) Budgetary information

The City adheres to the following procedures in establishing the budgetary data reflected in the basic financial statements:

1. Prior to August 1 of each year, the City Manager is required to submit to the City Commission a proposed budget for the fiscal year beginning on the following October 1. The operating budget includes proposed expenditures and the means of financing them.
2. Public hearings are conducted to obtain taxpayer comments.
3. Prior to October 1, the budget is legally enacted by the City Commission through passage of an ordinance.
4. The City Manager is authorized to transfer budgeted amounts between accounts within any department; however, any revisions that alter the total expenditures of any department must be approved by the City Commission. Budgeted amounts include transfers and revisions to the original appropriations ordinance.
5. Annual appropriated budgets are adopted for the following funds: general, certain special revenue funds: hotel occupancy; park development; community development block grant; downtown services; and development corporation;

CITY OF McALLEN, TEXAS

NOTES TO FINANCIAL STATEMENTS

September 30, 2006

capital improvement fund, enterprise funds and internal service funds. Annual appropriated budgets are not adopted for fiduciary fund types.

6. The budget and actual comparisons include the general fund, and the development corp fund. Budgets for these funds are adopted on a basis consistent with generally accepted accounting principles (GAAP). Budgets for proprietary funds have been prepared on a non-GAAP basis, which excludes depreciation but includes capital outlay and debt principal payments.
7. Annual budgeted expenditures are adopted at the department level within funds. As described above, the City Manager is authorized to make transfers within a department. Accordingly, the level at which expenditures cannot legally exceed appropriations is the department level. During the year, several supplementary appropriations were necessary.

(B) Excess of expenditures over appropriations

For the year ended September 30, 2006, expenditures in certain general fund departments exceeded appropriations. The fund, related departments and the excess of expenditures over appropriations are reflected in the following page.

CITY OF McALLEN, TEXAS

NOTES TO FINANCIAL STATEMENTS

September 30, 2006

Department

General Fund:

City commission	\$ (39,328)
City manager	(60,537)
Audit office	(3,980)
Purchasing and contracting	(27,750)
Legal	(83,565)
Grant administration	(8,454)
Right of way	(23,746)
City hall	(692)
Building maintenance	(76,775)
Animal control	(30,289)
Traffic operations	(115,359)
Street cleaning	(47,543)
Street lighting	(77,169)
Drainage	(2,478)
Parks administration	(60,190)
Parks	(617,473)
Recreation	(292,086)
Pools	(224,822)
Las palmas community	(12,464)
Recreation center-Palmview	(8,321)
Recreation center-Lark	(21,203)
Quinta Mazatlan	<u>(96,513)</u>
Total general fund	<u><u>\$(1,930,737)</u></u>

III. Detailed notes on all funds

(A) Deposits and investments

It is the City's policy as well as a requirement in its Depository Agreement for deposits plus accrued interest thereon to be 110% secured by collateral valued at fair value, less the amount of the Federal Deposit Insurance Corporation insurance. At September 30, 2006, the City's deposits were entirely covered by federal deposit insurance or were secured by

CITY OF McALLEN, TEXAS

NOTES TO FINANCIAL STATEMENTS

September 30, 2006

collateral held by the City's agent in the City's name pursuant to the City's investment policy and its depository agreement.

Investments

Investments at fair value, including accrued interest, as of September 30, 2006 are as follows:

		Investment Maturities (in Years)			
	Fair Value	1 or less	2	3	4
Tex Pool	\$ 10,535,007	10,535,007	-	-	-
Certificates of deposit	101,899,647	71,732,221	29,767,369	400,057	-
U.S. Government securities	67,786,070	48,314,708	10,619,025	4,920,066	3,932,271
	<u>\$ 180,220,724</u>	<u>130,581,936</u>	<u>40,386,394</u>	<u>5,320,123</u>	<u>3,932,271</u>

Interest rate risk. The investment policy states that no investment shall exceed seven years in maturity. By limiting the exposure of its investments by less than five years as reflected in the above schedule, the City reduces its risk to the rising interest rates.

Credit risk. As of September 30, 2006, the investments in the State's investment pool was rated AAAM by Standards and Poor's. The certificates of deposit were issued by the City's bank depository, First National Bank, a privately owned bank. However, the collateral pledged against the certificates of deposit is comprised of government securities, which carry AAA rating. The government securities consist of instruments issued by the Federal Home Loan Bank and Federal Home Loan Mortgage Corporation, both of which are rated AAA by the rating agencies: Moody's Investors Service; Standard & Poor's and Fitch Ratings. The City's investment policy limits authorized investments to TexPool, certificates of deposits, U.S. Treasuries and federal government agencies, excluding Student Loan Marketing Association and Tennessee Valley Authority.

Concentration of credit risk. The certificate of deposits holdings at September 30, 2006 represents 57.77% of the total portfolio. Within the U.S. government agencies category, securities issued by Federal Home Loan Mortgage Corporation represent less than 1% of portfolio, and those issued by the Federal Home Loan Bank represent 30.85%. The

CITY OF McALLEN, TEXAS

NOTES TO FINANCIAL STATEMENTS

September 30, 2006

(A) Deposits and investments-Continued

investment policy is silent in the concentration of holding in the various types of securities and investments.

Firemen's Relief and Retirement Fund Investments

The Firemen's Relief and Retirement Fund Investments are recorded at fair value as of September 30, 2006. The composition of these investments is as follows:

	Fair Value	% of Portfolio	Investment Policy Asset Allocation
Equities:			
Domestic	\$ 10,878,495	36.60%	35-50%
International	4,962,727	16.70%	10-20%
Fixed income			
Treasury	6,539,005		
Corporate bonds	3,012,567		
Fixed income total	9,551,572	32.14%	30-50%
Alternate investments	4,326,700	14.56%	0-15%
Total portfolio	<u>\$ 29,719,494</u>	100.00%	

Because of the complexity of the portfolio, the firemen's board of trustees relies on its consultant to provide the necessary guidance to accomplish the Plan's objectives. The

Board also understands that return objectives can be achieved while assuming "market" volatility. **The Board is willing to forgo potential return in strong markets in return for protection against a severe decline during weak periods.**

Interest rate risk. Of the total fixed income only, \$3,012,567 is subject to risk exposure. These are high yield corporate bonds, which are rated below investment grade by Moody's and Standard & Poor. The remaining amount of \$6,539,005, which is not subject to disclosure, are treasury securities and are rated AAA by Moody's and Standard & Poor. The inherit risk is diminished, since this sector is heavily traded by the investment manager, which fits their management style.

Credit risk. The corporate bonds in the amount of \$3,012,567 are subject to risk, because there are below investment grade.

CITY OF McALLEN, TEXAS

NOTES TO FINANCIAL STATEMENTS

September 30, 2006

(A) Deposits and investments-Continued

Concentration of credit risk. As noted in the above schedule, all sectors of the portfolio are in their respective range of the Plan's asset allocation. The portfolio is well diversified, with no one issue exceeding 5%. With the exception of the alternative investment, the portfolio can be liquidated within one to two days if so desired. Alternative investment can only be liquidated quarterly.

Custodial credit risk. The alternative investments and the corporate bonds are exposed to risk, since these investments are in pools and not in the Plan's name. The rest of the portfolio is in a nominal bank's trust account.

(B) Receivables

Receivables for the City's individual major and non-major and internal service funds in the aggregate, including the applicable allowances for uncollectible accounts, at year end are reflected in the following page:

CITY OF McALLEN, TEXAS
NOTES TO FINANCIAL STATEMENTS

September 30, 2006

(B) Receivables-Continued

	<u>General</u>	<u>Dev Corp</u>	<u>Cap Imprv.</u>	<u>Water</u>	<u>Sewer</u>	<u>Sanitation</u>	<u>Civic Center</u>	<u>Airport</u>	<u>Non-Major & Other</u>	<u>Total</u>
Receivables:										
Interest	\$ 728,191	\$ 234,836	\$ 443,441	\$ 165,188	\$ 192,401	\$ 19,383	\$ 9,447	\$ 10,416	\$ 389,821	\$ 2,193,124
Taxes	3,250,540	2,194,592	-	-	-	-	-	-	-	5,445,132
Accounts	8,695,676	-	-	1,726,719	1,469,613	1,433,466	1,335	300,583	410,110	14,037,502
Intergovernmental	980	-	-	-	-	-	-	-	342,045	343,025
Other	778,063	-	-	-	24,715	-	-	-	45	802,823
	13,453,450	2,429,428	443,441	1,891,907	1,686,729	1,452,849	10,782	310,999	1,142,021	22,821,606
Less: Allowances for										
Uncollectibles	-	-	-	(71,647)	(52,596)	(73,861)	-	-	-	(198,104)
Net total receivables	<u>\$13,453,450</u>	<u>\$2,429,428</u>	<u>\$443,441</u>	<u>\$1,820,260</u>	<u>\$1,634,133</u>	<u>\$1,378,988</u>	<u>\$10,782</u>	<u>\$310,999</u>	<u>\$1,142,021</u>	<u>\$22,623,502</u>

Within the City's water, sewer, and sanitation funds, an estimated amount has been recorded for services rendered but not yet billed as of the close of the year. The receivable was determined by prorating the cycle billings sent to customers in October 2006 based on the number of days applicable to the prior fiscal year.

CITY OF McALLEN, TEXAS

NOTES TO FINANCIAL STATEMENTS

September 30, 2006

(B) Receivables-Continued

Governmental funds report *deferred revenue* in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Governmental funds defer revenue recognition in connection with resources that have been received, but not yet earned. At the end of the current fiscal year, the various components of deferred revenue and unearned revenue reported in the fund financial statements were as follows:

	<u>Unavailable</u>	<u>Unearned</u>
Governmental funds:		
Delinquent property taxes receivable (general fund)	\$ 3,250,540	\$ -
Sales tax (general fund)	3,530,197	-
Sales tax (development corp fund)	1,176,733	-
Other	<u>2,150,807</u>	<u>652,200</u>
Total deferred/unearned revenues for governmental funds	<u>\$10,108,277</u>	<u>\$ 652,200</u>

CITY OF McALLEN, TEXAS
NOTES TO FINANCIAL STATEMENTS

September 30, 2006

(C) Capital assets-Continued

Depreciation expense was charged to governmental functions as follows:

General government	\$ 794,903
Public safety	1,813,505
Highways and streets, which includes the depreciation of general infrastructure assets	4,916,766
Health and welfare	20,389
Culture and recreation	1,361,784
In addition, depreciation on capital assets held by the City's internal service funds is charged to the various functions based on their usage of the assets	<u>1,406,059</u>
Total depreciation-governmental activities	<u><u>\$10,313,406</u></u>

CITY OF McALLEN, TEXAS
NOTES TO FINANCIAL STATEMENTS

September 30, 2006

(C) Capital assets

Capital asset activity for the year ended September 30, 2006 was as follows:

	Beginning Balance	Additions	Transfers/ Reclass	Retirements	Ending Balance
Governmental activities:					
Capital assets, not being depreciated:					
Land	\$ 22,493,589	\$ 6,878,854	\$ -	\$ -	\$ 29,372,443
Construction in progress	6,247,858	4,758,138	(5,211,948)	(102,000)	5,692,048
Total capital assets, not being depreciated	28,741,447	11,636,992	(5,211,948)	(102,000)	35,064,491
Capital assets, being depreciated:					
Buildings and improvements	59,663,756	5,809,812	4,437,076	(10,212)	69,900,432
Equipment	41,333,090	5,505,000	-	(2,251,891)	44,586,199
Infrastructure	130,245,591	8,727,144	822,064	-	139,794,799
Total capital assets being depreciated	231,242,437	20,041,956	5,259,140	(2,262,103)	254,281,430
Less accumulated depreciation for:					
Buildings and improvements	(17,299,269)	(1,797,275)	-	10,212	(19,086,332)
Equipment	(24,824,229)	(3,784,701)	-	2,004,834	(26,604,096)
Infrastructure	(66,637,440)	(4,731,430)	-	-	(71,368,870)
Total accumulated depreciation	(108,760,938)	(10,313,406)	-	2,015,046	(117,059,298)
Total capital assets being depreciated, net	122,481,499	9,728,550	5,259,140	(247,057)	137,222,132
Governmental activities capital assets net	\$ 151,222,946	\$ 21,365,542	\$ 47,192	\$ (349,057)	\$ 172,286,623

CITY OF McALLEN, TEXAS

NOTES TO FINANCIAL STATEMENTS

September 30, 2006

(C) Capital assets-Continued

	Beginning		Transfers/		Ending
	Balance	Additions	Reclass	Retirements	Balance
Business-type activities:					
Capital assets, not being depreciated:					
Land	\$ 16,038,979	\$ 1,260,656	\$ -	\$ (971,012)	\$ 16,328,623
Construction in progress	37,595,352	33,283,490	(5,820,275)		65,058,567
Capitalized interest	385,119	1,002,039	-	-	1,387,158
Total capital assets, not being depreciated	<u>54,019,450</u>	<u>35,546,185</u>	<u>(5,820,275)</u>	<u>(971,012)</u>	<u>82,774,348</u>
Capital assets, being depreciated:					
Buildings and improvements	199,543,208	3,051,419	354,426	(293,433)	202,655,620
Equipment	23,859,225	3,659,647	22,197	(776,263)	26,764,806
Infrastructure	35,353,890	5,925,729	5,496,979	-	46,776,598
Water rights	2,478,100	1,125,000	-	-	3,603,100
Total capital assets being depreciated	<u>261,234,423</u>	<u>13,761,795</u>	<u>5,873,602</u>	<u>(1,069,696)</u>	<u>279,800,124</u>
Less accumulated depreciation for:					
Buildings and improvements	(64,201,067)	(5,205,131)	-	261,234	(69,144,964)
Equipment	(13,742,714)	(1,903,743)	-	634,721	(15,011,736)
Infrastructure	(24,668,245)	(2,376,960)	-	-	(27,045,205)
Water rights	(1,029,546)	(107,571)	-	-	(1,137,117)
Total accumulated depreciation	<u>(103,641,572)</u>	<u>(9,593,405)</u>	<u>-</u>	<u>895,955</u>	<u>(112,339,022)</u>
Total capital assets being					
Depreciated, net	<u>157,592,851</u>	<u>4,168,390</u>	<u>5,873,602</u>	<u>(173,741)</u>	<u>167,461,102</u>
Business-type activities					
Capital assets net	<u>\$ 211,612,301</u>	<u>\$ 39,714,575</u>	<u>\$ 53,327</u>	<u>\$ (1,144,753)</u>	<u>\$ 250,235,450</u>

CITY OF McALLEN, TEXAS
NOTES TO FINANCIAL STATEMENTS

September 30, 2006

(C) Capital assets-Continued

Depreciation expense was charged to business type activity functions as follows:

Water	\$ 2,951,200
Sewer	2,143,893
Sanitation	919,899
Golf course	360,107
Civic center	125,949
Airport	2,368,750
McAllen express	118,137
Transit terminal	134,267
Toll bridge	447,512
In addition, depreciation on capital assets held by the City's internal service funds is charged to the various functions based on their usage of the assets	23,691
Total depreciation-business type activities	\$ 9,593,405

At September 30, 2006, the City had the following significant remaining contractual commitments for various construction and improvement projects:

<u>Project Description</u>	<u>Remaining Commitment</u>	<u>Financing Sources</u>
Paving and drainage	\$ 2,657,969	Local
Park improvements	624,389	Local
Multi-level parking garage	6,527,100	Tax notes and local
Water improvements	42,640	Local
Sewer improvements	2,925,343	Local and bond funds
New convention center	4,058,406	Local
Airport improvements	38,732	Local and grant
Bridge Improvements	287,034	Local and bond funds
	\$ 17,161,613	

CITY OF McALLEN, TEXAS
NOTES TO FINANCIAL STATEMENTS
September 30, 2006

(D) Interfund receivables, payables and transfers

The composition of interfund balances as of September 30, 2006 is as follows:

Due to/from other funds:

<u>Receivable Fund:</u>	<u>Payable Fund:</u>	<u>Amount</u>
General Fund	Hotel Occupancy Tax Fund	\$ 10,000
	Miscellaneous Grants Fund	248,324
	Community Development Fund	54,730
	Bridge Fund	<u>103,985</u>
	Total Governmental Funds	<u>\$ 417,039</u>
Civic Center Fund	Hotel Occupancy Tax Fund	<u>\$ 194,558</u>
	Total Proprietary Funds	<u>\$ 194,558</u>
	Combined totals	<u><u>\$ 611,597</u></u>

The due to/from other funds primarily represent temporary short-term borrowings for working capital, which are intended to be satisfied soon after year end.

CITY OF McALLEN, TEXAS

NOTES TO FINANCIAL STATEMENTS

September 30, 2006

Advances to/from other funds:

General Fund	Sanitation Fund	\$ 1,400,000
Development Corp. Fund	Palmview Golf Course Fund	3,400,000
Capital Improvement Fund	Transit Terminal Fund	<u>352,716</u>
	Total	<u><u>\$ 5,152,716</u></u>

The general fund advance to the sanitation fund was to finance that fund's construction of a recycling center. It is expected to be repaid with the sales proceeds of improved property owned by the debtor fund.

The development corporation fund advanced \$4,000,000 to the golf fund for the purpose of reconstructing the golf course. It is being repaid over a 40-year term at the rate of \$100,000 annually.

The capital improvement fund advanced the transit terminal fund \$352,716 to assist in funding the acquisition and construction of the transit terminal building.

Interfund transfers:

Transfers are used to 1) provide unrestricted revenues collected in the general fund to finance various programs accounted for in other funds, and 2) move revenues from the fund that the budget requires to collect them to the fund that the budget requires to expend them.

	TRANSFERS IN-FUNDS					
	General	Capital Improvement	McAllen Express	Transit Terminal	Civic Center	Total
Transfers out:						
Funds--						
General	\$ -	\$ 30,195,759	\$ -	\$ -	\$ -	\$ 30,195,759
Development Corp.	-	259,142	800,394	314,485	3,266,086	4,640,107
Capital Hotel Tax	-	-	-	-	2,482,264	2,482,264
Drainage bond	-	392,770	-	-	-	392,770
Airport	1,103,965	-	-	-	-	1,103,965
Bridge	5,795,430	-	-	-	-	5,795,430
	<u>\$ 6,899,395</u>	<u>\$ 30,847,671</u>	<u>\$ 800,394</u>	<u>\$ 314,485</u>	<u>\$ 5,748,350</u>	<u>\$ 44,610,295</u>

CITY OF McALLEN, TEXAS

NOTES TO FINANCIAL STATEMENTS

September 30, 2006

During this fiscal year, the general fund transferred \$30,195,759 of surplus revenues to the capital improvement fund. This to assist in funding some major projects contemplated in next year's budget. Since most drainage projects were previously undertaken by the capital improvement fund, the remaining funds, \$392,770, from an old bond issue were also transferred to such fund. Also, \$259,142 was transferred from the development corporation fund to the capital improvement fund for funding major projects. Additionally, the development fund transferred \$3,266,086 to the civic center fund for the funding of the new civic center site. The development corporation fund provided funding for operating costs to: McAllen Express fund --\$800,394, and \$314,485 to the Transit Terminal fund. The transfer of 2,482,264 from the hotel occupancy tax fund to the civic center represents the use of the former fund as a conduit. The transfer of \$1,103,965 from the airport fund to the general fund represents reimbursement for public safety personnel assigned to the airport. The amount shown transferred from the bridge fund to the general fund \$5,795,430 represents the City's share of surplus net revenue from operation of the international toll bridge.

(E) Long-term debt

(1) General Obligation Bonds and Other Bond Issues

The City issues general obligation bonds to finance the acquisition and construction of major capital facilities. These types of bonds have been issued by the City both for governmental activities as well as business-type activities.

General obligation bonds are direct obligations, for which the City has pledged the full faith and credit of the government. These bonds generally are serial bonds and carry a term of 20 years or more with varying amounts of principal maturing each year. Previously, all outstanding general obligation bonds were retired, leaving no general obligation bond indebtedness.

The principal amount of \$300,000.00 of sales tax revenue bonds remains outstanding at year end. This outstanding amount is reflected in the government wide financial statements.

Additionally, the City issued tax notes in the amount of \$4,800,000 for the purpose of constructing a multi-level garage. The first level will consist of rental space and the other four levels will be for vehicular parking. It is anticipated that the income generated will cover the anticipated debt requirements.

CITY OF McALLEN, TEXAS
NOTES TO FINANCIAL STATEMENTS

September 30, 2006

Governmental activities

Sales tax revenue bond payable:

\$375,000 1998 Development Corporation of McAllen, Inc.
Sales Tax revenue bond due in annual installments ranging of
\$25,000 per year through February 15, 2018; interest
at 4.45% to 5.25% \$ 300,000

Tax notes payable:

\$4,800,000 2006 series tax notes
Due in annual installments ranging: \$415,000-\$485,000
per year through July 15, 2013 with a final installment of \$2,150,000;
and interest at 4.2475%. \$ 4,800,000

Unpaid accumulated compensated absences 5,833,107

Total general long-term debt \$ 10,933,107

CITY OF McALLEN, TEXAS

NOTES TO FINANCIAL STATEMENTS

September 30, 2006

The annual debt service requirements to maturity on sales tax bonds payable and tax notes outstanding as of September 30, 2006, including interest, are as follows:

<u>Year Ending</u> <u>September 30,</u>	<u>Principal</u>	<u>Interest</u>
2007	\$ 440,000	\$ 189,921
2008	435,000	206,736
2009	455,000	181,093
2010	470,000	161,605
2011	490,000	141,444
2012-2016	2,760,000	232,719
2017-2018	<u>50,000</u>	<u>2,625</u>
Totals	<u>\$ 5,100,000</u>	<u>\$ 1,116,143</u>

(2) Revenue Bonds

The City also issues bonds, for which it pledges revenue, derived from the activity using the bond-financed assets, to pay debt service. Revenue bonds outstanding at year end are as follows:

Business-type activities:

Payable from Water Fund:

\$1,576,400 2000-Waterworks and Sewer System Improvement Revenue And Refunding Bonds due in annual installments from \$490,000 to \$640,000 through February 1, 2010: interest at 6.75% to 6.50%	\$ 1,302,000
\$11,200,000 1999-Waterworks and Sewer System Improvement Revenue Bonds due in annual installments from \$195,000 to \$1,560,000 through February 1, 2019: interest at 4.625% to 5.825%	8,652,000

CITY OF McALLEN, TEXAS
NOTES TO FINANCIAL STATEMENTS

September 30, 2006

(2) Revenue Bonds (continued)

\$14,263,200 2005-Waterworks and Sewer System Improvement Revenue And Refunding Bonds due in annual installments from \$30,000 to \$2,005,000 through February 1, 2030: interest at 3.00% to 5.25%	14,246,400
Unpaid accumulated compensated absences	<u>234,658</u>
Total water fund	\$ <u>24,435,058</u>

Payable from Sewer Fund:

\$1,238,600 2000-Waterworks and Sewer System Improvement Revenue And Refunding Bonds due in annual installments from \$490,000 to \$640,000 through February 1, 2010: interest at 6.75% to 6.50%	\$ 1,023,000
\$8,800,000 1999-Waterworks and Sewer System Improvement Revenue Bonds due in annual installments from \$195,000 to \$1,560,000 through February 1, 2019: interest at 4.625% to 5.825%	6,798,000
\$11,206,800 2005-Waterworks and Sewer System Improvement Revenue And Refunding Bonds due in annual installments from \$30,000 to \$2,005,000 through February 1, 2030: interest at 3.00% to 5.25%	11,193,600
Unpaid accumulated compensated absences	<u>189,145</u>
Total sewer fund	\$ <u>19,203,745</u>

CITY OF McALLEN, TEXAS
NOTES TO FINANCIAL STATEMENTS
September 30, 2006

(2) Revenue Bonds (continued)

Payable from Sanitation Fund:

Unpaid accumulated compensated absences \$ 130,371

Payable from Palm View Golf Course Fund:

Unpaid accumulated compensated absences \$ 46,281

Payable from McAllen International Civic Center Fund:

\$2,000,000 note payable, interest only until maturity; interest at 5.00% \$ 2,000,000
Unpaid accumulated compensated absences 25,776

Total McAllen International Civic Center Fund: \$ 2,025,776

Payable from McAllen International Airport Fund:

Unpaid accumulated compensated absences \$ 42,130

CITY OF McALLEN, TEXAS
NOTES TO FINANCIAL STATEMENTS

September 30, 2006

(2) Revenue Bonds (continued)

Payable from McAllen Express Fund:

Unpaid accumulated compensated absences	\$ <u>6,974</u>
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Payable from Transit System Fund:

Unpaid accumulated compensated absences	\$ <u>14,707</u>
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Payable from McAllen International Toll Bridge Fund:

\$2,300,000 2002 International Toll Bridge System improvement bonds due in annual installments from \$225,000 to \$285,000 through March 1, 2012: interest at 4.50% to 4.65%	\$ 1,520,000
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Unpaid accumulated compensated absences	<u>128,576</u>
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Total McAllen International Toll Bridge Fund	\$ <u>1,648,576</u>
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Total Proprietary Fund Debt	\$ <u><u>47,553,618</u></u>
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Revenue bond debt service requirements to maturity are reflected in the following page.

CITY OF McALLEN, TEXAS

NOTES TO FINANCIAL STATEMENTS

September 30, 2006

<u>Year Ending</u> <u>September 30,</u>	<u>Principal</u>	<u>Interest</u>
2007	\$ 1,905,000	\$ 2,135,005
2008	2,000,000	2,029,192
2009	2,110,000	1,921,982
2010	2,225,000	1,813,421
2011	2,320,000	1,709,905
2012-2016	11,960,000	7,037,512
2017-2021	11,660,000	4,002,400
2022-2026	7,985,000	1,531,015
2027-2030	<u>2,570,000</u>	<u>250,655</u>
Totals	<u>\$ 44,735,000</u>	<u>\$ 22,431,087</u>

(3) Advance refundings

The City purchased U.S. Government State and Local Government Series securities that were placed in an irrevocable trust for the purpose of generating resources for all future debt service payments. As a result, the refunded bonds are considered to be defeased and the liability has been removed from both the proprietary fund as well as the government-wide (business-type activities column) statements of net assets. At September 30, 2006, the outstanding balance of the defeased bonds held in escrow is \$15,220,000.00.

CITY OF McALLEN, TEXAS
NOTES TO FINANCIAL STATEMENTS

September 30, 2006

(4) Changes in long-term liabilities

Long-term liability activity for the year ended September 30, 2006 is shown in the table below:

	Balance at September 30, 2005	Additional Obligations and Net Increases	Retirement and Net Decreases	Balance at September 30, 2006	Amounts Due Within One Year
Governmental activities:					
Sales tax revenue bonds	\$ 325,000	\$ -	\$ (25,000)	300,000	\$ 25,000
Tax notes	-	4,800,000	-	4,800,000	440,000
Compensated absences	5,665,754	3,767,353	(3,600,000)	5,833,107	3,622,500
Total general long-term debt	5,990,754	8,567,353	(3,625,000)	10,933,107	4,087,500
Business-Type activities:					
Revenue bonds payable	46,835,000	-	(2,100,000)	44,735,000	1,905,000
Note payable	2,000,000	-	-	2,000,000	-
Arbitrage payable	903,557	-	(903,557)	-	-
Compensated absences	781,771	890,561	(820,000)	852,332	820,000
Bond premium	1,006,470	-	(41,361)	965,109	-
Total proprietary fund debt	51,526,798	890,561	(3,864,918)	48,552,441	2,725,000
Total debt	<u>\$ 57,517,552</u>	<u>\$ 9,457,914</u>	<u>\$ (7,489,918)</u>	<u>\$ 59,485,548</u>	<u>\$ 6,812,500</u>

With respect to governmental activities, claims and judgments and compensated absences are generally liquidated by the general fund.

(F) Segment information

The City issued revenue bonds to finance its water, sewer and international bridge operations. Each are separately accounted for in a specific fund, all of which are major funds reported in the fund financial statements.

CITY OF McALLEN, TEXAS

NOTES TO FINANCIAL STATEMENTS

September 30, 2006

IV. Other information

(A) Risk Management

The City is exposed to various risks or torts; theft of, damage to, and destruction of assets; injuries to employees, citizens and the general public; and natural disasters. During fiscal year 2006, the City self-funded group health insurance, life insurance, general liability insurance, and workmen's compensation insurance. The City purchased insurance coverage for fire and extended coverage on buildings and contents; and fire, lightning, and windstorm insurance for its vehicles for damages in excess of certain limits.

The group health insurance program is reported in the Employee Benefits fund, an internal service fund. General liability and workmen's compensation insurance programs are reported in the General Insurance fund, an internal service fund.

The health insurance excess coverage policy covers individual claims in excess of \$150,000. Third-party coverage is currently maintained for workmen's compensation claims in excess of \$250,000. Third-party coverage is also currently maintained for general liability claims in excess of \$10,000. Aggregate general liability claims in excess of \$250,000 are covered by an aggregate stop loss policy.

The City estimates the liabilities for its self-funded insurance programs on a case-by-case basis based on historical claims experience. A liability for a claim is established if information indicates that it is probable that a liability has been incurred at the date of the financial statements and the amount of loss is reasonably estimable. Accruals for claims are adjusted on a regular basis based on the latest information available on each case. Claims incurred but not reported have been considered in determining the accrual for claims, and City management believes adequate accruals have been provided at September 30, 2006. Interfund premiums are based primarily on claims experience and are reported as quasi-external transactions.

There were no significant reductions in insurance coverage from coverage in the prior year by major category of risk. In addition, there were no insurance settlements exceeding insurance coverage in any of the past three years.

CITY OF McALLEN, TEXAS

NOTES TO FINANCIAL STATEMENTS

September 30, 2006

Changes in claims payable amounts for the most recent two years were as follows:

	<u>Employee Benefits</u>	<u>General Insurance</u>	<u>Total</u>
Claims receivable (payable) at September 30, 2004	\$ (1,000,000)	\$ (1,219,966)	\$ (2,219,966)
Current period claims and changes in estimate	(5,033,147)	(2,125,423)	(7,158,570)
Current period claims paid	<u>5,033,147</u>	<u>1,974,246</u>	<u>7,007,393</u>
Claims payable at September 30, 2005	<u>(1,000,000)</u>	<u>(1,371,143)</u>	<u>(2,371,143)</u>
Current period claims and changes in estimate	(7,196,117)	(10,751)	(7,206,868)
Current period claims paid	<u>7,196,117</u>	<u>872,050</u>	<u>8,068,167</u>
Claims payable at September 30, 2006	\$ <u><u>(1,000,000)</u></u>	\$ <u><u>(509,844)</u></u>	\$ <u><u>(1,509,844)</u></u>

(B) Contingent liabilities

Amounts received or receivable from grant agencies are subject to audit and adjustment by grantor agencies, principally the federal government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any of expenditures that may be disallowed by the grantor cannot be determined at this time, although the City expects such amounts, if any to be immaterial.

The City is a defendant in various lawsuits. Although the outcome of these lawsuits is not presently determinable, in the opinion of the City's management and legal counsel the resolution of these matters will not have a material adverse effect on the financial condition of the City.

(C) Other post-employment benefits

The City provides post-employment health care benefits for certain retirees and their dependents. The retired employee pays 100% of the applicable premium for single coverage and 30% of the premium for dependent coverage only, if any. However, if the retired employee retired at age 60 or over and had 25 years of service or more, the City

CITY OF McALLEN, TEXAS

NOTES TO FINANCIAL STATEMENTS

September 30, 2006

pays 50% of the single coverage. As of yearend, there were 80 employees who had retired; 32 with single coverage and 48 with family coverage. The City finances the plan on a pay-as-you-go basis. For the year ended September 30, 2006, the City paid \$167,783.00 for these benefits.

(D) Subsequent event

On December 21, 2006, the City issued \$38,555,000.00 revenue improvement and refunding bonds series 2006 for its waterworks and sewer system improvements. It refunded \$10,600,000 of \$15,450,000 of outstanding 1999 waterworks and sewer system improvement revenue bonds.

(12) Retirement Plans

(A) Texas Municipal Retirement System

1. Plan Description

The City provides pension benefits for all of its full-time employees, except City Fire Department personnel, for whom there is a separate retirement plan, through a non-traditional, joint contributory, defined benefit plan in the state-wide Texas Municipal Retirement System (TMRS), one of 811 plans administered by TMRS, an agent multiple-employer public employee retirement system. TMRS issues a publicly available Comprehensive Annual Financial Report that includes financial statements and required supplementary information. That report may be obtained by writing to Texas Municipal Retirement System, P.O. Box 149153, Austin, Texas 78714-9153.

Benefits depend upon the sum of employee's contributions to the plan, with interest, and the City-financed monetary credits, with interest. At the date the plan began, the City granted monetary credits for service rendered before the plan began of a theoretical amount at least equal to two times what would have been contributed by the employee, with interest, prior to establishment of the plan. Monetary credits for service since the plan began are a percentage (100%, 150%, or 200%) of the employee's accumulated contributions.

In addition, the City can grant, as often as annually, another type of monetary credit referred to as an updated service credit. This is a theoretical amount which, when added to the employee's accumulated contributions and the monetary credits for service since the plan began, would be the total monetary credits and employee contributions accumulated with interest if the current

CITY OF McALLEN, TEXAS

NOTES TO FINANCIAL STATEMENTS

September 30, 2006

(12) Retirement Plans-Continued

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

Members can retire at ages 60 and above with 10 or more years of service or with 25 years of service regardless of age. A member is vested after 10 years. The plan provisions are adopted by the governing body of the City, within the options available in the state statutes governing TMRS, and within the actuarial constraints also in the statutes.

2. Contributions

The contribution rate for the employees is 6% of covered payroll, and the City matching percent is currently 2 to 1, both as adopted by the governing body of the City. Under the state law governing TMRS, the actuary annually determines the City contribution rate. This rate consists of the normal cost contribution rate and the prior service contribution rate, both of which are calculated to be a level percent of payroll from year to year. The normal cost contribution rate finances the currently accruing monetary credits due to the City matching percent, which are the obligation of the City as of an employee's retirement date, not at the time the employee's contributions are made. The normal cost contribution rate is the actuarially-determined percent of payroll necessary to satisfy the obligation of the City to each employee at the time his/her retirement becomes effective. The prior service contribution rate amortizes the unfunded (overfunded) actuarial liability (asset) over the remainder of the plan's 25-year amortization period.

The unit credit actuarial cost method is used for determining the City contribution rate. Both the employees and the City make contributions monthly. Since the City needs to know its contribution rate in advance to budget for it, there is a one-year delay between the actuarial valuation that is the basis for the rate and the calendar year when the rate goes into effect.

CITY OF McALLEN, TEXAS
NOTES TO FINANCIAL STATEMENTS

September 30, 2006

(12) Retirement Plans-Continued

Funded status and Funding Progress. The funded status of the plan at December 31, 2005, was as follows:

Actuarial accrued liability (AAL)	\$ 83,672,546
Actuarial value of plan assets	<u>78,525,329</u>
Unfunded actuarial liability (UAAL)	<u><u>\$ 5,147,217</u></u>
 Funded ratio (actuarial value of plan assets/AAL)	 93.8%
 Covered payroll (active plan members)	 \$ 42,058,514
 UAAL as a percentage of covered payroll	 12.2%

CITY OF McALLEN, TEXAS
NOTES TO FINANCIAL STATEMENTS

September 30, 2006

(12) Retirement plans (continued)

Schedule of Actuarial Funding Progress

Actuarial Valuation Date	12/31/05	12/31/04	12/31/03
Actuarial cost method	Unit Credit	Unit Credit	Unit Credit
Amortization method	Level Percent of Payroll	Level Percent of Payroll	Level Percent of Payroll
Remaining amortization period – open	25 Years	25 Years	25 Years
Asset valuation method	Amortized Cost	Amortized Cost	Amortized Cost
Actuarial assumptions:			
Investment rate of return	7%	7%	7%
Projected salary increases – includes inflation at cost-of-living adjustments	None	None	None
Actuarial value of assets	\$78,525,329	\$71,265,087	\$65,370,908
Actuarial accrued liability	\$83,672,546	\$76,594,545	\$70,208,145
Percentage funded	93.8%	93.0%	93.1%
Unfunded actuarial accrued liability (UAAL)	\$5,147,217	\$5,329,458	\$4,837,237
Annual covered payroll	\$42,058,514	\$38,432,778	\$35,266,813
UAAL as a percentage of covered payroll	12.2%	13.9%	13.7%
Annual pension cost:			
Annual required contribution (ARC)	\$3,509,474	\$3,204,311	\$2,467,234
Interest on NPO	-	-	-
Adjustments to the ARC	-	-	-
	<u>\$3,509,474</u>	<u>\$3,204,311</u>	<u>\$2,467,234</u>
Percentage of annual pension cost contributed	100%	100%	100%
Contributions made	\$3,509,474	\$3,204,311	\$2,467,234
Increase in NPO	\$ -	\$ -	\$ -
NPO at the end of the period	\$ -	\$ -	\$ -

CITY OF McALLEN, TEXAS

NOTES TO FINANCIAL STATEMENTS

September 30, 2006

(12) Retirement Plans (continued)

(B) Firemen's Fund

1. Plan Description

Firemen's Fund, a single-employer defined benefit plan (the "Plan"), was created pursuant to the Texas Local Fire Fighter's Retirement Act ("TLFFRA") and is administered by the Board of Trustees of the fund. The fund provides pension, disability, death, and severance benefits to employees of the City's fire department and former volunteer firemen eligible to receive benefits.

The City issues a publicly-available financial report that includes financial statements and required supplementary information for the Firemen's Fund. This financial report may be obtained by writing to the City of McAllen Finance Director, P.O. Box 220, McAllen, Texas 78505-0220 or by calling 956/972/7213.

2. Summary of Significant Accounting Policies

Basis of Accounting – The financial statements of the Firemen's Fund are prepared using the accrual basis of accounting. Employee and employer contributions are recognized as revenues in the period in which employee services are performed. Benefits and refunds are recognized when due and payable in accordance with the terms of the Plan document.

Plan Benefits – Benefit provisions are established under authority of the TLFFRA. Specific plan provisions are governed by a Plan document and a trust agreement executed by the Board of Trustees. The Plan document may be amended as provided in Section 7 of the TLFFRA (Article 6243e. V.T.C.S.) Amending the Plan requires approval of any proposed change by an eligible actuary and a majority of the participating members of the Plan. Both the City and the members of the Plan have specific authority to appoint members of the Board under TLFFRA.

Pension Benefits – Pension benefits become fully vested after 20 years of credited service. Employees may retire at age 50 with 20 years of service ("normal retirement age"). A partially vested benefit is also provided for employees who terminate employment with at least 10 but less than 20 years of service. The

CITY OF McALLEN, TEXAS

NOTES TO FINANCIAL STATEMENTS

September 30, 2006

monthly benefit at normal retirement age, payable in an annuity, is equal to 58% of the compensation base, as defined, plus \$58.00 per month for each year of service in excess of 20 years.

Death Benefits – Duty related death benefits payable to a member's spouse equals the sum of 38.67% of the member's compensation base, as defined, plus two-thirds of the member's accrued retirement benefit at death. Non-duty related benefits will equal the duty related death benefit to which the member's beneficiary was eligible multiplied by the member's vested percentage based on the member's years of service at death. In addition to the spouse's benefit, each unmarried child of the member under age 18 will receive a monthly benefit of 7.73% of the firefighter's average monthly salary. The sum of all benefits payable as a result of the death of an active plan member may not exceed the disability or retirement benefit such member had earned as of the date of death.

Severance Benefits – Members who terminate employment with less than 10 years of service will be entitled to the return of the excess of his/her contributions to the fund over the amount of any benefits received from the Plan. Such refunds will not include any interest on the member's contribution. If a member terminates on or after the date of completing 10 years of service but prior to the date of completing 20 years of service, he/she will be entitled to receive a monthly benefit, starting on the date he/she would have both completed 20 years of service and attained age 50, had he/she remained in the service of the fire department. The amount the member will receive will equal the monthly service retirement benefit accumulated on the date the member separated from service with the fire department, multiplied by the member's vested percentage.

Method Used to Value Investments – Fund investments are reported at fair value. Short-term investments are reported at cost, which approximates fair value. The fair value of the Fund's investments is based on the quoted value of each investment on the last business day of the Fund year. No investment in any one organization (other than the U.S. Government or mutual funds) represents 5% or more of Fund assets.

3. Annual Pension Cost

For 2006, the City's annual pension cost was equal to the City's actual and required contributions. The required contribution was established as part of the September 30, 2004 actuarial valuation using the entry-age actuarial cost method. The actuarial assumptions included (a) 8% investment rate of return, compounded annually (b) projected salary increases of 4.25% per year, compounded annually,

CITY OF McALLEN, TEXAS

NOTES TO FINANCIAL STATEMENTS

September 30, 2006

and (c) inflation rate of 3.00%. The investment rate of return and the projected salary increases both used the same assumptions with regard to inflation. The actuarial value of assets was determined using the smoothed market value technique, a technique that smoothes the effect of short-term volatility in the market value over a four-year period. The unfunded actuarial liability is being amortized as a level percentage of projected payroll on an open basis. The remaining amortization period at September 30, 2004 was 36.5 years. The most recent actuarial valuation was done as of September 30, 2004. The amounts of the actuarial value of assets represent estimates based upon the assumptions described above. Changes in those estimates will result in changes in such estimates in the future. The amount of benefits ultimately to be paid could differ materially from the current estimates. Minor modifications to the plan were approved in September 2006; however, these changes had no impact on the current amortization period of 36.5 years.

The annual pension cost, percentage of annual pension cost, and net pension obligation is presented as follows:

<u>Year-End</u>	<u>Annual Required Contribution</u>	<u>Percentage Contributed</u>	<u>Net Pension Obligation (NPO)</u>
09/30/04	\$ 698,168	100.00%	\$ -
09/30/05	773,497	100.00%	\$ -
09/30/06	786,642	100.00%	\$ -

4. Contributions

The Plan's minimum required contribution provisions are established under Title 8, Subtitle A, Chapter 802, Subchapter B, Section 802.101 of the Texas Government Code and under Texas Pension Review Board Guidelines for Actuarial Soundness. Specific Plan contribution rates are governed by the Plan document. Changes in the members' or the City's contribution rate requires a plan amendment.

The contribution rates of the Plan members and the City are established under the terms of the Plan. An actuarial valuation is performed biennially to verify that Plan benefits and Plan contributions are in balance. Costs of administering the fund are paid from Plan assets.

CITY OF McALLEN, TEXAS

NOTES TO FINANCIAL STATEMENTS

September 30, 2006

Pursuant to the Plan document, a legal instrument binding both the City and its firefighters, the City of McAllen is required to match employee contributions. Benefits paid to former volunteer firefighters are funded by the City when paid to the former volunteer firefighters or beneficiaries. The City's contribution rate for the fiscal year ended September 30, 2006 was 11% of annual compensation. Contributions required and paid into the fund as of September 30, 2006 were members, \$715,065 and employer, \$786,642.

**REQUIRED SUPPLEMENTARY
INFORMATION**

**CITY OF McALLEN, TEXAS
REQUIRED SUPPLEMENTAL INFORMATION ON
TEXAS MUNICIPAL RETIREMENT SYSTEM
SCHEDULE OF FUNDING PROGRESS**

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
12/31/03	\$65,370,908	\$70,208,145	\$4,837,237	93.1%	\$35,266,813	13.7%
12/31/04	\$71,265,087	\$76,594,545	\$5,329,458	93.0%	\$38,432,778	13.9%
12/31/05	\$78,525,329	\$83,672,546	\$5,147,217	93.8%	\$42,058,514	12.2%

**CITY OF McALLEN, TEXAS
REQUIRED SUPPLEMENTAL INFORMATION ON
FIREMEN'S RELIEF AND RETIREMENT FUND
SCHEDULE OF FUNDING PROGRESS**

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
09/30/00	\$18,173,765	\$21,576,631	\$3,402,866	84.2%	\$4,263,430	79.8%
09/30/02	\$21,116,716	\$28,141,949	\$7,025,233	75.0%	\$5,190,836	135.3%
09/30/04	\$25,406,869	\$33,227,793	\$7,794,454	76.5%	\$5,818,893	134.4%

NONMAJOR GOVERNMENTAL FUNDS

Special Revenue Funds are used to account for resources allocated to specific purposes. A special revenue fund continues in existence as long as governmental resources are allocated to its specific purposes:

The **Hotel Occupancy Tax Fund** was established to account for the hotel-motel occupancy tax levied. This tax revenue is allocated to the promotion of tourism and conventions, promotion of the arts, support of civic center management, and other expenditures.

The **Park Development Fund** was established to account for land acquired for future park development.

The **Community Development, and Criminal Justice Department Funds** were established to account for receipt and disbursement of various Federal and State Program revenues.

The **Miscellaneous Government Grants Fund** was established to account for all grant programs applicable to the City for which a separate fund is not established.

The **Downtown Services Parking Fund** was established to account for revenues and disbursements associated with the activities of vehicular parking in the downtown district.

Parking Garage Construction Fund was established to account for all resources used for the construction of a multi-level parking garage in the downtown area.

Capital Project Fund-Drainage Bond was established to account for all resources used for the acquisition and/or construction of drainage facilities.

**CITY OF McALLEN, TEXAS
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
September 30, 2006**

	<u>Special Revenue</u>			
	<u>Hotel Occupancy Tax</u>	<u>Park Development</u>	<u>Community Development</u>	<u>Miscellaneous Government Grants</u>
ASSETS				
Cash	\$ 5,154	\$ 11,244	\$ 48	\$ 3,434
Certificate of deposit	-	2,410,636	-	-
Investments	22,936	455,930	-	-
Receivables:				
Accounts	266,162	-	-	-
Accrued interest	-	51,885	-	-
Other	-	25	-	-
Due from other governments	-	-	86,910	255,135
 Total assets	 <u>\$ 294,252</u>	 <u>\$ 2,929,720</u>	 <u>\$ 86,958</u>	 <u>\$ 258,569</u>
 LIABILITIES				
Accounts payable	\$ 77,823	\$ 32,321	\$ 15,931	\$ 9,952
Accrued liabilities	-	30,152	16,297	-
Due to other funds	204,558	-	54,730	248,324
 Total liabilities	 <u>282,381</u>	 <u>62,473</u>	 <u>86,958</u>	 <u>258,276</u>
 FUND BALANCES				
Unreserved	11,871	2,867,247	-	293
 Total fund balances	 <u>11,871</u>	 <u>2,867,247</u>	 <u>-</u>	 <u>293</u>
 Total liabilities and fund balances	 <u>\$ 294,252</u>	 <u>\$ 2,929,720</u>	 <u>\$ 86,958</u>	 <u>\$ 258,569</u>

Special Revenue			Capital Projects		Total Nonmajor Governmental Funds
Downtown Services Parking	Criminal Justice Department	Total	Drainage Bond	Parking Garage Construction	
\$ 210,654	\$ -	\$ 230,534	\$ -	\$ 98,131	\$ 328,665
-	-	2,410,636	-	4,330,000	6,740,636
-	-	478,866	-	-	478,866
62	-	266,224	-	-	266,224
-	-	51,885	-	19,387	71,272
-	-	25	-	-	25
-	-	342,045	-	-	342,045
<u>\$ 210,716</u>	<u>\$ -</u>	<u>\$ 3,780,215</u>	<u>\$ -</u>	<u>\$ 4,447,518</u>	<u>\$ 8,227,733</u>
\$ 5,901	\$ -	\$ 141,928	\$ -	\$ 108,828	\$ 250,756
6,095	-	52,544	-	19,795	72,339
-	-	507,612	-	-	507,612
11,996	-	702,084	-	128,623	830,707
198,720	-	3,078,131	-	4,318,895	7,397,026
198,720	-	3,078,131	-	4,318,895	7,397,026
<u>\$ 210,716</u>	<u>\$ -</u>	<u>\$ 3,780,215</u>	<u>\$ -</u>	<u>\$ 4,447,518</u>	<u>\$ 8,227,733</u>

CITY OF McALLEN, TEXAS
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
For the Year Ended September 30, 2006

	Special Revenue			
	Hotel Occupancy Tax	Park Development	Community Development	Miscellaneous Government Grants
REVENUES				
Hotel taxes	\$ 3,475,170	\$ -	\$ -	\$ -
Licenses and permits	-	-	-	-
Intergovernmental	-	-	1,725,248	1,091,439
Charges for services	-	-	-	-
Fines and forfeitures	-	-	-	-
Investment earnings	7,820	114,444	-	391
Net decrease (increase) in the fair value of investments	-	186	-	-
Other	(1)	1,013,232	-	142,229
Total revenues	<u>3,482,989</u>	<u>1,127,862</u>	<u>1,725,248</u>	<u>1,234,059</u>
EXPENDITURES				
Current:				
General government	992,906	-	253,368	61,444
Public safety	-	-	93,862	1,213,054
Highways and streets	-	-	386,363	-
Health and welfare	-	-	928,786	-
Culture and recreation	-	254,670	62,869	-
Total expenditures	<u>992,906</u>	<u>254,670</u>	<u>1,725,248</u>	<u>1,274,498</u>
Excess of revenues over (under) expenditures	2,490,083	873,192	-	(40,439)
OTHER FINANCING SOURCES (USES)				
Transfers out	(2,482,264)	-	-	-
Bond proceeds	-	-	-	-
Net other financing sources (uses)	<u>(2,482,264)</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net change in fund balances	7,819	873,192	-	(40,439)
Fund balances (deficits) at beginning of year	<u>4,052</u>	<u>1,994,055</u>	<u>-</u>	<u>40,732</u>
Fund balances (deficits) at end of year	<u>\$ 11,871</u>	<u>\$ 2,867,247</u>	<u>\$ -</u>	<u>\$ 293</u>

Special Revenue			Capital Projects		Total Nonmajor Governmental Funds
Downtown Services Parking	Criminal Justice Department	Total	Drainage Bond	Parking Garage Construction	
\$ -	\$ -	\$ 3,475,170	\$ -	\$ -	\$ 3,475,170
8,173	-	8,173	-	-	8,173
-	-	2,816,687	-	-	2,816,687
299,123	-	299,123	-	-	299,123
107,106	8,698	115,804	-	-	115,804
4,145	46	126,846	14,215	21,158	162,219
-	-	186	-	-	186
6	-	1,155,466	-	-	1,155,466
418,553	8,744	7,997,455	14,215	21,158	8,032,828
-	-	1,307,718	-	502,263	1,809,981
-	787,709	2,094,625	-	-	2,094,625
219,833	-	606,196	-	-	606,196
-	-	928,786	-	-	928,786
-	-	317,539	-	-	317,539
219,833	787,709	5,254,864	-	502,263	5,757,127
198,720	(778,965)	2,742,591	14,215	(481,105)	2,275,701
-	-	(2,482,264)	(392,770)	-	(2,875,034)
-	-	-	-	4,800,000	4,800,000
-	-	(2,482,264)	(392,770)	4,800,000	1,924,966
198,720	(778,965)	260,327	(378,555)	4,318,895	4,200,667
-	778,965	2,817,804	378,555	-	3,196,359
<u>\$ 198,720</u>	<u>\$ -</u>	<u>\$ 3,078,131</u>	<u>\$ -</u>	<u>\$ 4,318,895</u>	<u>\$ 7,397,026</u>

NONMAJOR ENTERPRISE FUNDS

These funds are used to account for City operations that are financed and/or operated in a manner similar to private business enterprises. Included in this category are: *Palm View Golf Course*; *Transit Terminal*; and *McAllen Express Transit*.

The *Palm View Golf Course Fund* is utilized to account for the operations of the City's golf course.

The *Transit Terminal Fund* is utilized to account for the operations of the Intermodal Transportation System.

The *McAllen Express Transit Fund* is utilized to account for the operations of the Bus Transportation System.

CITY OF McALLEN, TEXAS
NON-MAJOR ENTERPRISE FUNDS
COMBINING STATEMENT OF NET ASSETS
September 30, 2006

	Palm View Golf Course	McAllen Express Transit	Transit Terminal	Total
ASSETS				
Current assets:				
Cash	\$ 55,448	\$ 153,283	\$ 1,087	\$ 209,818
Certificate of deposit	203,892	-	-	203,892
Investments	42,453	-	195,935	238,388
Receivables, net:				
Accounts	1,602	-	4,375	5,977
Accrued interest	4,913	-	-	4,913
Total currents assets	308,308	153,283	201,397	662,988
Restricted assets:				
Cash	48,364	-	-	48,364
Certificate of deposit	203,204	-	-	203,204
Investments	45,188	-	-	45,188
Accrued interest	6,528	-	-	6,528
Total restricted assets	303,284	-	-	303,284
Capital assets:				
Land	187,995	-	1,684,593	1,872,588
Buildings and systems	228,345	-	3,522,228	3,750,573
Improvements other than buildings	7,427,831	-	18,947	7,446,778
Machinery and equipment	826,047	1,835,998	173,085	2,835,130
Total capital assets	8,670,218	1,835,998	5,398,853	15,905,069
Less accumulated depreciation	(3,453,339)	(206,358)	(707,170)	(4,366,867)
Net capital assets	5,216,879	1,629,640	4,691,683	11,538,202
Total assets	\$ 5,828,471	\$ 1,782,923	\$ 4,893,080	\$ 12,504,474

Continued

**CITY OF McALLEN , TEXAS
NON-MAJOR ENTERPRISE FUNDS
COMBINING STATEMENT OF NET ASSETS
September 30, 2006**

	<u>Palm View Golf Course</u>	<u>McAllen Express Transit</u>	<u>Transit Terminal</u>	<u>Total</u>
LIABILITIES				
Current liabilities:				
Accounts payable	\$ 40,022	\$ 7,419	\$ 11,317	\$ 58,758
Accrued expenses	<u>14,599</u>	<u>8,689</u>	<u>6,429</u>	<u>29,717</u>
Total current liabilities	<u>54,621</u>	<u>16,108</u>	<u>17,746</u>	<u>88,475</u>
Other noncurrent liabilities:				
Deferred revenues	92,804	-	-	92,804
Accumulated unpaid compensated absences	46,281	6,974	14,705	67,960
Advances from other funds	<u>3,400,000</u>	<u>-</u>	<u>352,716</u>	<u>3,752,716</u>
Total other noncurrent liabilities	<u>3,539,085</u>	<u>6,974</u>	<u>367,421</u>	<u>3,913,480</u>
Total liabilities	<u>3,593,706</u>	<u>23,082</u>	<u>385,167</u>	<u>4,001,955</u>
NET ASSETS				
Invested in capital assets, net of related debt	5,216,879	1,629,640	4,691,683	11,538,202
Restricted for improvements	303,284	-	-	303,284
Unrestricted	<u>(3,285,398)</u>	<u>130,201</u>	<u>(183,770)</u>	<u>(3,338,967)</u>
Total net assets	<u>2,234,765</u>	<u>1,759,841</u>	<u>4,507,913</u>	<u>8,502,519</u>
Total liabilities and net assets	<u>\$ 5,828,471</u>	<u>\$ 1,782,923</u>	<u>\$ 4,893,080</u>	<u>\$ 12,504,474</u>

Concluded

CITY OF McALLEN , TEXAS
NON-MAJOR ENTERPRISE FUNDS
COMBINING STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
For the Year Ended September 30, 2006

	<u>Palm View Golf Course</u>	<u>McAllen Express Transit</u>	<u>Transit Terminal</u>	<u>Total</u>
Operating revenues:				
Charges for services	\$ 1,174,346	\$ 228,952	\$ 298,932	\$ 1,702,230
Total operating revenues	<u>1,174,346</u>	<u>228,952</u>	<u>298,932</u>	<u>1,702,230</u>
Operating expenses:				
Salaries, wages and employee benefits	698,408	583,911	363,272	1,645,591
Supplies	122,774	6,485	31,096	160,355
Contractual and other services	173,040	59,657	197,002	429,699
Repairs and maintenance	86,264	288,195	23,199	397,658
Depreciation and amortization	<u>360,107</u>	<u>118,137</u>	<u>134,267</u>	<u>612,511</u>
Total operating expenses	<u>1,440,593</u>	<u>1,056,385</u>	<u>748,836</u>	<u>3,245,814</u>
Operating loss	<u>(266,247)</u>	<u>(827,433)</u>	<u>(449,904)</u>	<u>(1,543,584)</u>
Nonoperating revenues:				
Intergovernmental	-	250,276	36,441	286,717
Investment earnings	31,864	12,140	10,325	54,329
Other	<u>24,050</u>	<u>-</u>	<u>1,550</u>	<u>25,600</u>
Nonoperating revenues	<u>55,914</u>	<u>262,416</u>	<u>48,316</u>	<u>366,646</u>
Loss before contributions and transfers	(210,333)	(565,017)	(401,588)	(1,176,938)
Capital contributions	950	810,082	35,912	846,944
Transfers in	<u>-</u>	<u>800,394</u>	<u>314,485</u>	<u>1,114,879</u>
Changes in net assets	(209,383)	1,045,459	(51,191)	784,885
Total net assets--beginning	<u>2,444,148</u>	<u>714,382</u>	<u>4,559,104</u>	<u>7,717,634</u>
Total net assets--ending	<u>\$ 2,234,765</u>	<u>\$ 1,759,841</u>	<u>\$ 4,507,913</u>	<u>\$ 8,502,519</u>

CITY OF McALLEN, TEXAS
NON-MAJOR ENTERPRISE FUNDS
STATEMENT OF CASH FLOW
For the Year Ended September 30, 2006

	<u>Palm View Golf Course</u>	<u>McAllen Express Transit</u>
Cash flows from operating activities:		
Receipts from customers	\$ 1,174,323	\$ 228,952
Payments to employees	(697,308)	(587,776)
Payments to suppliers	(419,102)	(351,585)
Other receipts	24,050	-
	<u>81,963</u>	<u>(710,409)</u>
Net cash provided (used) by operating activities		
	<u>81,963</u>	<u>(710,409)</u>
Cash flows from noncapital financing activities:		
Transfers from other funds	-	800,394
Advance to other funds	(100,000)	-
Subsidy from federal grant	-	250,276
	<u>(100,000)</u>	<u>1,050,670</u>
Net cash provided (used) by noncapital financing activities		
	<u>(100,000)</u>	<u>1,050,670</u>
Cash flows from capital and related financing activities:		
Contributed capital	-	810,082
Payments for capital acquisitions	(41,224)	(1,012,602)
	<u>(41,224)</u>	<u>(202,520)</u>
Cash used by capital and related financing activities		
	<u>(41,224)</u>	<u>(202,520)</u>
Cash flows from investing activities:		
Proceeds from sales and maturities of investments	512,485	-
Purchase of investments	(454,485)	-
Receipt of interest	20,423	12,140
	<u>78,423</u>	<u>12,140</u>
Net cash provided (used) by investing activities		
	<u>78,423</u>	<u>12,140</u>
Net increase in cash	19,162	149,881
Cash at beginning of year	84,650	3,402
Cash at end of year	<u><u>\$ 103,812</u></u>	<u><u>\$ 153,283</u></u>

<u>Transit Terminal</u>	<u>Total</u>
\$ 298,236	\$ 1,701,511
(357,331)	(1,642,415)
(256,226)	(1,026,913)
1,550	25,600
<u>(313,771)</u>	<u>(942,217)</u>
314,485	1,114,879
-	(100,000)
36,441	286,717
<u>350,926</u>	<u>1,301,596</u>
-	810,082
<u>(5,992)</u>	<u>(1,059,818)</u>
(5,992)	(249,736)
60,000	572,485
(109,020)	(563,505)
10,325	42,888
<u>(38,695)</u>	<u>51,868</u>
(7,532)	161,511
8,619	96,671
<u>\$ 1,087</u>	<u>\$ 258,182</u>

Continued

CITY OF McALLEN, TEXAS
NON-MAJOR ENTERPRISE FUNDS
STATEMENT OF CASH FLOW
For the Year Ended September 30, 2006

	<u>Palm View Golf Course</u>	<u>McAllen Express Transit</u>
Reconciliation of operating income (loss) to net cash provided by operating activities		
Operating loss	\$ (266,247)	\$ (827,433)
Adjustment to reconcile operating income (loss) to net cash provided by operating activities:		
Depreciation and amortization	360,107	118,137
Miscellaneous income (expense)	24,050	-
Accounts receivable	(23)	-
Accounts payable	(56,478)	2,752
Compensated absences payable	(1,714)	(3,889)
Accrued expenses	2,814	24
Deferred revenue	19,454	-
Total adjustments	348,210	117,024
Net cash provided (used) by operating activities	<u>\$ 81,963</u>	<u>\$ (710,409)</u>
Noncash investing, capital and financing activities:		
Contributions of capital assets	950	-

<u>Transit Terminal</u>	<u>Total</u>
<u>\$ (449,904)</u>	<u>\$ (1,543,584)</u>
134,267	612,511
1,550	25,600
(696)	(719)
(4,929)	(58,655)
3,287	(2,316)
2,654	5,492
<u>-</u>	<u>19,454</u>
<u>136,133</u>	<u>601,367</u>
<u><u>\$ (313,771)</u></u>	<u><u>\$ (942,217)</u></u>

35,912

Concluded

INTERNAL SERVICE FUNDS

The *Internal Service Funds* were established to finance and account for services, materials, and supplies furnished to the various departments of the City, and on a limited basis, to other local governmental agencies. These services are provided on a cost reimbursement basis.

The *Fleet Materials Management Fund* sales and services are accounted for in two Interdepartmental Service Fund departments: Materials Management and Garage.

The *Employee Benefits Fund* was established to account for all expenses related to health insurance premiums and claims for City employees. Primary funding sources are transfers in from General Fund and Enterprise Funds.

The *General Insurance Fund* was established to account for all expenses related to workmen's compensation claims and general liability insurance. Primary funding sources are transfers in from General Fund and Enterprise Funds.

The *General Depreciation Fund*, which was established for the sole purpose of replacing fixed assets of the General Fund. Funding has been provided by a rental charge to the appropriate department in the General Fund.

CITY OF McALLEN, TEXAS
INTERNAL SERVICE FUNDS
COMBINING STATEMENT OF NET ASSETS
September 30, 2006

	<u>Fleet Materials Management</u>	<u>Employee Benefits</u>
ASSETS		
Current assets:		
Cash	\$ 703,040	\$ 3,565
Certificates of deposit	-	1,424,232
Investments	-	1,750,879
Receivables, net:		
Accounts	-	131,651
Accrued interest	-	62,312
Inventories	<u>373,866</u>	<u>-</u>
Total current assets	<u>1,076,906</u>	<u>3,372,639</u>
Capital assets	345,723	-
Less accumulated depreciation	<u>(220,534)</u>	<u>-</u>
Net fixed assets	<u>125,189</u>	<u>-</u>
Total assets	<u>\$ 1,202,095</u>	<u>\$ 3,372,639</u>
LIABILITIES		
Current liabilities:		
Accounts payable	\$ 380,423	\$ 327
Accrued expense	<u>14,160</u>	<u>1,002,005</u>
Total current liabilities	<u>394,583</u>	<u>1,002,332</u>
Other non-current liabilities:		
Accumulated unpaid compensated absences	<u>33,714</u>	<u>2,424</u>
Total other non-current liabilities	<u>33,714</u>	<u>2,424</u>
Total liabilities	<u>428,297</u>	<u>1,004,756</u>
NET ASSETS		
Invested in capital assets, net of related debt	125,189	-
Unrestricted	<u>648,609</u>	<u>2,367,883</u>
Total net assets	<u>773,798</u>	<u>2,367,883</u>
Total liabilities and net assets	<u>\$ 1,202,095</u>	<u>\$ 3,372,639</u>

<u>General Insurance</u>	<u>General Depreciation</u>	<u>Total</u>
\$ 41,629	\$ 47,713	\$ 795,947
5,894,562	2,498,553	9,817,347
3,418,343	2,113,732	7,282,954
6,258	-	137,909
154,589	96,735	313,636
-	-	373,866
<u>9,515,381</u>	<u>4,756,733</u>	<u>18,721,659</u>
18,189	11,775,839	12,139,751
<u>(7,686)</u>	<u>(5,307,025)</u>	<u>(5,535,245)</u>
<u>10,503</u>	<u>6,468,814</u>	<u>6,604,506</u>
<u>\$ 9,525,884</u>	<u>\$ 11,225,547</u>	<u>\$ 25,326,165</u>
\$ 122,359	\$ 167,712	\$ 670,821
<u>512,888</u>	<u>-</u>	<u>1,529,053</u>
<u>635,247</u>	<u>167,712</u>	<u>2,199,874</u>
<u>33,027</u>	<u>-</u>	<u>69,165</u>
<u>33,027</u>	<u>-</u>	<u>69,165</u>
<u>668,274</u>	<u>167,712</u>	<u>2,269,039</u>
10,503	6,468,814	6,604,506
<u>8,847,107</u>	<u>4,589,021</u>	<u>16,452,620</u>
<u>8,857,610</u>	<u>11,057,835</u>	<u>23,057,126</u>
<u>\$ 9,525,884</u>	<u>\$ 11,225,547</u>	<u>\$ 25,326,165</u>

CITY OF McALLEN, TEXAS
INTERNAL SERVICE FUNDS
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
For the Year Ended September 30, 2006

	<u>Fleet Materials Management</u>	<u>Employee Benefits</u>
Operating revenues:		
Charges for services	\$ 2,957,124	\$ -
Contributions	-	6,769,425
Total operating revenues	<u>2,957,124</u>	<u>6,769,425</u>
Operating expenses:		
Salaries, wages and employee benefits	788,555	100,720
Supplies and materials	22,353	1,953
Contractual and other services	2,083,731	798,664
Repairs and maintenance	41,605	-
Depreciation and amortization	31,781	-
Self insurance claims	-	7,196,117
Other	26,569	-
Total operating expenses	<u>2,994,594</u>	<u>8,097,454</u>
Operating income (loss)	<u>(37,470)</u>	<u>(1,328,029)</u>
Non operating revenues (expenses):		
Investment earnings	21,012	184,212
Net increase (decrease) in fair value of investments	-	13,814
Other	(60,872)	467,034
Net non-operating revenues (expenses)	<u>(39,860)</u>	<u>665,060</u>
Income (loss) before contributions and transfers	(77,330)	(662,969)
Capital contributions	<u>15,333</u>	<u>-</u>
Change in net assets	(61,997)	(662,969)
Total net assets--beginning	<u>835,795</u>	<u>3,030,852</u>
Total assets--ending	<u><u>\$ 773,798</u></u>	<u><u>\$ 2,367,883</u></u>

<u>General Insurance</u>	<u>General Depreciation</u>	<u>Total</u>
\$ -	\$ 2,756,144	\$ 5,713,268
<u>4,120,290</u>	<u>-</u>	<u>10,889,715</u>
<u>4,120,290</u>	<u>2,756,144</u>	<u>16,602,983</u>
156,092	-	1,045,367
3,503	-	27,809
1,890,745	13,686	4,786,826
495	-	42,100
3,010	1,428,920	1,463,711
71,983	-	7,268,100
<u>-</u>	<u>-</u>	<u>26,569</u>
<u>2,125,828</u>	<u>1,442,606</u>	<u>14,660,482</u>
<u>1,994,462</u>	<u>1,313,538</u>	<u>1,942,501</u>
321,232	189,287	715,743
32,542	7,890	54,246
<u>348,750</u>	<u>24,273</u>	<u>779,185</u>
<u>702,524</u>	<u>221,450</u>	<u>1,549,174</u>
2,696,986	1,534,988	3,491,675
<u>-</u>	<u>-</u>	<u>15,333</u>
2,696,986	1,534,988	3,507,008
<u>6,160,624</u>	<u>9,522,847</u>	<u>19,550,118</u>
<u>\$ 8,857,610</u>	<u>\$ 11,057,835</u>	<u>\$ 23,057,126</u>

CITY OF McALLEN, TEXAS
INTERNAL SERVICE FUNDS
COMBINING STATEMENT OF CASH FLOWS
For the Year Ended September 30, 2006

	Fleet Materials Management	Employee Benefits
Cash flows from operating activities:		
Receipts from customers	\$ 2,957,124	\$ 6,737,477
Payments to employees	(766,670)	(100,408)
Payments to suppliers	(2,019,093)	(8,147,023)
Other receipts (payments)	1,105	467,034
	<u>172,466</u>	<u>(1,042,920)</u>
Cash flows from capital and related financing activities:		
Payments for capital disposal/acquisitions	(49,238)	-
	8,239	-
	<u>(40,999)</u>	<u>-</u>
Cash flows from investing activities:		
Proceeds from sales and maturities of investments	-	4,623,707
Purchase of investments	-	(3,752,879)
Receipt of interest	21,012	152,396
	<u>21,012</u>	<u>1,023,224</u>
Net cash provided (used) by investing activities	<u>21,012</u>	<u>1,023,224</u>
Net increase (decrease) in cash	<u>152,479</u>	<u>(19,696)</u>
Cash at beginning of year	<u>550,561</u>	<u>23,261</u>
Cash at end of year	<u><u>\$ 703,040</u></u>	<u><u>\$ 3,565</u></u>

<u>General Insurance</u>	<u>General Depreciation</u>	<u>Totals</u>
\$ 4,160,865	\$ 2,756,144	\$ 16,611,610
(148,069)	-	(1,015,147)
(2,885,117)	154,026	(12,897,207)
348,750	24,273	841,162
<u>1,476,429</u>	<u>2,934,443</u>	<u>3,540,418</u>
 (3,424)	 (3,138,462)	 (3,191,124)
<u>-</u>	<u>-</u>	<u>8,239</u>
<u>(3,424)</u>	<u>(3,138,462)</u>	<u>(3,182,885)</u>
 (6,412,147)	 4,164,817	 2,376,377
4,760,645	(4,060,422)	(3,052,656)
219,242	116,220	508,870
<u>(1,432,260)</u>	<u>220,615</u>	<u>(167,409)</u>
 40,745	 16,596	 190,124
<u>884</u>	<u>31,117</u>	<u>605,823</u>
<u>\$ 41,629</u>	<u>\$ 47,713</u>	<u>\$ 795,947</u>

Continued

CITY OF McALLEN, TEXAS
INTERNAL SERVICE FUNDS
COMBINING STATEMENT OF CASH FLOWS
For the Year Ended September 30, 2006

	Fleet Materials Management	Employee Benefits
Operating (loss) income	\$ (37,470)	\$ (1,328,029)
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:		
Depreciation	31,781	-
Misc. non-operating income	1,105	467,034
Accounts receivable	-	(31,948)
Inventories	46,563	-
Accounts payable	109,709	(58,255)
Compensated absences payables	17,606	(372)
Accrued liabilities	4,279	(91,350)
Due to other funds	-	-
Deferred revenue	(1,107)	-
Total adjustments	209,936	285,109
Net cash provided by operating activities	<u>\$ 172,466</u>	<u>\$ (1,042,920)</u>
Noncash investing, capital, and financing activities:		
Increase (decrease) in fair value of investments	15,333	13,814

<u>General Insurance</u>	<u>General Depreciation</u>	<u>Totals</u>
<u>\$ 1,994,462</u>	<u>\$ 1,313,538</u>	<u>\$ 1,942,501</u>
3,010	1,428,920	1,463,711
348,750	24,273	841,162
40,575	-	8,627
-	-	46,563
(15,323)	167,712	203,843
8,023	-	25,257
(860,272)	-	(947,343)
(42,796)	-	(42,796)
-	-	(1,107)
<u>(518,033)</u>	<u>1,620,905</u>	<u>1,597,917</u>
<u><u>\$ 1,476,429</u></u>	<u><u>\$ 2,934,443</u></u>	<u><u>\$ 3,540,418</u></u>
32,542	7,890	

Concluded

**SUPPLEMENTARY INDIVIDUAL
GOVERNMENTAL FUNDS
FINANCIAL STATEMENTS AND
SCHEDULES**

CITY OF McALLEN , TEXAS
GENERAL FUND
BALANCE SHEET
September 30, 2006
With Comparative Amounts for September 30, 2005

	<u>2006</u>	<u>2005</u>
ASSETS		
Cash	\$ 990,407	\$ 745,571
Certificate of deposit	15,323,669	12,207,923
Investments	21,564,665	39,321,101
Receivables, net:		
Taxes	3,250,540	3,057,248
Accounts	8,695,676	8,408,567
Accrued interest receivable	728,191	337,425
Other	778,063	881,348
Due from other funds	417,039	628,707
Due from other governments	980	825
Advances to other funds	<u>1,400,000</u>	<u>1,400,000</u>
 Total assets	 <u><u>\$ 53,149,230</u></u>	 <u><u>\$ 66,988,715</u></u>
 LIABILITIES AND FUND BALANCES		
Accounts payable	\$ 1,426,364	\$ 1,326,987
Accrued liabilities	1,734,475	688,414
Deferred revenues	9,583,743	9,182,180
Other liabilities	<u>1,099,165</u>	<u>902,454</u>
 Total liabilities	 <u>13,843,747</u>	 <u>12,100,035</u>
 FUND BALANCES:		
Reserved for encumbrances	210,164	156,584
Reserved for advances	1,400,000	1,400,000
Unreserved	<u>37,695,319</u>	<u>53,332,096</u>
 Total fund balances	 <u>39,305,483</u>	 <u>54,888,680</u>
 Total liabilities and fund balances	 <u><u>\$ 53,149,230</u></u>	 <u><u>\$ 66,988,715</u></u>

CITY OF McALLEN , TEXAS
GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
For the Year Ended September 30, 2006
With Comparative Amounts for the Year Ended September 30, 2005

	<u>2006</u>	<u>2005</u>
REVENUES		
Taxes:		
Property	\$ 24,462,180	\$ 22,965,684
Sales	40,086,798	36,442,598
Franchise	<u>6,246,017</u>	<u>6,046,640</u>
Total taxes	<u>70,794,995</u>	<u>65,454,922</u>
Licences and permits	1,478,705	1,481,650
Intergovernmental	445,240	385,902
Charges for service	3,670,134	3,385,392
Fines and forfeitures	2,098,820	2,065,480
Investment earnings	2,678,741	1,736,885
Net decrease in the fair value of investments	331,914	(308,256)
Other	<u>7,573,408</u>	<u>6,298,726</u>
Total revenues	<u>89,071,957</u>	<u>80,500,701</u>
EXPENDITURES		
Current:		
General government	14,872,273	13,551,568
Public safety	39,864,071	36,894,866
Higways and streets	12,558,676	11,038,348
Health and welfare	999,270	1,070,082
Culture and recreation	<u>13,064,500</u>	<u>11,537,102</u>
Total expenditures	<u>81,358,790</u>	<u>74,091,966</u>
Excess of revenues over expenditures	<u>7,713,167</u>	<u>6,408,735</u>
OTHER FINANCING SOURCES (USES)		
Transfers in	6,899,395	7,112,751
Transfers out	<u>(30,195,759)</u>	<u>(6,289,906)</u>
Total other financing sources (uses)	<u>(23,296,364)</u>	<u>822,845</u>
Net changes in fund balances	(15,583,197)	7,231,580
Fund balances--beginning	<u>54,888,680</u>	<u>47,657,100</u>
Fund balances--ending	<u><u>\$ 39,305,483</u></u>	<u><u>\$ 54,888,680</u></u>

CITY OF McALLEN, TEXAS
GENERAL FUND
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
For the Year Ended September 30, 2006

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual Amount</u>	<u>Variance with Final Budget Positive (Negative)</u>
Revenues:				
Taxes:				
Property	\$ 23,828,162	\$ 23,828,162	\$ 24,462,180	\$ 634,018
Sales	37,249,548	37,249,548	40,086,798	2,837,250
Franchise	<u>5,374,000</u>	<u>5,374,000</u>	<u>6,246,017</u>	<u>872,017</u>
Total taxes	<u>66,451,710</u>	<u>66,451,710</u>	<u>70,794,995</u>	<u>4,343,285</u>
Licenses and permits:				
Business licenses and permits	47,000	47,000	35,353	(11,647)
Occupational	103,325	103,325	91,591	(11,734)
Non-business licenses and permits	<u>1,212,000</u>	<u>1,212,000</u>	<u>1,351,761</u>	<u>139,761</u>
Total licenses and permits	<u>1,362,325</u>	<u>1,362,325</u>	<u>1,478,705</u>	<u>116,380</u>
Intergovernmental revenues:				
State shared revenues	<u>375,000</u>	<u>375,000</u>	<u>445,240</u>	<u>70,240</u>
Total intergovernmental revenues	<u>375,000</u>	<u>375,000</u>	<u>445,240</u>	<u>70,240</u>
Charges for services:				
General government	1,271,600	1,271,600	1,450,369	178,769
Public safety	353,500	353,500	544,419	190,919
Highways and streets	561,000	281,000	306,867	25,867
Health	398,200	398,200	640,885	242,685
Culture and recreation	<u>672,600</u>	<u>672,600</u>	<u>727,594</u>	<u>54,994</u>
Total charges for services	<u>3,256,900</u>	<u>2,976,900</u>	<u>3,670,134</u>	<u>693,234</u>
Fines and forfeitures:				
Corporations court	1,817,346	2,061,337	1,945,400	(115,937)
Other fines	<u>250,768</u>	<u>150,634</u>	<u>153,420</u>	<u>2,786</u>
Total fines and forfeitures	<u>2,068,114</u>	<u>2,211,971</u>	<u>2,098,820</u>	<u>(113,151)</u>
Investment earnings	<u>1,100,000</u>	<u>1,100,000</u>	<u>2,678,741</u>	<u>1,578,741</u>

Continued

CITY OF McALLEN, TEXAS
GENERAL FUND
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
For the Year Ended September 30, 2006

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual Amount</u>	<u>Variance with Final Budget Positive (Negative)</u>
Net increase (decrease) in fair value of investments	\$ -	\$ -	\$ 331,914	\$ 331,914
Other:				
Royalties	3,500,000	3,500,000	4,773,487	1,273,487
Rents and concessions	40,000	40,000	45,217	5,217
Reimbursements	77,000	77,000	-	(77,000)
Other	129,000	129,000	2,754,704	2,625,704
Total other revenues	3,746,000	3,746,000	7,573,408	3,827,408
Total revenues	78,360,049	78,223,906	89,071,957	10,848,051
Expenditures:				
General government:				
City commission:				
Personal services	54,555	56,403	98,955	(42,552)
Supplies	4,700	4,700	6,629	(1,929)
Miscellaneous services	33,843	33,843	31,516	2,327
Capital outlay	5,900	5,900	3,074	2,826
Total city commission	98,998	100,846	140,174	(39,328)
Special service:				
Miscellaneous services	629,800	654,800	654,081	719
Total special service	629,800	654,800	654,081	719
City manager:				
Personal services	512,715	551,329	594,874	(43,545)
Supplies	1,615	1,615	2,462	(847)
Miscellaneous services	15,276	15,276	29,811	(14,535)
Maintenance	180	180	1,790	(1,610)
Total city manager	529,786	568,400	628,937	(60,537)

Continued

CITY OF McALLEN, TEXAS
GENERAL FUND
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
For the Year Ended September 30, 2006

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual Amount</u>	<u>Variance with Final Budget Positive (Negative)</u>
City secretary:				
Personal services	\$ 461,652	\$ 473,763	\$ 413,388	\$ 60,375
Supplies	6,500	6,500	6,589	(89)
Miscellaneous services	119,568	69,568	43,007	26,561
Maintenance	925	925	902	23
Capital outlay	<u>5,508</u>	<u>5,508</u>	<u>4,992</u>	<u>516</u>
Total city secretary	<u>594,153</u>	<u>556,264</u>	<u>468,878</u>	<u>87,386</u>
Audit office:				
Personal services	150,442	154,691	157,828	(3,137)
Supplies	1,425	1,425	962	463
Miscellaneous services	9,430	9,430	9,668	(238)
Capital outlay	<u>-</u>	<u>-</u>	<u>1,068</u>	<u>(1,068)</u>
Total audit office	<u>161,297</u>	<u>165,546</u>	<u>169,526</u>	<u>(3,980)</u>
Municipal court:				
Personal services	920,259	947,659	904,754	42,905
Supplies	8,900	9,374	8,841	533
Miscellaneous services	19,813	16,813	8,274	8,539
Maintenance	15,949	43,296	30,849	12,447
Capital outlay	<u>5,000</u>	<u>224,170</u>	<u>219,859</u>	<u>4,311</u>
Total municipal court	<u>969,921</u>	<u>1,241,312</u>	<u>1,172,577</u>	<u>68,735</u>
Finance:				
Personal services	818,948	840,972	797,041	43,931
Supplies	15,480	15,480	14,823	657
Miscellaneous services	61,181	61,181	66,018	(4,837)
Maintenance	1,568	1,568	2,344	(776)
Capital outlay	<u>5,000</u>	<u>5,000</u>	<u>3,828</u>	<u>1,172</u>
Total finance	<u>902,177</u>	<u>924,201</u>	<u>884,054</u>	<u>40,147</u>

Continued

CITY OF McALLEN, TEXAS
GENERAL FUND
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
For the Year Ended September 30, 2006

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual Amount</u>	<u>Variance with Final Budget Positive (Negative)</u>
Tax office:				
Personal services	\$ 216,318	\$ 222,466	\$ 202,299	\$ 20,167
Supplies	5,350	5,350	3,877	1,473
Miscellaneous services	546,180	546,180	541,891	4,289
Maintenance	1,425	1,425	376	1,049
Capital outlay	-	-	1,324	(1,324)
Total tax office	<u>769,273</u>	<u>775,421</u>	<u>749,767</u>	<u>25,654</u>
Purchasing and contracting:				
Personal services	289,569	297,485	329,339	(31,854)
Supplies	8,100	8,100	6,116	1,984
Miscellaneous services	5,880	5,880	336	5,544
Maintenance	11,550	11,550	12,128	(578)
Capital outlay	-	-	2,846	(2,846)
Total purchasing and contracting	<u>315,099</u>	<u>323,015</u>	<u>350,765</u>	<u>(27,750)</u>
Legal:				
Personal services	675,584	712,258	717,961	(5,703)
Supplies	8,800	8,800	6,829	1,971
Miscellaneous services	121,470	289,470	369,303	(79,833)
Capital outlay	-	24,665	24,665	-
Total legal	<u>805,854</u>	<u>1,035,193</u>	<u>1,118,758</u>	<u>(83,565)</u>
Grant administration:				
Personal services	167,338	172,494	183,858	(11,364)
Supplies	4,750	4,750	2,491	2,259
Miscellaneous services	<u>7,570</u>	<u>7,570</u>	<u>6,919</u>	<u>651</u>
Total grant administration	<u>179,658</u>	<u>184,814</u>	<u>193,268</u>	<u>(8,454)</u>
Right of way:				
Personal services	111,448	115,174	126,653	(11,479)
Supplies	1,425	1,425	1,218	207

Continued

CITY OF McALLEN, TEXAS
GENERAL FUND
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
For the Year Ended September 30, 2006

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual Amount</u>	<u>Variance with Final Budget Positive (Negative)</u>
Miscellaneous services	\$ 22,828	\$ 22,828	\$ 35,302	\$ (12,474)
Total right of way	<u>135,701</u>	<u>139,427</u>	<u>163,173</u>	<u>(23,746)</u>
Human resources:				
Personal services	353,208	365,411	403,215	(37,804)
Supplies	7,500	10,500	10,536	(36)
Miscellaneous services	223,767	255,767	260,305	(4,538)
Maintenance	27,352	27,352	71,851	(44,499)
Employee benefits	923,349	134,145	-	134,145
Capital outlay	<u>-</u>	<u>-</u>	<u>3,659</u>	<u>(3,659)</u>
Total human resources	<u>1,535,176</u>	<u>793,175</u>	<u>749,566</u>	<u>43,609</u>
Risk management:				
Liability insurance	<u>1,151,761</u>	<u>1,151,761</u>	<u>1,151,761</u>	<u>-</u>
Total risk management	<u>1,151,761</u>	<u>1,151,761</u>	<u>1,151,761</u>	<u>-</u>
Planning:				
Personal services	1,065,967	1,088,002	763,867	324,135
Supplies	8,458	8,458	17,069	(8,611)
Miscellaneous services	54,923	54,923	56,941	(2,018)
Maintenance	11,500	11,500	16,041	(4,541)
Capital outlay	<u>34,374</u>	<u>34,374</u>	<u>27,402</u>	<u>6,972</u>
Total planning	<u>1,175,222</u>	<u>1,197,257</u>	<u>881,320</u>	<u>315,937</u>
Information technology:				
Personal services	819,304	838,028	776,790	61,238
Supplies	29,375	34,375	34,971	(596)
Miscellaneous services	76,404	71,404	65,734	5,670
Maintenance	129,974	129,974	124,407	5,567
Capital outlay	<u>128,100</u>	<u>128,100</u>	<u>117,724</u>	<u>10,376</u>

Continued

CITY OF McALLEN, TEXAS
GENERAL FUND
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
For the Year Ended September 30, 2006

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual Amount</u>	<u>Variance with Final Budget Positive (Negative)</u>
Total information technology	\$ 1,183,157	\$ 1,201,881	\$ 1,119,626	\$ 82,255
Information services:				
Personal services	349,208	360,669	340,827	19,842
Supplies	15,300	15,300	14,224	1,076
Miscellaneous services	10,132	10,132	9,378	754
Maintenance	9,292	9,292	5,634	3,658
Capital outlay	15,000	15,000	-	15,000
Total information services	398,932	410,393	370,063	40,330
City hall:				
Personal services	83,917	92,545	93,273	(728)
Supplies	19,475	21,675	20,574	1,101
Miscellaneous services	398,255	398,255	531,683	(133,428)
Maintenance	244,650	242,450	96,754	145,696
Capital outlay	-	-	13,333	(13,333)
Total city hall	746,297	754,925	755,617	(692)
Building maintenance:				
Personal services	345,760	355,316	404,624	(49,308)
Supplies	6,013	6,013	8,195	(2,182)
Miscellaneous services	25,049	25,049	23,883	1,166
Maintenance	30,702	30,702	57,153	(26,451)
Total building maintenance	407,524	417,080	493,855	(76,775)
Economic development:				
McAllen Economic Development Corp.	1,397,576	1,397,576	1,397,576	-
Chambers of commerce	750,000	750,000	750,000	-
Total economic development	2,147,576	2,147,576	2,147,576	-
Non-departmental activities	99,000	349,000	330,663	18,337

Continued

CITY OF McALLEN, TEXAS
GENERAL FUND
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
For the Year Ended September 30, 2006

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual Amount</u>	<u>Variance with Final Budget Positive (Negative)</u>
Total general government	\$ 15,078,797	\$ 15,286,631	\$ 14,872,273	\$ 414,358
Public safety:				
Police:				
Personal services	22,428,682	22,573,015	21,947,459	625,556
Supplies	352,130	352,130	384,539	(32,409)
Miscellaneous services	1,704,736	1,704,736	1,789,698	(84,962)
Maintenance	757,975	757,975	1,208,954	(450,979)
Other	(415,000)	(415,000)	(391,726)	(23,274)
Capital outlay	363,750	363,750	302,249	61,501
Total police	25,192,273	25,336,606	25,241,173	95,433
Animal control:				
Personal services	142,525	146,711	150,381	(3,670)
Supplies	3,600	3,600	4,374	(774)
Miscellaneous services	14,618	14,618	14,143	475
Maintenance	17,223	17,223	29,093	(11,870)
Capital outlay	-	-	14,450	(14,450)
Total animal control	177,966	182,152	212,441	(30,289)
Communication technology:				
Personal services	94,273	97,031	108,399	(11,368)
Supplies	12,695	12,695	12,715	(20)
Miscellaneous services	44,988	44,988	5,862	39,126
Maintenance	4,375	4,375	1,875	2,500
Total communication technology	156,331	159,089	128,851	30,238
Fire:				
Personal services	9,713,695	9,737,743	9,775,146	(37,403)
Supplies	210,259	210,259	192,599	17,660
Miscellaneous services	897,910	897,910	838,360	59,550
Maintenance	262,000	262,000	336,753	(74,753)
Capital outlay	90,000	90,000	36,500	53,500

Continued

CITY OF McALLEN, TEXAS
GENERAL FUND
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
For the Year Ended September 30, 2006

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual Amount</u>	<u>Variance with Final Budget Positive (Negative)</u>
Total fire	\$ 11,173,864	\$ 11,197,912	\$ 11,179,358	\$ 18,554
Traffic operations:				
Personal services	902,695	928,256	911,944	16,312
Supplies	96,850	93,350	90,165	3,185
Miscellaneous services	284,461	284,461	476,796	(192,335)
Maintenance	320,062	315,562	253,130	62,432
Capital outlay	288,000	296,000	300,953	(4,953)
Total traffic operations	1,892,068	1,917,629	2,032,988	(115,359)
Downtown services:				
Personal services	431,934	222,054	220,522	1,532
Supplies	14,832	7,416	2,586	4,830
Miscellaneous services	36,879	18,438	21,494	(3,056)
Maintenance	24,534	12,267	10,334	1,933
Total downtown services	508,179	260,175	254,936	5,239
Inspection:				
Personal services	683,073	701,404	692,430	8,974
Supplies	11,090	11,090	10,442	648
Miscellaneous services	96,578	96,578	83,175	13,403
Maintenance	9,169	9,169	11,890	(2,721)
Capital outlay	31,097	31,097	16,387	14,710
Total inspection	831,007	849,338	814,324	35,014
Total public safety	39,931,688	39,902,901	39,864,071	38,830
Highways and streets:				
Engineering services:				
Personal services	1,831,683	1,879,018	1,698,325	180,693
Supplies	25,995	30,195	29,396	799
Miscellaneous services	179,618	179,618	172,352	7,266

Continued

CITY OF McALLEN, TEXAS
GENERAL FUND
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
For the Year Ended September 30, 2006

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual Amount</u>	<u>Variance with Final Budget Positive (Negative)</u>
Maintenance	\$ 30,680	\$ 30,680	\$ 64,547	\$ (33,867)
Other	(100,000)	(100,000)	(215,655)	115,655
Capital outlay	66,590	62,390	52,438	9,952
 Total engineering	 2,034,566	 2,081,901	 1,801,403	 280,498
Street cleaning:				
Personal services	183,985	189,017	155,729	33,288
Supplies	3,200	3,500	4,556	(1,056)
Miscellaneous services	106,151	105,851	105,765	86
Maintenance	80,427	80,427	160,288	(79,861)
 Total street cleaning	 373,763	 378,795	 426,338	 (47,543)
 Street maintenance:				
Personal services	1,232,129	1,263,391	1,216,974	46,417
Supplies	19,900	22,516	24,726	(2,210)
Miscellaneous services	267,246	267,354	269,166	(1,812)
Maintenance	4,068,000	4,910,724	4,811,534	99,190
Capital outlay	30,000	27,276	28,061	(785)
 Total street maintenance	 5,617,275	 6,491,261	 6,350,461	 140,800
 Street lighting:				
Miscellaneous services	1,730,466	1,730,466	1,808,471	(78,005)
Maintenance	42,675	42,675	41,839	836
 Total street lighting	 1,773,141	 1,773,141	 1,850,310	 (77,169)
 Sidewalk construction:				
Personal services	333,361	340,494	301,011	39,483
Supplies	233,076	233,076	243,731	(10,655)
Miscellaneous services	22,157	22,157	22,157	-
Maintenance	28,493	28,493	25,515	2,978
 Total sidewalk construction	 617,087	 624,220	 592,414	 31,806

Continued

CITY OF McALLEN, TEXAS
GENERAL FUND
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
For the Year Ended September 30, 2006

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual Amount</u>	<u>Variance with Final Budget Positive (Negative)</u>
Drainage:				
Personal services	\$ 675,452	\$ 693,545	\$ 655,237	\$ 38,308
Supplies	22,010	25,210	24,667	543
Miscellaneous services	484,235	484,535	434,559	49,976
Maintenance	273,482	269,982	364,651	(94,669)
Capital outlay	62,000	62,000	58,636	3,364
Total drainage	1,517,179	1,535,272	1,537,750	(2,478)
Total highways and streets	11,933,011	12,884,590	12,558,676	325,914
Health and welfare:				
Health:				
Personal services	453,727	466,942	451,734	15,208
Supplies	23,125	23,125	8,940	14,185
Miscellaneous services	123,392	123,392	131,502	(8,110)
Maintenance	11,120	11,120	20,805	(9,685)
Capital outlay	2,500	2,500	2,256	244
Total health	613,864	627,079	615,237	11,842
Graffiti cleaning:				
Personal services	85,950	88,367	78,953	9,414
Supplies	16,912	16,912	19,309	(2,397)
Miscellaneous services	14,712	14,712	14,712	-
Maintenance	19,050	19,050	23,206	(4,156)
Total graffiti cleaning	136,624	139,041	136,180	2,861
Other agencies:				
Ambulance	27,428	27,428	27,428	-
Humane society	222,565	222,565	217,945	4,620
Other health and welfare agencies	2,500	2,500	2,500	-
Total other agencies	252,493	252,493	247,873	4,620

CITY OF McALLEN, TEXAS
GENERAL FUND
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
For the Year Ended September 30, 2006

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual Amount</u>	<u>Variance with Final Budget Positive (Negative)</u>
Total health and welfare	<u>\$ 1,002,981</u>	<u>\$ 1,018,613</u>	<u>\$ 999,270</u>	<u>\$ 19,343</u>
Culture and recreation:				
Parks and recreation administration:				
Personal services	347,736	359,499	361,745	(2,246)
Supplies	8,625	8,625	9,501	(876)
Miscellaneous services	69,278	69,278	123,949	(54,671)
Maintenance	<u>13,067</u>	<u>13,067</u>	<u>15,464</u>	<u>(2,397)</u>
Total parks and recreation administration	<u>438,706</u>	<u>450,469</u>	<u>510,659</u>	<u>(60,190)</u>
Parks:				
Personal services	2,438,587	2,499,069	2,501,393	(2,324)
Supplies	103,900	111,900	135,716	(23,816)
Miscellaneous services	856,341	828,341	1,258,426	(430,085)
Maintenance	334,790	354,790	534,039	(179,249)
Capital outlay	<u>166,435</u>	<u>166,435</u>	<u>148,434</u>	<u>18,001</u>
Total parks	<u>3,900,053</u>	<u>3,960,535</u>	<u>4,578,008</u>	<u>(617,473)</u>
Recreation:				
Personal services	755,367	761,757	923,140	(161,383)
Supplies	48,400	48,400	50,600	(2,200)
Miscellaneous services	190,459	190,459	247,368	(56,909)
Maintenance	4,261	4,261	5,977	(1,716)
Other	<u>(80,000)</u>	<u>(80,000)</u>	<u>(10,122)</u>	<u>(69,878)</u>
Total recreation	<u>918,487</u>	<u>924,877</u>	<u>1,216,963</u>	<u>(292,086)</u>
Pools:				
Personal services	458,531	461,770	596,649	(134,879)
Supplies	24,750	24,750	34,947	(10,197)
Miscellaneous services	89,549	89,549	153,089	(63,540)

Continued

CITY OF McALLEN, TEXAS
GENERAL FUND
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
For the Year Ended September 30, 2006

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual Amount</u>	<u>Variance with Final Budget Positive (Negative)</u>
Maintenance	\$ 32,323	\$ 32,323	\$ 48,529	\$ (16,206)
Total pools	<u>605,153</u>	<u>608,392</u>	<u>833,214</u>	<u>(224,822)</u>
Las palmas community center:				
Personal services	188,958	195,585	195,441	144
Supplies	12,150	12,150	11,729	421
Miscellaneous services	69,423	69,423	80,371	(10,948)
Maintenance	17,641	17,641	22,730	(5,089)
Capital outlay	<u>10,500</u>	<u>10,500</u>	<u>7,492</u>	<u>3,008</u>
Total las palmas community center	<u>298,672</u>	<u>305,299</u>	<u>317,763</u>	<u>(12,464)</u>
Recreation center-Lark:				
Personal services	250,341	257,217	259,069	(1,852)
Supplies	23,745	23,745	22,905	840
Miscellaneous services	102,989	102,989	113,033	(10,044)
Maintenance	8,325	8,325	15,232	(6,907)
Capital outlay	<u>-</u>	<u>-</u>	<u>3,240</u>	<u>(3,240)</u>
Total recreation center-Lark	<u>385,400</u>	<u>392,276</u>	<u>413,479</u>	<u>(21,203)</u>
Recreation center-Palmview:				
Personal services	250,563	257,132	247,467	9,665
Supplies	21,745	21,745	23,574	(1,829)
Miscellaneous services	101,015	101,015	113,698	(12,683)
Maintenance	4,542	4,542	11,169	(6,627)
Capital outlay	<u>62,650</u>	<u>62,650</u>	<u>59,497</u>	<u>3,153</u>
Total recreation center-Palmview	<u>440,515</u>	<u>447,084</u>	<u>455,405</u>	<u>(8,321)</u>
Quinta mazatlan:				
Personal services	160,352	162,050	171,203	(9,153)
Supplies	8,008	8,008	19,446	(11,438)
Miscellaneous services	23,492	23,492	58,150	(34,658)

Continued

CITY OF McALLEN, TEXAS
GENERAL FUND
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
For the Year Ended September 30, 2006

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual Amount</u>	<u>Variance with Final Budget Positive (Negative)</u>
Maintenance	\$ -	\$ -	\$ 41,264	\$ (41,264)
Total quinta mazatlan	<u>191,852</u>	<u>193,550</u>	<u>290,063</u>	<u>(96,513)</u>
Library:				
Personal services	1,852,239	1,907,617	1,617,573	290,044
Supplies	50,900	50,900	33,239	17,661
Miscellaneous services	356,770	361,770	362,563	(793)
Maintenance	49,126	49,126	57,569	(8,443)
Capital outlay	<u>229,000</u>	<u>224,000</u>	<u>177,402</u>	<u>46,598</u>
Total library	<u>2,538,035</u>	<u>2,593,413</u>	<u>2,248,346</u>	<u>345,067</u>
Library branch-Lark:				
Personal services	413,179	426,667	425,529	1,138
Supplies	7,720	7,720	8,388	(668)
Miscellaneous services	9,800	9,800	8,103	1,697
Maintenance	5,700	5,700	1,068	4,632
Capital outlay	<u>47,100</u>	<u>47,100</u>	<u>39,663</u>	<u>7,437</u>
Total library branch-Lark	<u>483,499</u>	<u>496,987</u>	<u>482,751</u>	<u>14,236</u>
Library branch-Palmview:				
Personal services	423,102	433,534	392,876	40,658
Supplies	7,100	7,100	5,869	1,231
Miscellaneous services	9,800	9,800	8,694	1,106
Maintenance	5,700	5,700	640	5,060
Capital outlay	<u>47,100</u>	<u>47,100</u>	<u>26,195</u>	<u>20,905</u>
Total library branch-Palmview	<u>492,802</u>	<u>503,234</u>	<u>434,274</u>	<u>68,960</u>
Other agencies	<u>546,500</u>	<u>616,500</u>	<u>611,500</u>	<u>5,000</u>
Museums	<u>712,075</u>	<u>712,075</u>	<u>672,075</u>	<u>40,000</u>
Total culture and recreation	<u>11,951,749</u>	<u>12,204,691</u>	<u>13,064,500</u>	<u>(859,809)</u>

Continued

CITY OF McALLEN, TEXAS
GENERAL FUND
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
For the Year Ended September 30, 2006

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual Amount</u>	<u>Variance with Final Budget Positive (Negative)</u>
Total expenditures	<u>\$ 79,898,226</u>	<u>\$ 81,297,426</u>	<u>\$ 81,358,790</u>	<u>\$ (61,364)</u>
Excess of revenues over expenditures	<u>(1,538,177)</u>	<u>(3,073,520)</u>	<u>7,713,167</u>	<u>10,786,687</u>
Other financing sources (uses)				
Transfers in	6,872,194	6,872,194	6,899,395	27,201
Transfers out	<u>(4,500,000)</u>	<u>(30,195,759)</u>	<u>(30,195,759)</u>	<u>-</u>
Net other financing sources (uses)	<u>2,372,194</u>	<u>(23,323,565)</u>	<u>(23,296,364)</u>	<u>27,201</u>
Net change in fund balances	834,017	(26,397,085)	(15,583,197)	10,813,888
Fund balances at beginning of year	<u>54,888,680</u>	<u>54,888,680</u>	<u>54,888,680</u>	<u>-</u>
Fund balances at end of year	<u><u>\$ 55,722,697</u></u>	<u><u>\$ 28,491,595</u></u>	<u><u>\$ 39,305,483</u></u>	<u><u>\$ 10,813,888</u></u>

Concluded

CITY OF McALLEN , TEXAS
HOTEL OCCUPANCY TAX FUND
BALANCE SHEET
September 30, 2006
With Comparative Amounts for September 30, 2005

	<u>2006</u>	<u>2005</u>
ASSETS		
Cash	\$ 5,154	\$ 5,252
Investments	22,936	61,883
Accounts receivable	<u>266,162</u>	<u>275,839</u>
 Total assets	 <u><u>\$ 294,252</u></u>	 <u><u>\$ 342,974</u></u>
 LIABILITIES		
Accounts payable	\$ 77,823	\$ 94,445
Due to other funds	<u>204,558</u>	<u>244,477</u>
 Total liabilities	 <u>282,381</u>	 <u>338,922</u>
 FUND BALANCES		
Unreserved	<u>11,871</u>	<u>4,052</u>
 Total liabilities and fund balances	 <u><u>\$ 294,252</u></u>	 <u><u>\$ 342,974</u></u>

CITY OF McALLEN , TEXAS
HOTEL OCCUPANCY TAX FUND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
For the Year Ended September 30, 2006
With Comparative Amounts for the Year Ended September 30, 2005

	<u>2006</u>	<u>2005</u>
REVENUES		
Hotel tax	\$ 3,475,170	\$ 3,309,317
Investment earnings	<u>7,820</u>	<u>4,245</u>
Total revenues	<u>3,482,989</u>	<u>3,313,562</u>
EXPENDITURES		
Current:		
General government	<u>992,906</u>	<u>945,519</u>
Total expenditures	<u>992,906</u>	<u>945,519</u>
Excess of revenues over expenditures	<u>2,490,083</u>	<u>2,368,043</u>
OTHER FINANCING SOURCES (USES)		
Transfers out	<u>(2,482,264)</u>	<u>(2,363,798)</u>
Total other financing sources (uses)	<u>(2,482,264)</u>	<u>(2,363,798)</u>
Net changes in fund balances	7,819	4,245
Fund balances--beginning	<u>4,052</u>	<u>(193)</u>
Fund balances--ending	<u><u>\$ 11,871</u></u>	<u><u>\$ 4,052</u></u>

CITY OF McALLEN, TEXAS
HOTEL OCCUPANCY FUND
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL
For the Year Ended September 30, 2006

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual Amount</u>	<u>Variance with Final Budget Positive (Negative)</u>
Revenues:				
Hotel tax	\$ 3,341,565	\$ 3,341,565	\$ 3,475,170	\$ 133,605
Investment earnings	<u>-</u>	<u>-</u>	<u>7,819</u>	<u>7,819</u>
Total revenues	<u>3,341,565</u>	<u>3,341,565</u>	<u>3,482,989</u>	<u>141,424</u>
Expenditures:				
Current:				
General government	<u>954,732</u>	<u>954,732</u>	<u>992,906</u>	<u>(38,174)</u>
Total expenditures	<u>954,732</u>	<u>954,732</u>	<u>992,906</u>	<u>(38,174)</u>
Excess (deficiency) of revenues over expenditures	<u>2,386,833</u>	<u>2,386,833</u>	<u>2,490,083</u>	<u>103,250</u>
Other financing uses				
Transfers out	<u>(2,386,833)</u>	<u>(2,386,833)</u>	<u>(2,482,264)</u>	<u>(95,431)</u>
Total other financing sources (uses)	<u>(2,386,833)</u>	<u>(2,386,833)</u>	<u>(2,482,264)</u>	<u>(95,431)</u>
Net changes in fund balances	-	-	7,819	7,819
Fund balances—beginning	<u>4,052</u>	<u>4,052</u>	<u>4,052</u>	<u>-</u>
Fund balances—ending	<u>\$ 4,052</u>	<u>\$ 4,052</u>	<u>\$ 11,871</u>	<u>\$ 7,819</u>

CITY OF McALLEN , TEXAS
PARK DEVELOPMENT FUND
BALANCE SHEET
September 30, 2006
With Comparative Amounts for September 30, 2005

	<u>2006</u>	<u>2005</u>
ASSETS		
Cash	\$ 11,244	\$ 10,305
Certificate of deposit	2,410,636	819,411
Investments	455,930	1,372,144
Accrued interest receivable	51,885	4,218
Other receivables	<u>25</u>	<u>98</u>
 Total assets	 <u><u>\$ 2,929,720</u></u>	 <u><u>\$ 2,206,176</u></u>
 LIABILITIES		
Accounts payable	\$ 32,321	\$ 192,902
Accrued liabilities	<u>30,152</u>	<u>19,219</u>
 Total liabilities	 <u>62,473</u>	 <u>212,121</u>
 FUND BALANCES		
Unreserved	<u>2,867,247</u>	<u>1,994,055</u>
 Total liabilities and fund balances	 <u><u>\$ 2,929,720</u></u>	 <u><u>\$ 2,206,176</u></u>

CITY OF McALLEN , TEXAS
PARK DEVELOPMENT FUND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
For the Year Ended September 30, 2006
With Comparative Amounts for the Year Ended September 30, 2005

	<u>2006</u>	<u>2005</u>
REVENUES		
Investment earnings	\$ 114,444	\$ 57,767
Net increase (decrease) in the fair value of investments	186	(1,710)
Other	<u>1,013,232</u>	<u>694,618</u>
 Total revenues	 <u>1,127,862</u>	 <u>750,675</u>
 EXPENDITURES		
Current:		
Culture and recreation	<u>254,670</u>	<u>446,626</u>
 Total expenditures	 <u>254,670</u>	 <u>446,626</u>
 Excess of revenues over expenditures	 <u>873,192</u>	 <u>304,049</u>
 Net changes in fund balances	 873,192	 304,049
 Fund balances—beginning	 <u>1,994,055</u>	 <u>1,690,006</u>
 Fund balances—ending	 <u><u>\$ 2,867,247</u></u>	 <u><u>\$ 1,994,055</u></u>

CITY OF McALLEN, TEXAS
 PARK DEVELOPMENT FUND
 SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
 BUDGET AND ACTUAL
 For the Year Ended September 30, 2006

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual Amount</u>	<u>Variance with Final Budget Positive (Negative)</u>
Revenues:				
Other	\$ 688,894	\$ 758,894	\$ 1,013,232	\$ 254,338
Investment earnings	<u>-</u>	<u>-</u>	<u>114,444</u>	<u>114,444</u>
Total revenues	<u>688,894</u>	<u>758,894</u>	<u>1,127,862</u>	<u>368,968</u>
Expenditures:				
Current:				
Culture and recreation	<u>1,908,000</u>	<u>1,908,000</u>	<u>254,670</u>	<u>1,653,330</u>
Total expenditures	<u>1,908,000</u>	<u>1,908,000</u>	<u>254,670</u>	<u>1,653,330</u>
Excess (deficiency) of revenues over expenditures	<u>(1,219,106)</u>	<u>(1,149,106)</u>	<u>873,192</u>	<u>2,022,298</u>
Net changes in fund balances	(1,219,106)	(1,149,106)	873,192	2,022,298
Fund balances--beginning	<u>1,994,055</u>	<u>1,994,055</u>	<u>1,994,055</u>	<u>-</u>
Fund balances--ending	<u>\$ 774,949</u>	<u>\$ 844,949</u>	<u>\$ 2,867,247</u>	<u>\$ 2,022,298</u>

CITY OF McALLEN , TEXAS
COMMUNITY DEVELOPEMENT FUND
BALANCE SHEET
September 30, 2006
With Comparative Amounts for September 30, 2005

	<u>2006</u>	<u>2005</u>
ASSETS		
Cash	\$ 48	\$ -
Due from other governments	<u>86,910</u>	<u>266,474</u>
 Total assets	 <u><u>\$ 86,958</u></u>	 <u><u>\$ 266,474</u></u>
 LIABILITIES		
Accounts payable	\$ 15,931	\$ 222,520
Due to other funds	54,730	43,954
Accrued liabilities	<u>16,297</u>	<u>-</u>
 Total liabilities	 <u>86,958</u>	 <u>266,474</u>
 FUND BALANCES		
Unreserved	<u>-</u>	<u>-</u>
 Total liabilities and fund balance	 <u><u>\$ 86,958</u></u>	 <u><u>\$ 266,474</u></u>

CITY OF McALLEN , TEXAS
COMMUNITY DEVELOPMENT FUND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
For the Year Ended September 30, 2006
With Comparative Amounts for the Year Ended September 30, 2005

	<u>2006</u>	<u>2005</u>
REVENUES		
Intergovernmental	\$ 1,725,248	\$ 2,194,457
Total revenues	<u>1,725,248</u>	<u>2,194,457</u>
EXPENDITURES		
Current:		
General government	253,368	269,663
Public safety	93,862	292,508
Higways and streets	386,363	131,132
Health and welfare	928,786	1,440,231
Culture and recreation	<u>62,869</u>	<u>60,923</u>
Total expenditures	<u>1,725,248</u>	<u>2,194,457</u>
Excess of revenues over expenditures	<u>-</u>	<u>-</u>
Net changes in fund balances	-	-
Fund balances--beginning	<u>-</u>	<u>-</u>
Fund balances--ending	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>

**CITY OF McALLEN, TEXAS
COMMUNITY DEVELOPMENT FUND
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
For the Year Ended September 30, 2006**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual Amount</u>	<u>Variance with Final Budget Positive (Negative)</u>
Revenues:				
Intergovernmental	\$ 2,736,954	\$ 2,909,179	\$ 1,725,248	\$ (1,183,931)
Total revenues	<u>2,736,954</u>	<u>2,909,179</u>	<u>1,725,248</u>	<u>(1,183,931)</u>
Expenditures:				
Current:				
General government	290,000	290,000	253,368	36,632
Public safety	93,200	93,862	93,862	-
Highways and streets	214,800	386,363	386,363	-
Health and welfare	2,001,454	2,001,454	928,786	1,072,668
Culture and recreation	<u>137,500</u>	<u>137,500</u>	<u>62,869</u>	<u>74,631</u>
Total expenditures	<u>2,736,954</u>	<u>2,909,179</u>	<u>1,725,248</u>	<u>1,183,931</u>
Excess (deficiency) of revenues over expenditures	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net changes in fund balances	-	-	-	-
Fund balances—beginning	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Fund balances—ending	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>

CITY OF McALLEN , TEXAS
MISCELLANEOUS GOVERNMENT GRANTS FUND
BALANCE SHEET
September 30, 2006
With Comparative Amounts for September 30, 2005

	<u>2006</u>	<u>2005</u>
ASSETS		
Cash	\$ 3,434	\$ 44,294
Due from other governments	<u>255,135</u>	<u>5,086</u>
 Total assets	 <u><u>\$ 258,569</u></u>	 <u><u>\$ 49,380</u></u>
 LIABILITIES		
Accounts payable	\$ 9,952	\$ 3,562
Due to other funds	<u>248,324</u>	<u>5,086</u>
 Total liabilities	 <u>258,276</u>	 <u>8,648</u>
 FUND BALANCES		
Unreserved	<u>293</u>	<u>40,732</u>
 Total liabilities and fund balances	 <u><u>\$ 258,569</u></u>	 <u><u>\$ 49,380</u></u>

CITY OF McALLEN , TEXAS
MISCELLANEOUS GOVERNMENT GRANTS FUND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
For the Year Ended September 30, 2006
With Comparative Amounts for the Year Ended September 30, 2005

	<u>2006</u>	<u>2005</u>
REVENUES		
Intergovernmental	\$ 1,091,439	\$ 2,495,282
Investment earnings	391	1,642
Other	<u>142,229</u>	<u>166,474</u>
 Total revenues	 <u>1,234,059</u>	 <u>2,663,398</u>
 EXPENDITURES		
Current:		
General government	61,444	137,951
Public safety	1,213,054	2,324,957
Culture and recreation	<u>-</u>	<u>28,460</u>
 Total expenditures	 <u>1,274,498</u>	 <u>2,491,368</u>
 Excess of revenues over expenditures	 <u>(40,439)</u>	 <u>172,030</u>
 Transfers out	 <u>-</u>	 <u>(57,945)</u>
 Total other financing sources (uses)	 <u>-</u>	 <u>(57,945)</u>
 Net changes in fund balances	 (40,439)	 114,085
 Fund balances--beginning	 <u>40,732</u>	 <u>(73,353)</u>
 Fund balances--ending	 <u><u>\$ 293</u></u>	 <u><u>\$ 40,732</u></u>

CITY OF McALLEN , TEXAS
DOWNTOWN SERVICES PARKING FUND
BALANCE SHEET
September 30, 2006
With Comparative Amounts for September 30, 2005

	<u>2006</u>	<u>2005</u>
ASSETS		
Cash	\$ 210,654	\$ -
Investments	-	-
Accounts receivable	<u>62</u>	<u>-</u>
 Total assets	 <u><u>\$ 210,716</u></u>	 <u><u>\$ -</u></u>
 LIABILITIES		
Accounts payable	\$ 5,901	\$ -
Accrued liabilities	<u>6,095</u>	<u>-</u>
 Total liabilities	 <u>11,996</u>	 <u>-</u>
 FUND BALANCES		
Unreserved	<u>198,720</u>	<u>-</u>
 Total liabilities and fund balances	 <u><u>\$ 210,716</u></u>	 <u><u>\$ -</u></u>

CITY OF McALLEN , TEXAS
DOWNTOWN SERVICES PARKING FUND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
For Fiscal Year Ended September 30, 2006
With Comparative Amounts for Fiscal Year Ended September 30, 2005

	<u>2006</u>	<u>2005</u>
REVENUES		
Licences and permits	\$ 8,173	\$ -
Charges for service	299,123	-
Fines and forfeitures	107,106	-
Investment earnings	4,145	-
Other	<u>6</u>	<u>-</u>
Total revenues	<u>418,553</u>	<u>-</u>
EXPENDITURES		
Current:		
Higways and streets	<u>219,833</u>	<u>-</u>
Total expenditures	<u>219,833</u>	<u>-</u>
Excess of revenues over expenditures	<u>198,720</u>	<u>-</u>
Net changes in fund balances	198,720	-
Fund balances--beginning	<u>-</u>	<u>-</u>
Fund balances--ending	<u><u>\$ 198,720</u></u>	<u><u>\$ -</u></u>

CITY OF McALLEN, TEXAS
DOWNTOWN SERVICES PARKING FUND
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL
For Fiscal Year Ended September 30, 2006

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual Amount</u>	<u>Variance with Final Budget Positive (Negative)</u>
Revenues:				
Licenses and permits	\$ -	\$ -	\$ 8,173	\$ 8,173
Charges for services	-	280,000	299,123	19,123
Fines and forfeitures	-	100,134	107,106	6,972
Investment earnings	-	-	4,145	4,145
Other	-	-	6	6
Total revenues	-	380,134	418,553	38,419
Expenditures:				
Current:				
Highways and streets	-	260,180	219,833	40,347
Total expenditures	-	260,180	219,833	40,347
Excess (deficiency) of revenues over expenditures	-	119,954	198,720	78,766
Net changes in fund balances	-	119,954	198,720	78,766
Fund balances--beginning	-	-	-	-
Fund balances--ending	<u>\$ -</u>	<u>\$ 119,954</u>	<u>\$ 198,720</u>	<u>\$ 78,766</u>

CITY OF McALLEN , TEXAS
CRIMINAL JUSTICE DEPARTMENT FUND
BALANCE SHEET
September 30, 2006
With Comparative Amounts for September 30, 2005

	<u>2006</u>	<u>2005</u>
ASSETS		
Cash	\$ -	\$ 6,171
Certificate of deposit	-	310,622
Investments	-	435,383
Other receivables	-	272,690
Due from other governments	-	26,773
	<u>-</u>	<u>26,773</u>
 Total assets	 <u><u>\$ -</u></u>	 <u><u>\$ 1,051,639</u></u>
 LIABILITIES		
Accounts payable	\$ -	\$ 95
Deferred revenues	-	272,579
	<u>-</u>	<u>272,579</u>
 Total liabilities	 <u>-</u>	 <u>272,674</u>
 FUND BALANCES		
Unreserved	-	778,965
	<u>-</u>	<u>778,965</u>
 Total liabilities and fund balances	 <u><u>\$ -</u></u>	 <u><u>\$ 1,051,639</u></u>

CITY OF McALLEN , TEXAS
CRIMINAL JUSTICE DEPARTMENT FUND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
For the Year Ended September 30, 2006
With Comparative Amounts for the Year Ended September 30, 2005

	<u>2006</u>	<u>2005</u>
REVENUES		
Intergovernmental	\$ -	\$ 821,432
Fines and forfeitures	8,698	138,874
Investment earnings	<u>46</u>	<u>1,832</u>
Total revenues	<u>8,744</u>	<u>962,138</u>
EXPENDITURES		
Current:		
Public safety	<u>787,709</u>	<u>1,231,263</u>
Total expenditures	<u>787,709</u>	<u>1,231,263</u>
Deficiency of revenues over expenditures	<u>(778,965)</u>	<u>(269,125)</u>
Net changes in fund balances	(778,965)	(269,125)
Fund balances--beginning	<u>778,965</u>	<u>1,048,090</u>
Fund balances--ending	<u><u>\$ -</u></u>	<u><u>\$ 778,965</u></u>

CITY OF McALLEN , TEXAS
DEVELOPMENT CORPORATION FUND
BALANCE SHEET
September 30, 2006
With Comparative Amounts for September 30, 2005

	<u>2006</u>	<u>2005</u>
ASSETS		
Cash	\$ 24,178	\$ 10,300
Certificate of deposit	7,532,041	-
Investments	3,012,699	4,422,558
Receivables,net:		
Taxes	2,194,592	2,076,952
Accrued interest receivable	234,836	-
Advances to other funds	<u>3,400,000</u>	<u>3,500,000</u>
 Total assets	 <u><u>\$ 16,398,346</u></u>	 <u><u>\$ 10,009,810</u></u>
 LIABILITIES		
Accounts payable	\$ 166,993	\$ 254,066
Deferred revenues	<u>1,176,733</u>	<u>1,173,961</u>
 Total liabilities	 <u>1,343,726</u>	 <u>1,428,027</u>
 FUND BALANCES		
Reserved for economic development	2,469,092	1,644,539
Reserved for advances	3,400,000	3,500,000
Unreserved	<u>9,185,528</u>	<u>3,437,244</u>
 Total fund balances	 <u>15,054,620</u>	 <u>8,581,783</u>
 Total liabilities and fund balances	 <u><u>\$ 16,398,346</u></u>	 <u><u>\$ 10,009,810</u></u>

CITY OF McALLEN , TEXAS
DEVELOPMENT CORPORATION FUND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
For the Year Ended September 30, 2006
With Comparative Amounts for the Year Ended September 30, 2005

	<u>2006</u>	<u>2005</u>
REVENUES		
Sales tax	\$ 13,362,264	\$ 12,147,531
Investment earnings	322,596	72,160
Net increase (decrease) in the fair value of investments	29,694	-
Other	<u>3,222</u>	<u>(1)</u>
Total revenues	<u>13,717,776</u>	<u>12,219,690</u>
EXPENDITURES		
Current:		
General government	1,159,124	1,375,387
Higways and streets	-	38,355
Health and welfare	1,404,946	1,501,139
Debt service:		
Principal	25,000	25,000
Interest and fiscal charges	<u>15,762</u>	<u>17,472</u>
Total expenditures	<u>2,604,832</u>	<u>2,957,353</u>
Excess of revenues over expenditures	<u>11,112,944</u>	<u>9,262,337</u>
OTHER FINANCING SOURCES (USES)		
Transfers out	<u>(4,640,107)</u>	<u>(8,041,883)</u>
Total other financing sources (uses)	<u>(4,640,107)</u>	<u>(8,041,883)</u>
Net changes in fund balances	6,472,837	1,220,454
Fund balances—beginning	<u>8,581,783</u>	<u>7,361,329</u>
Fund balances—ending	<u><u>\$ 15,054,620</u></u>	<u><u>\$ 8,581,783</u></u>

CITY OF McALLEN, TEXAS
DEVELOPMENT CORPORATION FUND
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL
For the Year Ended September 30, 2006

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual Amount</u>	<u>Variance with Final Budget Positive (Negative)</u>
Revenues:				
Sales tax	\$ 12,416,516	\$ 12,416,516	\$ 13,362,264	\$ 945,748
Investment earnings	109,479	109,479	322,596	213,117
Net decrease in the fair value of investments	-	-	29,694	29,694
Other	-	-	3,222	3,222
Total revenues	<u>12,525,995</u>	<u>12,525,995</u>	<u>13,717,776</u>	<u>1,191,781</u>
Expenditures:				
Current:				
General government	1,740,241	1,740,241	1,159,124	581,117
Health and welfare	1,500,000	1,500,000	1,404,946	95,054
Debt service:				
Principal	25,000	25,000	25,000	-
Interest and fiscal charges	<u>15,763</u>	<u>15,763</u>	<u>15,762</u>	<u>1</u>
Total expenditures	<u>3,281,004</u>	<u>3,281,004</u>	<u>2,604,832</u>	<u>676,172</u>
Excess (deficiency) of revenues over expenditures	<u>9,244,991</u>	<u>9,244,991</u>	<u>11,112,944</u>	<u>1,867,953</u>
Other financing uses:				
Transfers out	<u>(12,953,269)</u>	<u>(12,953,269)</u>	<u>(4,640,107)</u>	<u>8,313,162</u>
Total other financing uses	<u>(12,953,269)</u>	<u>(12,953,269)</u>	<u>(4,640,107)</u>	<u>8,313,162</u>
Net changes in fund balances	<u>(3,708,278)</u>	<u>(3,708,278)</u>	<u>6,472,837</u>	<u>10,181,115</u>
Fund balances--beginning	<u>8,581,783</u>	<u>8,581,783</u>	<u>8,581,783</u>	<u>-</u>
Fund balances--ending	<u>\$ 4,873,505</u>	<u>\$ 4,873,505</u>	<u>\$ 15,054,620</u>	<u>\$ 10,181,115</u>

CITY OF McALLEN , TEXAS
CAPITAL IMPROVEMENT FUND
BALANCE SHEET
September 30, 2006
With Comparative Amounts for September 30, 2005

	<u>2006</u>	<u>2005</u>
ASSETS		
Cash	\$ 116,632	\$ 42,740
Certificate of deposit	8,433,419	13,817,192
Investments	22,297,999	5,161,610
Accrued interest receivable	443,441	31,416
Other receivables	-	132,600
Advances to other funds	<u>352,716</u>	<u>352,716</u>
 Total assets	 <u><u>\$ 31,644,207</u></u>	 <u><u>\$ 19,538,274</u></u>
 LIABILITIES		
Accounts payable	\$ 1,491,773	\$ 1,102,722
Accrued liabilities	434,403	329,633
Due to other funds	<u>-</u>	<u>69,247</u>
 Total liabilities	 <u>1,926,176</u>	 <u>1,501,602</u>
 FUND BALANCES		
Reserved for advances	352,716	352,716
Unreserved	<u>29,365,315</u>	<u>17,683,956</u>
 Total fund balances	 <u>29,718,031</u>	 <u>18,036,672</u>
 Total liabilities and fund balances	 <u><u>\$ 31,644,207</u></u>	 <u><u>\$ 19,538,274</u></u>

CITY OF McALLEN , TEXAS
CAPITAL IMPROVEMENT FUND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
For the Year Ended September 30, 2006
With Comparative Amounts for the Year Ended September 30, 2005

	<u>2006</u>	<u>2005</u>
REVENUES		
Intergovernmental	\$ -	\$ 88,745
Investment earnings	631,891	523,496
Net increase (decrease) in the fair value of investments	19,869	(29,503)
Other	<u>478,709</u>	<u>838,401</u>
Total revenues	<u>1,130,469</u>	<u>1,421,139</u>
EXPENDITURES		
Current:		
General government	7,305,919	1,076,195
Public safety	1,531,024	1,846,754
Higways and streets	5,688,417	6,851,762
Culture and recreation	<u>5,771,421</u>	<u>4,625,605</u>
Total expenditures	<u>20,296,781</u>	<u>14,400,316</u>
Deficiency of revenues over expenditures	<u>(19,166,312)</u>	<u>(12,979,177)</u>
OTHER FINANCING SOURCES (USES)		
Transfers in	<u>30,847,671</u>	<u>8,531,663</u>
Total other financing sources (uses)	<u>30,847,671</u>	<u>8,531,663</u>
Net changes in fund balances	11,681,359	(4,447,514)
Fund balances--beginning	<u>18,036,672</u>	<u>22,484,186</u>
Fund balances--ending	<u><u>\$ 29,718,031</u></u>	<u><u>\$ 18,036,672</u></u>

CITY OF McALLEN, TEXAS
CAPITAL IMPROVEMENT FUND
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
For the Year Ended September 30, 2006

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual Amount</u>	<u>Variance with Final Budget Positive (Negative)</u>
Revenues:				
Investment earnings	\$ -	\$ -	\$ 631,891	\$ 631,891
Net decrease in the fair value of investments	-	-	19,869	19,869
Other	<u>1,873,000</u>	<u>1,873,000</u>	<u>478,709</u>	<u>(1,394,291)</u>
Total revenues	<u>1,873,000</u>	<u>1,873,000</u>	<u>1,130,469</u>	<u>(742,531)</u>
Expenditures:				
Current:				
General government	750,000	8,308,146	7,305,919	1,002,227
Public safety	5,792,700	6,616,326	1,531,024	5,085,302
Highways and streets	19,089,194	20,103,198	5,688,417	14,414,781
Culture and recreation	<u>5,190,562</u>	<u>7,107,079</u>	<u>5,771,421</u>	<u>1,335,658</u>
Total expenditures	<u>30,822,456</u>	<u>42,134,749</u>	<u>20,296,781</u>	<u>21,837,968</u>
Deficiency of revenues over expenditures	<u>(28,949,456)</u>	<u>(40,261,749)</u>	<u>(19,166,312)</u>	<u>21,095,437</u>
Other financing sources (uses):				
Transfers in	<u>13,072,304</u>	<u>38,768,063</u>	<u>30,847,671</u>	<u>(7,920,392)</u>
Total other financing sources (uses)	<u>13,072,304</u>	<u>38,768,063</u>	<u>30,847,671</u>	<u>(7,920,392)</u>
Net changes in fund balances	(15,877,152)	(1,493,686)	11,681,359	13,175,045
Fund balances—beginning	<u>18,036,672</u>	<u>18,036,672</u>	<u>18,036,672</u>	<u>-</u>
Fund balances—ending	<u>\$ 2,159,520</u>	<u>\$ 16,542,986</u>	<u>\$ 29,718,031</u>	<u>\$ 13,175,045</u>

CITY OF McALLEN , TEXAS
PARKING GARAGE CONSTRUCTION FUND
BALANCE SHEET
September 30, 2006
With Comparative Amounts for September 30, 2005

	<u>2006</u>	<u>2005</u>
ASSETS		
Cash	\$ 98,131	\$ -
Certificate of deposit	4,330,000	-
Accrued interest receivable	<u>19,387</u>	<u>-</u>
 Total assets	 <u>\$ 4,447,518</u>	 <u>\$ -</u>
 LIABILITIES		
Accounts payable	\$ 108,828	\$ -
Accrued liabilities	<u>19,795</u>	<u>-</u>
 Total liabilities	 <u>128,623</u>	 <u>-</u>
 FUND BALANCES		
Unreserved	<u>4,318,895</u>	<u>-</u>
 Total fund balances	 <u>4,318,895</u>	 <u>-</u>
 Total liabilities and fund balances	 <u>\$ 4,447,518</u>	 <u>\$ -</u>

CITY OF McALLEN , TEXAS
PARKING GARAGE CONSTRUCTION FUND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
For the Year Ended September 30, 2006
With Comparative Amounts for the Year Ended September 30, 2005

	<u>2006</u>	<u>2005</u>
REVENUES		
Investment earnings	<u>\$ 21,158</u>	<u>\$ -</u>
Total revenues	<u>21,158</u>	<u>-</u>
EXPENDITURES		
Current:		
General government	<u>502,263</u>	<u>-</u>
Total expenditures	<u>502,263</u>	<u>-</u>
Deficiency of revenues over expenditures	<u>(481,105)</u>	<u>-</u>
OTHER FINANCING SOURCES (USES)		
Bond proceeds	<u>4,800,000</u>	<u>-</u>
Total other financing sources (uses)	<u>4,800,000</u>	<u>-</u>
Net changes in fund balances	4,318,895	-
Fund balances--beginning	<u>-</u>	<u>-</u>
Fund balances--ending	<u><u>\$ 4,318,895</u></u>	<u><u>\$ -</u></u>

CITY OF McALLEN , TEXAS
DRAINAGE BOND FUND
BALANCE SHEET
September 30, 2006
With Comparative Amounts for September 30, 2005

	<u>2006</u>	<u>2005</u>
ASSETS		
Cash	\$ -	\$ 4,025
Certificate of deposit	-	205,215
Investments	-	169,315
	<u>-</u>	<u>169,315</u>
Total assets	<u>\$ -</u>	<u>\$ 378,555</u>
LIABILITIES		
FUND BALANCES		
Unreserved	-	378,555
	<u>-</u>	<u>378,555</u>
Total liabilities and fund balances	<u>\$ -</u>	<u>\$ 378,555</u>

CITY OF McALLEN , TEXAS
DRAINAGE BOND FUND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
For the Year Ended September 30, 2006
With Comparative Amounts for the Year Ended September 30, 2005

	<u>2006</u>	<u>2005</u>
REVENUES		
Investment earnings	\$ 14,215	\$ 9,202
Total revenues	<u>14,215</u>	<u>9,202</u>
EXPENDITURES		
Current:		
Total expenditures	<u>-</u>	<u>-</u>
Excess of revenues over expenditures	<u>14,215</u>	<u>9,202</u>
Transfers out	<u>(392,770)</u>	<u>-</u>
Total other financing sources (uses)	<u>(392,770)</u>	<u>-</u>
Net changes in fund balances	(378,555)	9,202
Fund balances--beginning	<u>378,555</u>	<u>369,353</u>
Fund balances--ending	<u><u>\$ -</u></u>	<u><u>\$ 378,555</u></u>

CITY OF McALLEN, TEXAS
DRAINAGE BOND FUND
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
For the Year Ended September 30, 2006

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual Amount</u>	<u>Variance with Final Budget Positive (Negative)</u>
Revenues:				
Investment earnings	\$ -	\$ -	\$ 14,215	\$ 14,215
Total revenues	-	-	14,215	14,215
Expenditures:				
Current:				
Total expenditures	-	-	-	-
Excess (deficiency) of revenues over expenditures	-	-	14,215	14,215
Transfers out	-	-	(392,770)	(392,770)
Total other financing sources (uses)	-	-	(392,770)	(392,770)
Net changes in fund balances	-	-	(378,555)	(378,555)
Fund balances--beginning	378,555	378,555	378,555	-
Fund balances--ending	<u>\$ 378,555</u>	<u>\$ 378,555</u>	<u>\$ -</u>	<u>\$ (378,555)</u>

**SUPPLEMENTARY INDIVIDUAL
ENTERPRISE FUNDS
FINANCIAL STATEMENTS AND
SCHEDULES**

CITY OF McALLEN , TEXAS
WATER FUND
BALANCE SHEET
September 30, 2006
With Comparative Amounts for September 30, 2005

	<u>2006</u>	<u>2005</u>
ASSETS		
Current assets:		
Cash	\$ 29,305	\$ 127,536
Certificate of deposit	2,142,201	137,957
Investments	5,213,118	5,226,965
Receivables, net:		
Accounts	1,655,072	1,630,680
Accrued interest	165,188	59,701
Due from other funds	20,000	-
Inventories, at cost	34,034	45,716
	<u>9,258,918</u>	<u>7,228,555</u>
 Total currents assets		
	<u>9,258,918</u>	<u>7,228,555</u>
Restricted assets:		
Cash	138,222	98,185
Certificate of deposit	12,402,878	11,272,791
Investments	3,227,566	5,271,516
Accrued interest	336,571	22,629
	<u>16,105,237</u>	<u>16,665,121</u>
 Total restricted assets		
	<u>16,105,237</u>	<u>16,665,121</u>
Capital assets:		
Land	2,295,619	2,290,592
Buildings and systems	49,070,946	48,177,273
Improvements other than buildings	36,672,834	35,575,222
Machinery and equipment	3,241,863	3,055,448
Water rights	3,603,100	2,478,100
Construction in progress	2,649,127	1,791,256
	<u>97,533,489</u>	<u>93,367,891</u>
Total capital assets		
Less accumulated depreciation	<u>(33,597,802)</u>	<u>(30,730,131)</u>
	<u>63,935,687</u>	<u>62,637,760</u>
 Net capital assets		
	<u>63,935,687</u>	<u>62,637,760</u>
Other assets		
Loans receivable	88,419	94,861
Other assets, net	836,005	884,707
	<u>924,424</u>	<u>979,568</u>
 Total other assets		
	<u>924,424</u>	<u>979,568</u>
 Total assets	<u><u>\$ 90,224,266</u></u>	<u><u>\$ 87,511,004</u></u>

Continued

CITY OF McALLEN , TEXAS
WATER FUND
BALANCE SHEET
September 30, 2006
With Comparative Amounts for September 30, 2005

	<u>2006</u>	<u>2005</u>
LIABILITIES		
Current liabilities:		
Accounts payable	\$ 397,616	\$ 444,021
Accrued expenses	65,590	53,364
Other	<u>38</u>	<u>19,780</u>
Total current liabilities	<u>463,244</u>	<u>517,165</u>
Current liabilities(payable from restricted assets):		
Accounts payable	382,154	58,082
Accrued expenses	255,363	260,929
Current portion of revenue bonds	940,800	753,200
Customer deposits	<u>1,571,894</u>	<u>1,576,962</u>
Total liabilities(payable from restricted assets)	<u>3,150,211</u>	<u>2,649,173</u>
Other noncurrent liabilities:		
Revenue bonds, net of current portion and discount	23,259,600	24,200,400
Deferred revenues	257,774	260,694
Arbitrage payable	-	623,651
Accumulated unpaid compensated absences	234,658	226,400
Bond premium	<u>540,461</u>	<u>563,623</u>
Total other noncurrent liabilities	<u>24,292,493</u>	<u>25,874,768</u>
Total liabilities	<u>27,905,948</u>	<u>29,041,106</u>
NET ASSETS		
Invested in capital assets, net of related debt	39,757,331	37,705,177
Restricted for:		
Improvements	13,574,577	14,517,854
Debt service	313,601	250,756
Unrestricted	<u>8,672,809</u>	<u>5,996,111</u>
Total net assets	<u>62,318,318</u>	<u>58,469,898</u>
Total liabilities and net assets	<u><u>\$ 90,224,266</u></u>	<u><u>\$ 87,511,004</u></u>

Concluded

CITY OF McALLEN, TEXAS
WATER FUND
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS
For the Year Ended September 30, 2006
With Comparative Amounts for the Year Ended September 30, 2005

	<u>2006</u>	<u>2005</u>
Operating revenues:		
Charges for services	\$ 15,209,812	\$ 13,548,751
Total operating revenues	<u>15,209,812</u>	<u>13,548,751</u>
Operating expenses:		
Salaries, wages and employee benefits	4,020,267	3,770,012
Supplies	2,867,694	2,444,468
Contractual and other services	2,414,833	1,993,228
Repairs and maintenance	585,431	609,545
Depreciation and amortization	2,967,959	2,617,482
Other	<u>8,781</u>	<u>68,845</u>
Total operating expenses	<u>12,864,965</u>	<u>11,503,580</u>
Operating income	2,344,847	2,045,171
Nonoperating revenues (expenses):		
Investment earnings	918,838	617,665
Net increase (decrease) in the fair value of investments	52,776	(89,767)
Interest expense	(1,202,211)	(1,105,234)
Capitalized interest	561,142	290,269
Sale (loss) on sale of capital assets	(583)	9,100
Other	<u>1,160,793</u>	<u>929,248</u>
Net nonoperating revenues	<u>1,490,755</u>	<u>651,281</u>
Income before contributions and transfers	3,835,602	2,696,452
Capital contributions	12,816	65,927
Transfers in	<u>-</u>	<u>150,000</u>
Changes in net assets	3,848,418	2,912,379
Total net assets--beginning	<u>58,469,900</u>	<u>55,557,521</u>
Total net assets--ending	<u><u>\$ 62,318,318</u></u>	<u><u>\$ 58,469,900</u></u>

CITY OF McALLEN, TEXAS
WATER FUND
STATEMENT OF CASH FLOWS
For the Year Ended September 30, 2006
With Comparative Amounts for the Year Ended September 30, 2005

	<u>2006</u>	<u>2005</u>
Cash flows from operating activities:		
Receipts from customers and users	\$ 15,171,862	\$ 13,308,698
Payments to employees	(3,999,783)	(3,809,801)
Payments to suppliers	(6,236,834)	(5,585,150)
Other receipts	<u>1,160,793</u>	<u>929,248</u>
Net cash provided by operating activities	<u>6,096,038</u>	<u>4,842,995</u>
Cash flows from noncapital financing activities:		
Transfers from other funds	<u>-</u>	<u>150,000</u>
Cash provided by non-capital financing activities	<u>-</u>	<u>150,000</u>
Cash flow from capital and related financing activities:		
Purchases of capital assets	(3,682,160)	(3,115,185)
Gain (loss) on sale of capital assets	583	(9,100)
Principal paid on capital debt	(753,200)	(1,504,800)
Interest paid on capital debt	<u>(1,209,714)</u>	<u>(1,050,535)</u>
Net cash used by capital and related financing activities	<u>(5,644,491)</u>	<u>(5,679,620)</u>
Cash flow from investing activities:		
Investment activity net	(1,076,534)	381,663
Receipt of interest	<u>566,793</u>	<u>495,204</u>
Net cash provided (used) by investing activities	<u>(509,741)</u>	<u>876,867</u>
Net increase (decrease) in cash	(58,194)	131,992
Cash at beginning of year	<u>225,721</u>	<u>93,729</u>
Cash at end of year	<u><u>\$ 167,527</u></u>	<u><u>\$ 225,721</u></u>

Continued

CITY OF McALLEN, TEXAS
WATER FUND
STATEMENT OF CASH FLOWS
For the Year Ended September 30, 2006
With Comparative Amounts for the Year Ended September 30, 2005

	<u>2006</u>	<u>2005</u>
Reconciliation of cash per statements of cash flows to the statements of net assets:		
Unrestricted cash	\$ 29,305	\$ 127,536
Restricted	<u>138,222</u>	<u>98,185</u>
Total cash	<u><u>\$ 167,527</u></u>	<u><u>\$ 225,721</u></u>
Reconciliation of operating income to net cash provided (used) by operating activities:		
Operating income	<u>\$ 2,344,847</u>	<u>\$ 2,045,171</u>
Adjustments to reconcile operating income to net cash provided (used) by operating activities:		
Depreciation expense	2,967,959	2,617,482
(Increase) decrease in accounts receivable	(17,950)	(240,053)
(Increase) decrease in due from other funds	(20,000)	-
(Increase) decrease in inventories	11,682	(21,686)
Increase (decrease) in customer deposits	(5,068)	15,621
Increase (decrease) in accounts payable	277,667	129,913
Increase (decrease) in compensated absences payable	8,258	37,741
Increase (decrease) in accrued liabilities	14,163	(823,124)
Increase (decrease) in other liabilities	(643,393)	82,955
Increase (decrease) in deferred revenues	(2,920)	69,727
Miscellaneous income (expense)	<u>1,160,793</u>	<u>929,248</u>
Total adjustments	<u>3,751,191</u>	<u>2,797,824</u>
Net cash provided (used) by operating activities	<u><u>\$ 6,096,038</u></u>	<u><u>\$ 4,842,995</u></u>
Noncash investing, capital, and financing activities:		
Contributions of capital assets from government	12,816	65,927
Increase in fair value of investments	52,776	(89,767)

Concluded

CITY OF McALLEN, TEXAS
WATER FUND
SCHEDULE OF REVENUES AND EXPENSES-BUDGET AND ACTUAL (BUDGET BASIS)
For the Year Ended September 30, 2006

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual Amount</u>	<u>Variance with Final Budget Positive (Negative)</u>
Operating revenues:				
Water sales				
Residential customers	\$ 7,130,047	\$ 7,130,047	\$ 8,132,933	\$ 1,002,886
Commercial accounts	3,941,010	3,941,010	4,912,852	971,842
Industrial customers	<u>533,236</u>	<u>533,236</u>	<u>605,881</u>	<u>72,645</u>
Total water sales	<u>11,604,293</u>	<u>11,604,293</u>	<u>13,651,666</u>	<u>2,047,373</u>
Service charges:				
Tap fees	380,000	380,000	609,744	229,744
Connect fees	90,000	90,000	117,238	27,238
Reconnect fees	160,000	160,000	135,205	(24,795)
Other	<u>-</u>	<u>-</u>	<u>695,959</u>	<u>695,959</u>
Total service charges	<u>630,000</u>	<u>630,000</u>	<u>1,558,146</u>	<u>928,146</u>
Total operating revenues	<u>12,234,293</u>	<u>12,234,293</u>	<u>15,209,812</u>	<u>2,975,519</u>
Non-operating revenues:				
Investment earnings	419,200	419,200	918,838	499,638
Net increase (decrease) in fair value of investment	-	-	52,776	52,776
Other	<u>634,500</u>	<u>634,500</u>	<u>1,173,026</u>	<u>538,526</u>
Total non-operating revenues	<u>1,053,700</u>	<u>1,053,700</u>	<u>2,144,640</u>	<u>1,090,940</u>
Total revenues	<u>13,287,993</u>	<u>13,287,993</u>	<u>17,354,452</u>	<u>4,066,459</u>
Expenses:				
Water plant:				
Salaries and benefits	1,133,142	1,163,219	1,146,132	17,087
Supplies and raw water purchases	2,068,493	2,792,393	2,681,620	110,773
Contractual and other services	1,244,237	1,417,537	1,412,766	4,771
Repairs and maintenance	<u>243,683</u>	<u>262,383</u>	<u>256,407</u>	<u>5,976</u>

Continued

CITY OF McALLEN, TEXAS
WATER FUND
SCHEDULE OF REVENUES AND EXPENSES-BUDGET AND ACTUAL (BUDGET BASIS)
For the Year Ended September 30, 2006

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual Amount</u>	<u>Variance with Final Budget Positive (Negative)</u>
Total water plant	<u>\$ 4,691,555</u>	<u>\$ 5,637,532</u>	<u>\$ 5,496,925</u>	<u>\$ 140,607</u>
Water lab:				
Salaries and benefits	179,734	184,943	176,996	7,947
Supplies	48,630	44,930	31,399	13,531
Contractual and other services	16,840	16,840	10,135	6,705
Repairs and maintenace	<u>12,448</u>	<u>16,148</u>	<u>11,080</u>	<u>5,068</u>
Total water lab	<u>257,652</u>	<u>262,861</u>	<u>229,610</u>	<u>33,251</u>
Transmission and distribution:				
Salaries and benefits	1,200,804	1,231,827	1,142,955	88,872
Supplies	24,080	20,380	17,378	3,002
Contractual and other services	36,112	40,412	38,177	2,235
Repairs and maintenance	<u>274,412</u>	<u>273,812</u>	<u>259,209</u>	<u>14,603</u>
Total Transmission and distribution	<u>1,535,408</u>	<u>1,566,431</u>	<u>1,457,719</u>	<u>108,712</u>
Water meters:				
Salaries and benefits	477,345	488,924	461,553	27,371
Supplies	21,900	21,900	16,044	5,856
Contractual and other services	33,425	33,425	14,393	19,032
Repairs and maintenance	<u>60,700</u>	<u>60,700</u>	<u>52,446</u>	<u>8,254</u>
Total water meters	<u>593,370</u>	<u>604,949</u>	<u>544,436</u>	<u>60,513</u>
Utility billing:				
Salaries and benefits	266,920	274,503	244,392	30,111
Supplies	45,500	45,500	35,412	10,088
Contractual and other services	<u>233,730</u>	<u>233,730</u>	<u>176,667</u>	<u>57,063</u>
Total utility billing	<u>546,150</u>	<u>553,733</u>	<u>456,471</u>	<u>97,262</u>

Continued

CITY OF McALLEN, TEXAS
WATER FUND
SCHEDULE OF REVENUES AND EXPENSES-BUDGET AND ACTUAL (BUDGET BASIS)
For the Year Ended September 30, 2006

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual Amount</u>	<u>Variance with Final Budget Positive (Negative)</u>
Customer relations:				
Salaries and benefits	\$ 478,993	\$ 496,421	\$ 460,197	\$ 36,224
Supplies	131,060	131,060	80,580	50,480
Contractual and other services	69,225	69,225	56,676	12,549
Repairs and maintenance	<u>1,700</u>	<u>1,700</u>	<u>1,492</u>	<u>208</u>
Total customer relations	<u>680,978</u>	<u>698,406</u>	<u>598,945</u>	<u>99,461</u>
Administration:				
Salaries and benefits	634,118	535,219	388,042	147,177
Supplies	14,906	5,306	5,261	45
Contractual and other services	692,899	769,399	615,946	153,453
Repairs and maintenance	<u>10,188</u>	<u>4,988</u>	<u>4,797</u>	<u>191</u>
Total administration	<u>1,352,111</u>	<u>1,314,912</u>	<u>1,014,046</u>	<u>300,866</u>
Non-departmental expenses:				
Liability insurance	90,073	90,073	90,073	-
Interest and fiscal charges	1,208,457	1,208,457	1,202,211	6,246
Bond principal requirements	753,200	753,200	-	753,200
Capitalized interest	-	-	(561,142)	561,142
Other	-	-	8,781	(8,781)
Capital outlay	<u>3,643,644</u>	<u>4,101,244</u>	<u>2,557,160</u>	<u>1,544,084</u>
Total non-departmental expenses	<u>5,695,374</u>	<u>6,152,974</u>	<u>3,297,083</u>	<u>2,855,891</u>
Total expenses	<u>15,352,598</u>	<u>16,791,798</u>	<u>13,095,235</u>	<u>3,696,563</u>

Continued

CITY OF McALLEN, TEXAS
WATER FUND
SCHEDULE OF REVENUES AND EXPENSES-BUDGET AND ACTUAL (BUDGET BASIS)
For the Year Ended September 30, 2006

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual Amount</u>	<u>Variance with Final Budget Positive (Negative)</u>
Excess (deficiency) of revenues over budget	<u>\$ (2,064,605)</u>	<u>\$ (3,503,805)</u>	<u>\$ 4,259,217</u>	<u>\$ 7,763,022</u>
GAAP basis adjustments:				
Depreciation expense, not budgeted	-	-	(2,967,959)	(2,967,959)
Capital outlay-amounts budgeted as expenses per budget basis, capitalized per GAAP basis	-	-	2,557,160	2,557,160
Principal payments on revenue bonds-budgeted as expenses per budget basis, treated as a reduction of bonds payable per GAAP basis	<u>753,200</u>	<u>753,200</u>	<u>-</u>	<u>753,200</u>
Net income-GAAP basis	<u><u>\$ (2,817,805)</u></u>	<u><u>\$ (4,257,005)</u></u>	<u><u>\$ 3,848,418</u></u>	<u><u>\$ 8,105,423</u></u>

Concluded

CITY OF McALLEN, TEXAS
WATER FUND
SCHEDULE OF CASH RECEIPTS AND DISBURSEMENTS
IN RESTRICTED ACCOUNTS
For Fiscal Year Ended September 30, 2006

	<u>Current Debt Service</u>	<u>Customer Deposits</u>
Cash, certificates of deposit, and investments at September 30, 2005	<u>\$ 457,091</u>	<u>\$ 1,576,962</u>
Cash receipts:		
Transfers in	2,018,254	-
Operating activities	-	499,856
Interest received	-	-
Total cash receipts	<u>2,018,254</u>	<u>499,856</u>
Total cash available	<u>2,475,345</u>	<u>2,076,818</u>
Cash disbursements:		
Refunds	-	504,923
Capital acquisition	-	-
Principal payments	753,200	-
Interest and fiscal charges (net)	<u>1,209,741</u>	<u>-</u>
Total cash disbursements	<u>1,962,941</u>	<u>504,923</u>
Cash, certificates of deposit, and investments at September 30, 2006	<u><u>\$ 512,404</u></u>	<u><u>\$ 1,571,895</u></u>
Cash, certificates of deposit, and investments at September 30, 2006 is comprised of the following:		
Cash	\$ 311	\$ -
Certificates of deposit	-	1,571,895
Investments (net)	512,093	-
Accrued Interest	-	-
Totals	<u><u>\$ 512,404</u></u>	<u><u>\$ 1,571,895</u></u>

<u>Depreciation</u>	<u>Capital Improvement</u>	<u>Water Bond '99 & '00</u>	<u>Total</u>
\$ 3,534,007	\$ 11,097,697	\$ 21,016	\$ 16,686,773
995,270	-	-	3,013,524
-	-	-	499,856
170,132	462,836	1,029	633,997
1,165,402	462,836	1,029	4,148,406
4,699,409	11,560,533	22,045	20,835,179
-	-	-	504,923
596,924	1,648,583	-	2,245,507
-	-	-	753,200
-	-	-	1,209,741
596,924	1,648,583	-	4,713,371
<u>\$ 4,102,485</u>	<u>\$ 9,911,950</u>	<u>\$ 22,045</u>	<u>\$ 16,120,779</u>
\$ 53,613	\$ 83,605	\$ 693	\$ 138,222
3,494,242	7,352,283	-	12,418,420
482,656	2,211,466	21,352	3,227,567
71,974	264,596	-	336,570
<u>\$ 4,102,485</u>	<u>\$ 9,911,950</u>	<u>\$ 22,045</u>	<u>\$ 16,120,779</u>

CITY OF McALLEN, TEXAS
SEWER FUND
BALANCE SHEET
September 30, 2006
With Comparative Amounts for September 30, 2005

	<u>2006</u>	<u>2005</u>
ASSETS		
Current assets:		
Cash	\$ 3,078	\$ 95,994
Certificate of deposit	6,529,839	3,192,911
Investments	3,006,280	4,287,726
Receivables, net:		
Accounts	1,417,017	1,210,712
Accrued interest	192,401	34,186
Other	<u>24,715</u>	<u>21,401</u>
 Total currents assets	 <u>11,173,330</u>	 <u>8,842,930</u>
 Restricted assets:		
Cash	108,392	17,168
Certificate of deposit	7,234,218	11,851,613
Investments	3,950,767	6,755,471
Accrued interest	<u>209,362</u>	<u>34,776</u>
 Total restricted assets	 <u>11,502,739</u>	 <u>18,659,028</u>
 Capital assets:		
Land	880,450	760,679
Buildings and systems	1,948,375	1,948,375
Improvements other than buildings	60,628,592	50,095,380
Machinery and equipment	5,109,987	4,911,209
Construction in progress	<u>9,859,774</u>	<u>11,440,534</u>
 Total capital assets	 78,427,178	 69,156,177
Less accumulated depreciation	<u>(31,468,643)</u>	<u>(29,504,571)</u>
 Net capital assets	 <u>46,958,535</u>	 <u>39,651,606</u>
 Other assets		
Loans receivable	88,419	94,861
Other assets, net	<u>641,630</u>	<u>681,444</u>
 Total other assets	 <u>730,049</u>	 <u>776,305</u>
 Total assets	 <u><u>\$ 70,364,653</u></u>	 <u><u>\$ 67,929,869</u></u>

Continued

CITY OF McALLEN , TEXAS
SEWER FUND
BALANCE SHEET
September 30, 2006
With Comparative Amounts for September 30, 2005

	<u>2006</u>	<u>2005</u>
LIABILITIES		
Current liabilities:		
Accounts payable	\$ 259,339	\$ 186,974
Accrued expenses	43,147	33,198
Due to other funds	<u>20,000</u>	<u>-</u>
Total current liabilities	<u>322,486</u>	<u>220,172</u>
Liabilities(payable from restricted assets):		
Accounts payable	357,818	707,593
Accrued expenses	413,018	591,277
Current portion of revenue bonds	<u>739,200</u>	<u>1,136,800</u>
Total liabilities(payable from restricted assets)	<u>1,510,036</u>	<u>2,435,670</u>
Other noncurrent liabilities:		
Revenue bonds, net of current portion and discoun	18,275,400	19,014,600
Deferred revenues	1,015,000	1,075,000
Arbitrage payable	-	279,906
Accumulated unpaid compensated absences	189,145	168,332
Bond premium	<u>424,648</u>	<u>442,847</u>
Total other noncurrent liabilities	<u>19,904,193</u>	<u>20,980,685</u>
Total liabilities	<u>21,736,715</u>	<u>23,636,527</u>
NET ASSETS		
Invested in capital assets, net of related debt	31,029,605	27,469,093
Restricted for:		
Debt service	246,400	378,689
Improvements	7,398,933	9,011,182
Unrestricted	<u>9,953,000</u>	<u>7,434,378</u>
Total net assets	<u>48,627,938</u>	<u>44,293,342</u>
Total liabilities and net assets	<u><u>\$ 70,364,653</u></u>	<u><u>\$ 67,929,869</u></u>

Concluded

CITY OF McALLEN , TEXAS
SEWER FUND
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
For the Year Ended September 30, 2006
With Comparative Amounts for the Year Ended September 30, 2005

	<u>2006</u>	<u>2005</u>
Operating revenues:		
Charges for services	\$ 11,552,515	\$ 10,506,385
 Total operating revenues	 <u>11,552,515</u>	 <u>10,506,385</u>
 Operating expenses:		
Salaries, wages and employee benefits	2,573,420	2,348,044
Supplies	556,318	535,506
Contractual and other services	2,785,981	2,516,904
Repairs and maintenance	499,030	332,545
Depreciation and amortization	2,162,431	2,074,924
Other	<u>60,358</u>	<u>74,632</u>
 Total operating expenses	 <u>8,637,538</u>	 <u>7,882,555</u>
 Operating income	 <u>2,914,977</u>	 <u>2,623,830</u>
 Nonoperating revenues (expenses):		
Investment earnings	931,257	702,585
Net increase (decrease) in the fair value of investments	43,946	(70,970)
Interest expense	(952,950)	(1,044,476)
Capitalized interest	(440,897)	(228,069)
Sale (loss) of capital assets	15,273	(2,323)
Other	<u>485,116</u>	<u>293,482</u>
 Net nonoperating revenues	 <u>963,539</u>	 <u>106,367</u>
 Income before contributions and transfers	 3,878,516	 2,730,197
 Capital contributions	456,080	41,760
Transfers out	<u>-</u>	<u>(150,000)</u>
 Changes in net assets	 4,334,596	 2,621,957
 Total net assets—beginning	 <u>44,293,342</u>	 <u>41,671,385</u>
 Total net assets—ending	 <u><u>\$ 48,627,938</u></u>	 <u><u>\$ 44,293,342</u></u>

CITY OF McALLEN, TEXAS
SEWER FUND
STATEMENT OF CASH FLOWS
For the Year Ended September 30, 2006
With Comparative Amounts for the Year Ended September 30, 2005

	<u>2006</u>	<u>2005</u>
Cash flows from operating activities:		
Receipts from customers and users	\$ 11,349,338	\$ 10,390,788
Payments to employees	(2,542,658)	(2,374,936)
Payments to suppliers	(4,667,643)	(2,320,260)
Other receipts	<u>485,116</u>	<u>293,482</u>
Net cash provided by operating activities	<u>4,624,153</u>	<u>5,989,074</u>
Cash flows from noncapital financing activities:		
Transfers to other funds	<u>-</u>	<u>(150,000)</u>
Cash provided by non-capital financing activities	<u>-</u>	<u>(150,000)</u>
Cash flow from capital and related financing activities:		
Purchases of capital assets	(8,553,846)	(12,255,732)
Gain (loss) on sale of capital assets	15,273	(2,323)
Principal paid on capital debt	(1,136,800)	10,427,647
Interest paid on capital debt	<u>(962,569)</u>	<u>(1,049,779)</u>
Net cash used by capital and related financing activities	<u>(10,637,942)</u>	<u>(2,880,187)</u>
Cash flow from investing activities:		
Investment activity net	5,366,617	(3,544,778)
Receipt of interest	<u>645,480</u>	<u>597,173</u>
Net cash provided (used) by investing activities	<u>6,012,097</u>	<u>(2,947,605)</u>
Net increase (decrease) in cash	(1,692)	11,282
Cash at beginning of year	<u>113,162</u>	<u>101,880</u>
Cash at end of year	<u><u>\$ 111,470</u></u>	<u><u>\$ 113,162</u></u>

CITY OF McALLEN, TEXAS
SEWER FUND
STATEMENT OF CASH FLOWS
For the Year Ended September 30, 2006
With Comparative Amounts for the Year Ended September 30, 2005

	<u>2006</u>	<u>2005</u>
Reconciliation of cash per statements of cash flows to the statements of net assets:		
Unrestricted cash	\$ 3,078	\$ 95,994
Restricted	<u>108,392</u>	<u>17,168</u>
Total cash	<u><u>\$ 111,470</u></u>	<u><u>\$ 113,162</u></u>
Reconciliation of operating income to net cash provided (used) by operating activities:		
Operating income	<u>\$ 2,914,977</u>	<u>\$ 2,623,830</u>
Adjustments to reconcile operating income to net cash provided (used) by operating activities:		
Depreciation expense	2,162,431	2,074,924
(Increase) decrease in accounts receivable	(203,177)	(115,597)
Increase (decrease) in accounts payable	(277,410)	721,760
Increase (decrease) in compensated absences payable	20,813	24,077
Increase (decrease) in accrued liabilities	(158,691)	351,915
Increase (decrease) in due to other funds	20,000	-
Increase (decrease) in other liabilities	(279,906)	74,767
Increase (decrease) in deferred revenues	(60,000)	(60,084)
Miscellaneous income (expense)	<u>485,116</u>	<u>293,482</u>
Total adjustments	<u>1,709,176</u>	<u>3,365,244</u>
Net cash provided (used) by operating activities	<u><u>\$ 4,624,153</u></u>	<u><u>\$ 5,989,074</u></u>
Noncash investing, capital, and financing activities:		
Contributions of capital assets from government	456,080	41,760
Increase in fair value of investments	43,946	(70,970)

CITY OF McALLEN, TEXAS
SEWER FUND
SCHEDULE OF REVENUES AND EXPENSES-BUDGET AND ACTUAL (BUDGET BASIS)
For the Year Ended September 30, 2006

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual Amount</u>	<u>Variance with Final Budget Positive (Negative)</u>
Operating revenues:				
Sewer service charges	\$ 10,030,428	\$ 10,030,428	\$ 11,278,224	\$ 1,247,796
Industrial surcharges	<u>259,582</u>	<u>259,582</u>	<u>274,291</u>	<u>14,709</u>
Total operating revenues	<u>10,290,010</u>	<u>10,290,010</u>	<u>11,552,515</u>	<u>1,262,505</u>
Non-operating revenues:				
Investment earnings	329,065	329,065	931,257	602,192
Net increase (decrease) in fair value of investment	-	-	43,946	43,946
Other	<u>125,000</u>	<u>125,000</u>	<u>956,469</u>	<u>831,469</u>
Total non-operating revenues	<u>454,065</u>	<u>454,065</u>	<u>1,931,672</u>	<u>1,477,607</u>
Total revenues	<u>10,744,075</u>	<u>10,744,075</u>	<u>13,484,187</u>	<u>2,740,112</u>
Expenses:				
Sewer plant:				
Salaries and benefits	1,372,567	1,412,287	1,372,506	39,781
Supplies	270,105	231,205	215,748	15,457
Contractual and other services	1,659,899	1,858,699	1,866,059	(7,360)
Repairs and maintenance	<u>332,800</u>	<u>265,500</u>	<u>265,283</u>	<u>217</u>
Total sewer plant	<u>3,635,371</u>	<u>3,767,691</u>	<u>3,719,596</u>	<u>48,095</u>
Sewer lab:				
Salaries and benefits	165,482	170,339	170,851	(512)
Supplies	57,505	22,405	22,041	364
Contractual and other services	4,794	4,794	3,975	819
Repairs and maintenance	<u>6,102</u>	<u>3,002</u>	<u>1,680</u>	<u>1,322</u>
Total sewer lab	<u>233,883</u>	<u>200,540</u>	<u>198,547</u>	<u>1,993</u>

Continued

CITY OF McALLEN, TEXAS
SEWER FUND
SCHEDULE OF REVENUES AND EXPENSES-BUDGET AND ACTUAL (BUDGET BASIS)
For the Year Ended September 30, 2006

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual Amount</u>	<u>Variance with Final Budget Positive (Negative)</u>
Sewer collection:				
Salaries and benefits	\$ 628,047	\$ 644,990	\$ 640,398	\$ 4,592
Supplies	430,720	379,920	313,112	66,808
Contractual and other services	243,590	255,090	248,881	6,209
Repairs and maintenance	195,920	235,220	229,448	5,772
Total sewer collection	<u>1,498,277</u>	<u>1,515,220</u>	<u>1,431,839</u>	<u>83,381</u>
Administration:				
Salaries and benefits	394,023	402,894	389,665	13,229
Supplies	6,000	6,500	5,417	1,083
Contractual and other services	769,809	712,809	594,865	117,944
Repairs and maintenance	5,300	6,200	2,619	3,581
Total administration	<u>1,175,132</u>	<u>1,128,403</u>	<u>992,566</u>	<u>135,837</u>
Non-departmental expenses:				
Employee benefits-contingency	69,261	70	-	70
Liability insurance	72,201	72,201	72,201	-
Interest and fiscal charges	960,676	960,676	952,950	7,726
Bond principal requirements	1,136,800	1,136,800	-	1,136,800
Other	-	-	(380,539)	380,539
Capital outlay	11,822,908	13,835,331	8,553,846	5,281,485
Total non-departmental expenses	<u>14,061,846</u>	<u>16,005,078</u>	<u>9,198,458</u>	<u>6,806,620</u>
Total expenses	<u>20,604,509</u>	<u>22,616,932</u>	<u>15,541,006</u>	<u>7,075,926</u>
Excess (deficiency) of revenues over expenses (budget basis) before transfers	<u>(9,860,434)</u>	<u>(11,872,857)</u>	<u>(2,056,819)</u>	<u>9,816,038</u>

Continued

CITY OF McALLEN, TEXAS
SEWER FUND
SCHEDULE OF REVENUES AND EXPENSES-BUDGET AND ACTUAL (BUDGET BASIS)
For the Year Ended September 30, 2006

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual Amount</u>	<u>Variance with Final Budget Positive (Negative)</u>
Excess (deficiency) of revenues over budget	\$ (9,860,434)	\$ (11,872,857)	\$ (2,056,819)	\$ 9,816,038
GAAP basis adjustments:				
Depreciation expense, not budgeted	-	-	(2,162,431)	(2,162,431)
Principal payments on revenue bonds-budgeted as expenses per budget basis, treated as reduction of bonds payable per GAAP basis	1,136,800	1,136,800	-	1,136,800
Capital outly-amounts budgeted as expenses, capitalized per GAAP basis	-	-	8,553,846	8,553,846
Net income-GAAP basis	<u>\$ (10,997,234)</u>	<u>\$ (13,009,657)</u>	<u>\$ 4,334,596</u>	<u>\$ 17,344,253</u>

Concluded

CITY OF McALLEN, TEXAS
SEWER FUND
SCHEDULE OF CASH RECEIPTS AND DISBURSEMENTS
IN RESTRICTED ACCOUNTS
For Fiscal Year Ended September 30, 2006

	<u>Current Debt Service</u>	<u>Depreciation</u>
Cash, certificates of deposit, and investments at September 30, 2006	<u>\$ 545,011</u>	<u>\$ 5,655,924</u>
Cash receipts:		
Transfers from operating cash	1,955,067	1,071,946
Valuation allowance	-	2,689
Interest received	-	220,999
Total cash receipts	<u>1,955,067</u>	<u>1,295,634</u>
Total cash available	<u>2,500,078</u>	<u>6,951,558</u>
Cash disbursements:		
Principal payments	1,136,800	-
Interest and fiscal charges (net)	960,675	-
Capital acquisitions	-	1,633,006
Total cash disbursements	<u>2,097,475</u>	<u>1,633,006</u>
Cash, certificates of deposit, and investments at September 30, 2006	<u><u>\$ 402,603</u></u>	<u><u>\$ 5,318,552</u></u>
Cash, certificates of deposit, and investments at September 30, 2006 is comprised of the following:		
Cash	\$ 244	\$ 78,492
Certificates of deposit	-	2,820,138
Investments (net)	402,359	2,297,836
Accrued Interest	-	122,086
Totals	<u><u>\$ 402,603</u></u>	<u><u>\$ 5,318,552</u></u>

<u>Capital Improvement</u>	<u>Sewer Bond '99 & '00</u>	<u>Total</u>
\$ 3,380,404	\$ 9,077,688	\$ 18,659,027
400,000	-	3,427,013
4,886	-	7,575
119,720	249,364	590,083
524,606	249,364	4,274,035
3,905,010	9,327,052	22,933,062
-	-	1,136,800
-	-	960,675
1,653,824	5,796,655	9,083,485
1,653,824	5,796,655	11,180,960
<u>\$ 2,251,186</u>	<u>\$ 3,530,397</u>	<u>\$ 11,502,738</u>
\$ 23,698	\$ 5,958	\$ 108,392
1,007,896	3,406,184	7,234,218
1,186,181	64,390	3,950,766
33,411	53,865	209,362
<u>\$ 2,251,186</u>	<u>\$ 3,530,397</u>	<u>\$ 11,502,738</u>

CITY OF McALLEN , TEXAS
SANITATION FUND
BALANCE SHEET
September 30, 2006
With Comparative Amounts for September 30, 2005

	<u>2006</u>	<u>2005</u>
ASSETS		
Current assets:		
Cash	\$ 112,171	\$ 21,139
Certificate of deposit	567,384	1,704,407
Investments	142,665	139,536
Receivables, net:		
Accounts	1,359,605	1,439,924
Accrued interest	<u>19,383</u>	<u>-</u>
 Total currents assets	 <u>2,201,208</u>	 <u>3,305,006</u>
 Restricted assets:		
Cash	12,819	1,844
Certificate of deposit	1,935,217	823,342
Investments	757,219	725,208
Accrued interest	<u>57,457</u>	<u>4,529</u>
 Total restricted assets	 <u>2,762,712</u>	 <u>1,554,923</u>
 Capital assets:		
Land	928,277	718,348
Buildings	1,822,853	1,822,853
Improvements other than buildings	510,200	500,029
Machinery and equipment	<u>12,604,526</u>	<u>11,172,866</u>
 Total capital assets	 15,865,856	 14,214,096
Less accumulated depreciation	<u>(8,607,278)</u>	<u>(7,963,503)</u>
 Net capital assets	 <u>7,258,578</u>	 <u>6,250,593</u>
 Total assets	 <u><u>\$ 12,222,498</u></u>	 <u><u>\$ 11,110,522</u></u>

Continued

CITY OF McALLEN , TEXAS
SANITATION FUND
BALANCE SHEET
September 30, 2006
With Comparative Amounts for September 30, 2005

	<u>2006</u>	<u>2005</u>
LIABILITIES		
Current liabilities:		
Accounts payable	\$ 503,324	\$ 397,147
Accrued expenses	70,723	54,300
Due to other funds	<u>-</u>	<u>80,092</u>
Total current liabilities	<u>574,047</u>	<u>531,539</u>
Liabilities(payable from restricted assets):		
Accounts payable	<u>278,213</u>	<u>-</u>
Total liabilities(payable from restricted assets)	<u>278,213</u>	<u>-</u>
Other noncurrent liabilities:		
Deferred revenues	184,240	182,764
Accumulated unpaid compensated absences	130,371	113,043
Advances from other funds	<u>1,400,000</u>	<u>1,400,000</u>
Total other noncurrent liabilities	<u>1,714,611</u>	<u>1,695,807</u>
Total liabilities	<u>2,566,871</u>	<u>2,227,346</u>
NET ASSETS		
Invested in capital assets	7,258,578	6,250,593
Restricted for improvements	2,484,499	1,554,923
Unrestricted	<u>(87,450)</u>	<u>1,077,660</u>
Total net assets	<u>9,655,627</u>	<u>8,883,176</u>
Total liabilities and net assets	<u><u>\$ 12,222,498</u></u>	<u><u>\$ 11,110,522</u></u>

Concluded

CITY OF McALLEN , TEXAS
SANITATION FUND
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS
For the Year Ended September 30, 2006
With Comparative Amounts for the Year Ended September 30, 2005

	<u>2006</u>	<u>2005</u>
Operating revenues:		
Charges for services	\$ 11,483,355	\$ 11,171,374
Total operating revenues	<u>11,483,355</u>	<u>11,171,374</u>
Operating expenses:		
Salaries, wages and employee benefits	4,046,566	3,670,688
Supplies	149,983	103,340
Contractual and other services	3,845,500	3,576,288
Repairs and maintenance	2,142,612	1,950,258
Depreciation and amortization	<u>919,899</u>	<u>924,400</u>
Total operating expenses	<u>11,104,560</u>	<u>10,224,974</u>
Operating income	<u>378,795</u>	<u>946,400</u>
Nonoperating revenues (expenses):		
Investment earnings	172,928	93,966
Net increase (decrease) in the fair value of investments	1,749	(2,246)
Sale (loss) of capital assets	50,778	46,450
Other	<u>168,201</u>	<u>142,663</u>
Net nonoperating revenues	<u>393,656</u>	<u>280,833</u>
Income before contributions and transfers	772,451	1,227,233
Capital contributions	<u>-</u>	<u>14,169</u>
Changes in net assets	772,451	1,241,402
Total net assets--beginning	<u>8,883,176</u>	<u>7,641,774</u>
Total net assets--ending	<u><u>\$ 9,655,627</u></u>	<u><u>\$ 8,883,176</u></u>

CITY OF McALLEN, TEXAS
SANITATION FUND
STATEMENT OF CASH FLOWS
For the Year Ended September 30, 2006
With Comparative Amounts for the Year Ended September 30, 2005

	<u>2006</u>	<u>2005</u>
Cash flows from operating activities:		
Receipts from customers and users	\$ 11,563,674	\$ 10,900,854
Payments to employees	(4,012,815)	(3,744,365)
Payments to suppliers	(5,832,320)	(5,467,633)
Other receipts	<u>168,201</u>	<u>142,663</u>
Net cash provided by operating activities	<u>1,886,740</u>	<u>1,831,519</u>
Cash flow from capital and related financing activities:		
Purchases of capital assets	(1,927,885)	(1,463,966)
Gain on sale of capital assets	<u>50,778</u>	<u>46,450</u>
Net cash used by capital and related financing activities	<u>(1,877,107)</u>	<u>(1,417,516)</u>
Cash flow from investing activities:		
Investment activity net	(9,992)	(511,081)
Receipt of interest	<u>102,366</u>	<u>87,191</u>
Net cash provided (used) by investing activities	<u>92,374</u>	<u>(423,890)</u>
Net increase (decrease) in cash	102,007	(9,887)
Cash at beginning of year	<u>22,983</u>	<u>32,870</u>
Cash at end of year	<u><u>\$ 124,990</u></u>	<u><u>\$ 22,983</u></u>

Continued

CITY OF McALLEN, TEXAS
SANITATION FUND
STATEMENT OF CASH FLOWS
For the Year Ended September 30, 2006
With Comparative Amounts for the Year Ended September 30, 2005

	<u>2006</u>	<u>2005</u>
Reconciliation of cash per statements of cash flows to the statements of net assets:		
Unrestricted cash	\$ 112,171	\$ 21,139
Restricted	<u>12,819</u>	<u>1,844</u>
Total cash	<u><u>\$ 124,990</u></u>	<u><u>\$ 22,983</u></u>
Reconciliation of operating income to net cash provided (used) by operating activities:		
Operating income	<u>\$ 378,795</u>	<u>\$ 946,400</u>
Adjustments to reconcile operating income to net cash provided (used) by operating activities:		
Depreciation expense	919,899	924,400
(Increase) decrease in accounts receivable	80,319	(270,520)
Increase (decrease) in accounts payable	384,390	19,800
Increase (decrease) in compensated absences payable	17,328	(1,504)
Increase (decrease) in accrued liabilities	16,423	(72,173)
Increase (decrease) in due to other funds	(80,092)	80,092
Increase (decrease) in deferred revenues	1,477	62,361
Miscellaneous income (expense)	<u>168,201</u>	<u>142,663</u>
Total adjustments	<u>1,507,945</u>	<u>885,119</u>
Net cash provided (used) by operating activities	<u><u>\$ 1,886,740</u></u>	<u><u>\$ 1,831,519</u></u>
Noncash investing, capital, and financing activities:		
Contributions of capital assets from government	-	14,169
Increase in fair value of investments	1,749	(2,246)

Concluded

CITY OF McALLEN, TEXAS
SANITATION FUND
SCHEDULE OF REVENUES AND EXPENSES-BUDGET AND ACTUAL (BUDGET BASIS)
For the Year Ended September 30, 2006

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual Amount</u>	<u>Variance with Final Budget Positive (Negative)</u>
Operating revenues:				
Solid waste collections	\$ 10,957,234	\$ 10,957,234	\$ 11,483,355	\$ 526,121
Non-operating revenues:				
Investment earnings	-	-	172,928	172,928
Net increase (decrease) in fair value of investment	-	-	1,749	1,749
Other	225,000	225,000	218,979	(6,021)
Total non-operating revenues	225,000	225,000	393,656	168,656
Total revenues	11,182,234	11,182,234	11,877,011	694,777
Expenses:				
Facilities administration:				
Salaries and benefits	412,775	420,561	356,011	64,550
Supplies	15,750	15,750	16,597	(847)
Contractual and other services	627,477	621,477	705,590	(84,113)
Repairs and maintenance	18,268	24,268	25,823	(1,555)
Capital outlay	12,250	222,250	234,567	(12,317)
Total facilities administration	1,086,520	1,304,306	1,338,588	(34,282)
Brush collection:				
Salaries and benefits	1,061,397	1,080,980	888,386	192,594
Supplies	29,170	34,570	33,226	1,344
Contractual and other services	254,500	249,100	190,771	58,329
Repairs and maintenance	348,312	348,312	387,578	(39,266)
Capital outlay	303,000	948,000	794,933	153,067
Total brush collection	1,996,379	2,660,962	2,294,894	366,068
Regular collection:				
Salaries and benefits	1,043,105	1,064,490	920,091	144,399
Supplies	34,359	40,959	24,976	15,983
Contractual and other services	901,200	894,600	916,069	(21,469)
Repairs and maintenance	561,250	561,250	665,574	(104,324)
Capital outlay	185,000	185,000	-	185,000
Total regular collection	2,724,914	2,746,299	2,526,710	219,589

Continued

CITY OF McALLEN, TEXAS
SANITATION FUND
SCHEDULE OF REVENUES AND EXPENSES-BUDGET AND ACTUAL (BUDGET BASIS)
For the Year Ended September 30, 2006

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual Amount</u>	<u>Variance with Final Budget Positive (Negative)</u>
Commercial box collection:				
Salaries and benefits	\$ 914,593	\$ 936,686	\$ 989,639	\$ (52,953)
Supplies	43,829	33,029	37,250	(4,221)
Contractual and other services	1,238,800	1,238,800	1,690,736	(451,936)
Repairs and maintenance	536,125	536,125	794,779	(258,654)
Capital outlay	<u>6,500</u>	<u>183,580</u>	<u>173,140</u>	<u>10,440</u>
Total commercial box collection	<u>2,739,847</u>	<u>2,928,220</u>	<u>3,685,544</u>	<u>(757,324)</u>
Recycling:				
Salaries and benefits	740,021	759,602	719,382	40,220
Supplies	30,566	30,566	28,844	1,722
Contractual and other services	205,000	205,000	219,257	(14,257)
Repairs and maintenance	122,650	122,650	197,823	(75,173)
Capital outlay	<u>309,600</u>	<u>309,600</u>	<u>11,307</u>	<u>298,293</u>
Total recycling	<u>1,407,837</u>	<u>1,427,418</u>	<u>1,176,613</u>	<u>250,805</u>
Composting:				
Salaries and benefits	167,470	172,143	173,057	(914)
Supplies	8,500	9,800	9,090	710
Contractual and other services	13,080	11,780	18,179	(6,399)
Repairs and maintenance	36,000	36,000	71,035	(35,035)
Capital outlay	<u>518,519</u>	<u>518,519</u>	<u>39,535</u>	<u>478,984</u>
Total composting	<u>743,569</u>	<u>748,242</u>	<u>310,896</u>	<u>437,346</u>
Non-departmental expenses:				
Depreciation fund-capital outlay	1,976,482	1,976,482	674,403	1,302,079
Liability insurance	<u>104,898</u>	<u>104,898</u>	<u>104,898</u>	<u>-</u>
Total non-departmental expenses	<u>2,081,380</u>	<u>2,081,380</u>	<u>779,301</u>	<u>1,302,079</u>
Total expenses	<u>12,780,446</u>	<u>13,896,827</u>	<u>12,112,546</u>	<u>1,784,281</u>

Continued

CITY OF McALLEN, TEXAS
 SANITATION FUND
 SCHEDULE OF REVENUES AND EXPENSES-BUDGET AND ACTUAL (BUDGET BASIS)
 For the Year Ended September 30, 2006

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual Amount</u>	<u>Variance with Final Budget Positive (Negative)</u>
Excess (deficiency) of revenues over expenses (budget basis)	\$ (1,598,212)	\$ (2,714,593)	\$ (235,535)	\$ 2,479,058
GAAP basis adjustments:				
Depreciation expense, not budgeted	-	-	(919,899)	(919,899)
Capital outlay-amounts budgeted as expenses per budget basis, capitalized per GAAP basis	<u>-</u>	<u>-</u>	<u>1,927,885</u>	<u>1,927,885</u>
Net income-GAAP basis	<u>\$ (1,598,212)</u>	<u>\$ (2,714,593)</u>	<u>\$ 772,451</u>	<u>\$ 3,487,044</u>

Concluded

CITY OF McALLEN , TEXAS
PALMVIEW GOLF COURSE FUND
BALANCE SHEET
September 30, 2006
With Comparative Amounts for September 30, 2005

	<u>2006</u>	<u>2005</u>
ASSETS		
Current assets:		
Cash	\$ 55,448	\$ 32,575
Certificate of deposit	203,892	309,623
Investments	42,453	20,068
Receivables, net:		
Accounts	1,602	1,579
Accrued interest	4,913	-
	<u>308,308</u>	<u>363,845</u>
Total currents assets		
Restricted assets:		
Cash	48,364	52,075
Certificate of deposit	203,204	101,803
Investments	45,188	121,243
Accrued interest	6,528	-
	<u>303,284</u>	<u>275,121</u>
Total restricted assets		
Capital assets:		
Land	187,995	187,995
Buildings	228,345	211,633
Improvements other than buildings	7,427,831	7,426,881
Machinery and equipment	826,047	812,999
	<u>8,670,218</u>	<u>8,639,508</u>
Total capital assets		
Less accumulated depreciation	<u>(3,453,339)</u>	<u>(3,104,694)</u>
	<u>5,216,879</u>	<u>5,534,814</u>
Net capital assets		
	<u>\$ 5,828,471</u>	<u>\$ 6,173,780</u>
Total assets		

Continued

CITY OF McALLEN, TEXAS
PALMVIEW GOLF COURSE FUND
BALANCE SHEET
September 30, 2006
With Comparative Amounts for September 30, 2005

	<u>2006</u>	<u>2005</u>
LIABILITIES		
Current liabilities:		
Accounts payable	\$ 40,022	\$ 96,500
Accrued expenses	<u>14,599</u>	<u>11,785</u>
Total current liabilities	<u>54,621</u>	<u>108,285</u>
Other noncurrent liabilities:		
Deferred revenues	92,804	73,352
Accumulated unpaid compensated absences	46,281	47,995
Advances from other funds	<u>3,400,000</u>	<u>3,500,000</u>
Total other noncurrent liabilities	<u>3,539,085</u>	<u>3,621,347</u>
Total liabilities	<u>3,593,706</u>	<u>3,729,632</u>
NET ASSETS		
Invested in capital assets	5,216,879	5,534,814
Restricted for improvements	303,284	275,121
Unrestricted	<u>(3,285,398)</u>	<u>(3,365,787)</u>
Total net assets	<u>2,234,765</u>	<u>2,444,148</u>
Total liabilities and net assets	<u><u>\$ 5,828,471</u></u>	<u><u>\$ 6,173,780</u></u>

Concluded

CITY OF McALLEN , TEXAS
PALM VIEW GOLF COURSE FUND
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS
For the Year Ended September 30, 2006
With Comparative Amounts for the Year Ended September 30, 2005

	<u>2006</u>	<u>2005</u>
Operating revenues:		
Charges for services	\$ 1,174,346	\$ 1,068,863
Total operating revenues	<u>1,174,346</u>	<u>1,068,863</u>
Operating expenses:		
Salaries, wages and employee benefits	698,408	663,729
Supplies	122,774	115,200
Contractual and other services	173,040	149,228
Repairs and maintenance	86,264	68,856
Depreciation and amortization	<u>360,107</u>	<u>354,663</u>
Total operating expenses	<u>1,440,593</u>	<u>1,351,676</u>
Operating loss	<u>(266,247)</u>	<u>(282,813)</u>
Nonoperating revenues:		
Investment earnings	31,864	18,525
Sale (loss) of capital assets	1,240	6,400
Other	<u>22,810</u>	<u>27,772</u>
Nonoperating revenues	<u>55,914</u>	<u>52,697</u>
Loss before contributions and transfers	(210,333)	(230,116)
Capital contributions	<u>950</u>	<u>153,092</u>
Changes in net assets	(209,383)	(77,024)
Total net assets--beginning	<u>2,444,148</u>	<u>2,521,172</u>
Total net assets--ending	<u><u>\$ 2,234,765</u></u>	<u><u>\$ 2,444,148</u></u>

CITY OF McALLEN, TEXAS
PALM VIEW GOLF COURSE FUND
STATEMENT OF CASH FLOWS
For the Year Ended September 30, 2006
With Comparative Amounts for the Year Ended September 30, 2005

	<u>2006</u>	<u>2005</u>
Cash flows from operating activities:		
Receipts from customers and users	\$ 1,174,323	\$ 1,067,857
Payments to employees	(697,308)	(676,239)
Payments to suppliers	(419,102)	(271,890)
Other receipts	<u>24,050</u>	<u>34,172</u>
Net cash provided by operating activities	<u>81,963</u>	<u>153,900</u>
Cash flows from noncapital financing activities:		
Advances from other funds	<u>(100,000)</u>	<u>(100,000)</u>
Cash used by non-capital financing activities	<u>(100,000)</u>	<u>(100,000)</u>
Cash flow from capital and related financing activities:		
Purchases of capital assets	<u>(41,224)</u>	<u>(27,955)</u>
Net cash used by capital and related financing activities	<u>(41,224)</u>	<u>(27,955)</u>
Cash flow from investing activities:		
Investment activity net	58,000	(38,516)
Receipt of interest	<u>20,423</u>	<u>18,525</u>
Net cash provided (used) by investing activities	<u>78,423</u>	<u>(19,991)</u>
Net increase in cash	19,162	5,954
Cash at beginning of year	<u>84,650</u>	<u>78,696</u>
Cash at end of year	<u><u>\$ 103,812</u></u>	<u><u>\$ 84,650</u></u>

Continued

CITY OF McALLEN, TEXAS
PALM VIEW GOLF COURSE FUND
STATEMENT OF CASH FLOWS
For the Year Ended September 30, 2006
With Comparative Amounts for the Year Ended September 30, 2005

	<u>2006</u>	<u>2005</u>
Reconciliation of cash per statements of cash flows to the statements of net assets:		
Unrestricted cash	\$ 55,448	\$ 32,575
Restricted	<u>48,364</u>	<u>52,075</u>
Total cash	<u><u>\$ 103,812</u></u>	<u><u>\$ 84,650</u></u>
Reconciliation of operating income to net cash provided (used) by operating activities:		
Operating income	<u>\$ (266,247)</u>	<u>\$ (282,813)</u>
Adjustments to reconcile operating income to net cash provided (used) by operating activities:		
Depreciation expense	360,107	354,663
(Increase) decrease in accounts receivable	(23)	(1,006)
Increase (decrease) in accounts payable	(56,478)	70,379
Increase (decrease) in compensated absences payable	(1,714)	2,148
Increase (decrease) in accrued liabilities	2,814	(14,658)
Increase (decrease) in other liabilities	-	(984)
Increase (decrease) in deferred revenues	19,454	(8,001)
Miscellaneous income (expense)	<u>24,050</u>	<u>34,172</u>
Total adjustments	<u>348,210</u>	<u>436,713</u>
Net cash provided (used) by operating activities	<u><u>\$ 81,963</u></u>	<u><u>\$ 153,900</u></u>
Noncash investing, capital, and financing activities:		
Contributions of capital assets from government	950	153,092

Concluded

CITY OF McALLEN, TEXAS
PALM VIEW GOLF COURSE FUND
SCHEDULE OF REVENUES AND EXPENSES-BUDGET AND ACTUAL (BUDGET BASIS)
For the Year Ended September 30, 2006

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual Amount</u>	<u>Variance with Final Budget Positive (Negative)</u>
Operating revenues:				
Green fees	\$ 620,010	\$ 620,010	\$ 640,270	\$ 20,260
Membership sales	135,000	135,000	142,693	7,693
Cart rental	256,191	256,191	279,462	23,271
Rentals and other sales	<u>142,038</u>	<u>142,038</u>	<u>111,921</u>	<u>(30,117)</u>
Total operating revenues	<u>1,153,239</u>	<u>1,153,239</u>	<u>1,174,346</u>	<u>21,107</u>
Non-operating revenues:				
Investment earnings	8,000	8,000	31,864	23,864
Other	<u>12,000</u>	<u>12,000</u>	<u>25,000</u>	<u>13,000</u>
Total non-operating revenues	<u>20,000</u>	<u>20,000</u>	<u>56,864</u>	<u>36,864</u>
Total revenues	<u>1,173,239</u>	<u>1,173,239</u>	<u>1,231,210</u>	<u>57,971</u>
Expenses:				
Salaries and benefits	700,633	722,693	698,408	24,285
Supplies	185,202	185,202	122,774	62,428
Contractual and other services	169,162	169,162	173,040	(3,878)
Repairs and maintenance	74,142	74,142	86,264	(12,122)
Other	100,000	100,000	-	100,000
Capital outlay	<u>48,000</u>	<u>48,000</u>	<u>41,223</u>	<u>6,777</u>
Total expenses	<u>1,277,139</u>	<u>1,299,199</u>	<u>1,121,709</u>	<u>177,490</u>
Excess(deficiency) of revenues over expenses (budget basis) before transfers	(103,900)	(125,960)	109,501	235,461
Excess (deficiency) of revenues over budget	<u>(103,900)</u>	<u>(125,960)</u>	<u>109,501</u>	<u>235,461</u>

Continued

CITY OF McALLEN, TEXAS
PALM VIEW GOLF COURSE FUND
SCHEDULE OF REVENUES AND EXPENSES-BUDGET AND ACTUAL (BUDGET BASIS)
For the Year Ended September 30, 2006

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual Amount</u>	<u>Variance with Final Budget Positive (Negative)</u>
GAAP basis adjustments:				
Depreciation expense, not budgeted	\$ -	\$ -	\$ (360,107)	\$ (360,107)
Capital outlay-amounts budgeted as expenses per budget basis, capitalized per GAAP basis	<u>-</u>	<u>-</u>	<u>41,223</u>	<u>41,223</u>
Net income-GAAP basis	<u>\$ (103,900)</u>	<u>\$ (125,960)</u>	<u>\$ (209,383)</u>	<u>\$ (83,423)</u>

Concluded

CITY OF McALLEN , TEXAS
TRANSIT TERMINAL FUND
BALANCE SHEET
September 30, 2006
With Comparative Amounts for September 30, 2005

	<u>2006</u>	<u>2005</u>
ASSETS		
Current assets:		
Cash	\$ 1,087	\$ 8,619
Investments	195,935	146,914
Accounts	<u>4,375</u>	<u>3,679</u>
Total currents assets	<u>201,397</u>	<u>159,212</u>
Capital assets:		
Land	1,684,593	1,684,593
Buildings	3,541,175	3,531,028
Machinery and equipment	<u>173,085</u>	<u>141,328</u>
Total capital assets	5,398,853	5,356,949
Less accumulated depreciation	<u>(707,170)</u>	<u>(572,904)</u>
Net capital assets	<u>4,691,683</u>	<u>4,784,045</u>
Total assets	<u><u>\$ 4,893,080</u></u>	<u><u>\$ 4,943,257</u></u>
LIABILITIES		
Current liabilities:		
Accounts payable	\$ 11,317	\$ 16,246
Accrued expenses	<u>6,429</u>	<u>3,775</u>
Total current liabilities	<u>17,746</u>	<u>20,021</u>
Other noncurrent liabilities:		
Accumulated unpaid compensated absences	14,707	11,418
Advances from other funds	<u>352,716</u>	<u>352,716</u>
Total other noncurrent liabilities	<u>367,423</u>	<u>364,134</u>
Total liabilities	<u>385,169</u>	<u>384,155</u>
NET ASSETS		
Invested in capital assets	4,691,683	4,784,045
Unrestricted	<u>(183,772)</u>	<u>(224,943)</u>
Total net assets	<u>4,507,911</u>	<u>4,559,102</u>
Total liabilities and net assets	<u><u>\$ 4,893,080</u></u>	<u><u>\$ 4,943,257</u></u>

CITY OF McALLEN , TEXAS
TRANSIT TERMINAL FUND
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
For the Year Ended September 30, 2006
With Comparative Amounts for the Year Ended September 30, 2005

	<u>2006</u>	<u>2005</u>
Operating revenues:		
Charges for services	\$ 298,932	\$ 281,539
Total operating revenues	<u>298,932</u>	<u>281,539</u>
Operating expenses:		
Salaries, wages and employee benefits	363,272	287,685
Supplies	31,096	29,388
Contractual and other services	197,002	174,261
Repairs and maintenance	23,199	21,817
Depreciation and amortization	<u>134,267</u>	<u>130,729</u>
Total operating expenses	<u>748,836</u>	<u>643,880</u>
Operating loss	<u>(449,904)</u>	<u>(362,341)</u>
Nonoperating revenues (expenses):		
Intergovernmental	36,441	-
Investment earnings	10,325	6,002
Other	<u>1,550</u>	<u>5,090</u>
Net nonoperating revenues	<u>48,316</u>	<u>11,092</u>
Loss before contributions and transfers	(401,588)	(351,249)
Capital contributions	35,912	29,924
Transfers in	<u>314,485</u>	<u>294,221</u>
Changes in net assets	(51,191)	(27,104)
Total net assets--beginning	<u>4,559,102</u>	<u>4,586,206</u>
Total net assets--ending	<u><u>\$ 4,507,911</u></u>	<u><u>\$ 4,559,102</u></u>

CITY OF McALLEN, TEXAS
TRANSIT TERMINAL FUND
STATEMENT OF CASH FLOWS
For the Year Ended September 30, 2006
With Comparative Amounts for the Year Ended September 30, 2005

	<u>2006</u>	<u>2005</u>
Cash flows from operating activities:		
Receipts from customers and users	\$ 298,236	\$ 439,659
Payments to employees	(357,331)	(293,601)
Payments to suppliers	(256,226)	(286,039)
Other receipts	<u>1,550</u>	<u>5,090</u>
Net cash used by operating activities	<u>(313,771)</u>	<u>(134,891)</u>
Cash flows from noncapital financing activities:		
Transfers from other funds	314,485	294,221
Subsidy from federal grant	<u>36,441</u>	<u>-</u>
Cash provided by non-capital financing activities	<u>350,926</u>	<u>294,221</u>
Cash flow from capital and related financing activities:		
Purchases of capital assets	<u>(5,992)</u>	<u>(11,301)</u>
Net cash used by capital and related financing activities	<u>(5,992)</u>	<u>(11,301)</u>
Cash flow from investing activities:		
Investment activity net	(49,020)	(145,772)
Receipt of interest	<u>10,325</u>	<u>6,002</u>
Net cash used by investing activities	<u>(38,695)</u>	<u>(139,770)</u>
Net increase (decrease) in cash	(7,532)	8,259
Cash at beginning of year	<u>8,619</u>	<u>360</u>
Cash at end of year	<u><u>\$ 1,087</u></u>	<u><u>\$ 8,619</u></u>

Continued

**CITY OF McALLEN, TEXAS
TRANSIT TERMINAL FUND
STATEMENT OF CASH FLOWS
For the Year Ended September 30, 2006
With Comparative Amounts for the Year Ended September 30, 2005**

	<u>2006</u>	<u>2005</u>
Reconciliation of cash per statements of cash flows to the statements of net assets:		
Total cash	<u>\$ 1,087</u>	<u>\$ 8,619</u>
Reconciliation of operating income to net cash provided (used) by operating activities:		
Operating income	<u>\$ (449,904)</u>	<u>\$ (362,341)</u>
Adjustments to reconcile operating income to net cash provided (used) by operating activities:		
Depreciation expense	134,267	130,729
(Increase) decrease in accounts receivable	(696)	(3,679)
(Increase) decrease in due from other funds	-	161,799
Increase (decrease) in accounts payable	(4,929)	(58,573)
Increase (decrease) in compensated absences payable	3,287	1,268
Increase (decrease) in accrued liabilities	2,654	(7,184)
Increase (decrease) in due to other funds	-	(2,000)
Miscellaneous income (expense)	<u>1,550</u>	<u>5,090</u>
Total adjustments	<u>136,133</u>	<u>227,450</u>
Net cash provided (used) by operating activities	<u>\$ (313,771)</u>	<u>\$ (134,891)</u>
Noncash investing, capital, and financing activities:		
Contributions of capital assets from government	35,912	29,924

Concluded

CITY OF McALLEN, TEXAS
TRANSIT TERMINAL FUND
SCHEDULE OF REVENUES AND EXPENSES-BUDGET AND ACTUAL (BUDGET BASIS)
For the Year Ended September 30, 2006

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual Amount</u>	<u>Variance with Final Budget Positive (Negative)</u>
Operating revenues:				
Rentals	\$ 234,420	\$ 234,420	\$ 233,762	\$ (658)
Concessions-other	<u>53,250</u>	<u>53,250</u>	<u>65,170</u>	<u>11,920</u>
Total operating revenues	<u>287,670</u>	<u>287,670</u>	<u>298,932</u>	<u>11,262</u>
Non-operating revenues:				
Investment earnings	-	-	10,325	10,325
Other	<u>778,120</u>	<u>778,120</u>	<u>73,903</u>	<u>(704,217)</u>
Total non-operating revenues	<u>778,120</u>	<u>778,120</u>	<u>84,228</u>	<u>(693,892)</u>
Total revenues	<u>1,065,790</u>	<u>1,065,790</u>	<u>383,160</u>	<u>(682,630)</u>
Expenses:				
Administration:				
Salaries and benefits	370,935	379,973	363,272	16,701
Supplies	28,680	28,680	31,096	(2,416)
Contractual and other services	171,627	171,627	197,002	(25,375)
Repairs and maintenance	24,133	24,133	23,199	934
Capital outlay	<u>784,900</u>	<u>784,900</u>	<u>5,992</u>	<u>778,908</u>
Total expenses	<u>1,380,275</u>	<u>1,389,313</u>	<u>620,561</u>	<u>768,752</u>

Continued

CITY OF McALLEN, TEXAS
TRANSIT TERMINAL FUND
SCHEDULE OF REVENUES AND EXPENSES-BUDGET AND ACTUAL (BUDGET BASIS)
For the Year Ended September 30, 2006

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual Amount</u>	<u>Variance with Final Budget Positive (Negative)</u>
Deficiency of revenues over expenses (budget basis) before transfers	\$ (314,485)	\$ (323,523)	\$ (237,401)	\$ 86,122
Transfers:				
Transfers in	<u>314,485</u>	<u>314,485</u>	<u>314,485</u>	<u>-</u>
Excess (deficiency) of revenues over budget	<u>-</u>	<u>(9,038)</u>	<u>77,084</u>	<u>86,122</u>
GAAP basis adjustments:				
Depreciation expense, not budgeted	-	-	(134,267)	(134,267)
Capital outlay-amounts budgeted as expenses per budget basis, capitalized per GAAP basis	<u>-</u>	<u>-</u>	<u>5,992</u>	<u>5,992</u>
Net income-GAAP basis	<u>\$ -</u>	<u>\$ (9,038)</u>	<u>\$ (51,191)</u>	<u>\$ (42,153)</u>

Concluded

CITY OF McALLEN , TEXAS
McALLEN INTERNATIONAL CIVIC CENTER FUND
BALANCE SHEET
September 30, 2006
With Comparative Amounts for September 30, 2005

	<u>2006</u>	<u>2005</u>
ASSETS		
Current assets:		
Cash	\$ 23,372	\$ 23,024
Certificate of deposit	409,453	109,144
Investments	66,135	195,463
Receivables, net:		
Accounts	1,355	5,460
Accrued interest	9,447	-
Due from other funds	<u>77,823</u>	<u>93,791</u>
 Total current assets	 <u>587,585</u>	 <u>426,882</u>
 Restricted assets:		
Cash	13,498	104,612
Certificate of deposit	7,800,000	1,490,028
Investments	2,154,998	9,781,300
Accrued interest	118,450	53,837
Due from other funds	<u>116,735</u>	<u>140,686</u>
 Total restricted assets	 <u>10,203,681</u>	 <u>11,570,463</u>
 Capital assets:		
Land	6,526,110	6,571,193
Buildings and systems	1,886,940	1,876,713
Improvements other than buildings	7,164,428	6,432,493
Machinery and equipment	549,016	641,093
Construction in progress	<u>52,238,055</u>	<u>24,331,174</u>
 Total capital assets	 68,364,549	 39,852,666
Less accumulated depreciation	<u>(2,460,379)</u>	<u>(2,380,537)</u>
 Net capital assets	 <u>65,904,170</u>	 <u>37,472,129</u>
 Total assets	 <u><u>\$ 76,695,436</u></u>	 <u><u>\$ 49,469,474</u></u>

Continued

CITY OF McALLEN, TEXAS
McALLEN INTERNATIONAL CIVIC CENTER FUND
BALANCE SHEET
September 30, 2006
With Comparative Amounts for September 30, 2005

	<u>2006</u>	<u>2005</u>
LIABILITIES		
Current liabilities:		
Accounts payable	\$ 26,123	\$ 44,871
Accrued expenses	13,604	9,561
Other	<u>414</u>	<u>39</u>
Total current liabilities	<u>40,141</u>	<u>54,471</u>
Liabilities(payable from restricted assets):		
Accounts payable	1,195,259	1,189,538
Accrued expenses	3,020,094	1,449,620
Customer deposits	15,368	15,368
Other	28	28
Note payable	<u>2,000,000</u>	<u>2,000,000</u>
Total liabilities(payable from restricted assets)	<u>6,230,749</u>	<u>4,654,554</u>
Other noncurrent liabilities:		
Deferred revenues	61,761	69,692
Accumulated unpaid compensated absences	<u>25,776</u>	<u>22,556</u>
Total other noncurrent liabilities	<u>87,537</u>	<u>92,248</u>
Total liabilities	<u>6,358,427</u>	<u>4,801,273</u>
NET ASSETS		
Invested in capital assets	65,904,170	37,472,129
Restricted for improvements	3,972,932	6,915,909
Unrestricted	<u>459,907</u>	<u>280,163</u>
Total net assets	<u>70,337,009</u>	<u>44,668,201</u>
Total liabilities and net assets	<u><u>\$ 76,695,436</u></u>	<u><u>\$ 49,469,474</u></u>

Concluded

CITY OF McALLEN , TEXAS
McALLEN INTERNATIONAL CIVIC CENTER FUND
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS
For the Year Ended September 30, 2006
With Comparative Amounts for the Year Ended September 30, 2005

	<u>2006</u>	<u>2005</u>
Operating revenues:		
Charges for services	\$ 105,679	\$ 56,742
Rentals	<u>308,509</u>	<u>298,859</u>
Total operating revenues	<u>414,188</u>	<u>355,601</u>
Operating expenses:		
Salaries, wages and employee benefits	754,958	667,489
Supplies	29,761	28,620
Contractual and other services	450,215	525,481
Repairs and maintenance	54,631	30,505
Depreciation and amortization	<u>129,204</u>	<u>137,192</u>
Total operating expenses	<u>1,418,769</u>	<u>1,389,287</u>
Operating loss	<u>(1,004,581)</u>	<u>(1,033,686)</u>
Nonoperating revenues (expenses):		
Investment earnings	597,839	547,674
Net increase (decrease) in the fair value of investments	-	(75,397)
Interest expense	(100,000)	(100,000)
Sale of capital assets	16,225,424	-
Other	<u>11,727</u>	<u>103,350</u>
Net nonoperating revenues	<u>16,734,990</u>	<u>475,627</u>
Income (loss) before contributions and transfers	15,730,409	(558,059)
Capital contributions	4,190,049	-
Transfers in	<u>5,748,350</u>	<u>7,513,798</u>
Changes in net assets	25,668,808	6,955,739
Total net assets--beginning	<u>44,668,201</u>	<u>37,712,462</u>
Total net assets--ending	<u><u>\$ 70,337,009</u></u>	<u><u>\$ 44,668,201</u></u>

CITY OF McALLEN, TEXAS
McALLEN INTERNATIONAL CIVIC CENTER FUND
STATEMENT OF CASH FLOWS
For the Year Ended September 30, 2006
With Comparative Amounts for the Year Ended September 30, 2005

	<u>2006</u>	<u>2005</u>
Cash flows from operating activities:		
Receipts from customers and users	\$ 458,212	\$ 281,620
Payments to employees	(747,695)	(676,704)
Payments to suppliers	1,015,282	1,986,373
Other receipts	<u>11,727</u>	<u>103,350</u>
Net cash provided by operating activities	<u>737,526</u>	<u>1,694,639</u>
Cash flows from noncapital financing activities:		
Transfers from other funds	<u>5,748,350</u>	<u>7,513,798</u>
Cash provided by non-capital financing activities	<u>5,748,350</u>	<u>7,513,798</u>
Cash flow from capital and related financing activities:		
Purchases of capital assets	(29,579,449)	(25,498,317)
Gain (loss) on sale of capital assets	17,243,628	-
Capital contributions	4,190,049	-
Interest paid on capital debt	<u>(100,000)</u>	<u>(100,000)</u>
Net cash used by capital and related financing activities	<u>(8,245,772)</u>	<u>(25,598,317)</u>
Cash flow from investing activities:		
Investment activity net	1,145,349	16,050,000
Receipt of interest	<u>523,779</u>	<u>433,226</u>
Net cash provided by investing activities	<u>1,669,128</u>	<u>16,483,226</u>
Net increase (decrease) in cash	(90,768)	93,346
Cash at beginning of year	<u>127,638</u>	<u>34,292</u>
Cash at end of year	<u><u>\$ 36,870</u></u>	<u><u>\$ 127,638</u></u>

CITY OF McALLEN, TEXAS
McALLEN INTERNATIONAL CIVIC CENTER FUND
STATEMENT OF CASH FLOWS
For the Year Ended September 30, 2006
With Comparative Amounts for the Year Ended September 30, 2005

	<u>2006</u>	<u>2005</u>
Reconciliation of cash per statements of cash flows to the statements of net assets:		
Unrestricted cash	\$ 23,372	\$ 23,024
Restricted	<u>13,498</u>	<u>104,612</u>
Total cash	<u>\$ 36,870</u>	<u>\$ 127,636</u>
Reconciliation of operating income to net cash provided (used) by operating activities:		
Operating income	<u>\$ (1,004,581)</u>	<u>\$ (1,033,686)</u>
Adjustments to reconcile operating income to net cash provided (used) by operating activities:		
Depreciation expense	129,204	137,192
(Increase) decrease in accounts receivable	4,105	(5,460)
(Increase) decrease in due from other funds	39,919	(68,521)
Increase (decrease) in customer deposits	-	(900)
Increase (decrease) in accounts payable	(13,027)	1,206,779
Increase (decrease) in compensated absences payable	3,220	2,636
Increase (decrease) in accrued liabilities	1,574,517	1,322,065
Increase (decrease) in other liabilities	375	(128)
Increase (decrease) in deferred revenues	(7,933)	31,312
Miscellaneous income (expense)	<u>11,727</u>	<u>103,350</u>
Total adjustments	<u>1,742,107</u>	<u>2,728,325</u>
Net cash provided (used) by operating activities	<u>\$ 737,526</u>	<u>\$ 1,694,639</u>
Noncash investing, capital, and financing activities:		
Increase in fair value of investments	-	(75,397)

CITY OF McALLEN, TEXAS
McALLEN INTERNATIONAL CIVIC CENTER FUND
SCHEDULE OF REVENUES AND EXPENSES-BUDGET AND ACTUAL (BUDGET BASIS)
For the Year Ended September 30, 2006

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual Amount</u>	<u>Variance with Final Budget Positive (Negative)</u>
Operating revenues:				
Rentals	\$ 346,000	\$ 346,000	\$ 308,509	\$ (37,491)
Concessions-other	<u>26,000</u>	<u>26,000</u>	<u>105,679</u>	<u>79,679</u>
Total operating revenues	<u>372,000</u>	<u>372,000</u>	<u>414,188</u>	<u>42,188</u>
Non-operating revenues:				
Investment earnings	510,642	510,642	597,839	87,197
Other	<u>-</u>	<u>-</u>	<u>20,427,200</u>	<u>20,427,200</u>
Total non-operating revenues	<u>510,642</u>	<u>510,642</u>	<u>21,025,039</u>	<u>20,514,397</u>
Total revenues	<u>882,642</u>	<u>882,642</u>	<u>21,439,227</u>	<u>20,556,585</u>
Expenses:				
Salaries and benefits	893,372	907,055	754,958	152,097
Supplies	36,300	36,300	29,761	6,539
Contractual and other services	434,046	434,046	450,215	(16,169)
Repairs and maintenace	59,756	59,756	54,631	5,125
Interest	-	-	100,000	(100,000)
Capital outlay	<u>24,467,953</u>	<u>24,467,953</u>	<u>29,579,449</u>	<u>(5,111,496)</u>
Total expenses	<u>25,891,427</u>	<u>25,905,110</u>	<u>30,969,014</u>	<u>(5,063,904)</u>
Excess (deficiency) of revenues over expenses (budget basis) before transfers	(25,008,785)	(25,022,468)	(9,529,787)	15,492,681
Transfers:				
Transfers in	<u>5,652,919</u>	<u>5,652,919</u>	<u>5,748,350</u>	<u>95,431</u>
Excess (deficiency) of revenues over budget	<u>(19,355,866)</u>	<u>(19,369,549)</u>	<u>(3,781,437)</u>	<u>15,588,112</u>

Continued

CITY OF McALLEN, TEXAS
McALLEN INTERNATIONAL CIVIC CENTER FUND
SCHEDULE OF REVENUES AND EXPENSES-BUDGET AND ACTUAL (BUDGET BASIS)
For the Year Ended September 30, 2006

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual Amount</u>	<u>Variance with Final Budget Positive (Negative)</u>
GAAP basis adjustments:				
Depreciation expense, not budgeted	\$ -	\$ -	\$ (129,204)	\$ (129,204)
Capital outlay-amounts budgeted as expenses per budget basis, capitalized per GAAP basis	<u>-</u>	<u>-</u>	<u>29,579,449</u>	<u>29,579,449</u>
Net income-GAAP basis	<u>\$ (19,355,866)</u>	<u>\$ (19,369,549)</u>	<u>\$ 25,668,808</u>	<u>\$ 45,038,357</u>

Concluded

CITY OF McALLEN , TEXAS
McALLEN INTERNATIONAL AIRPORT FUND
BALANCE SHEET
September 30, 2006
With Comparative Amounts for September 30, 2005

	<u>2006</u>	<u>2005</u>
ASSETS		
Current assets:		
Cash	\$ 12,789	\$ 44,344
Certificate of deposit	500,000	-
Investments	20,407	105,525
Receivables, net:		
Accounts	300,583	220,553
Accrued interest	10,416	-
Due from other governments	-	155,284
	<u>844,195</u>	<u>525,706</u>
 Total currents assets		
Restricted assets:		
Cash	6,042	1,753
Certificate of deposit	2,477,861	1,110,387
Investments	100,132	936,885
Accrued interest	55,094	-
Due from other governments	10,593	341,182
Other	63	63
	<u>2,649,785</u>	<u>2,390,270</u>
 Total restricted assets		
Capital assets:		
Land	3,251,781	3,251,781
Buildings and systems	31,874,290	31,871,924
Improvements other than buildings	34,218,380	33,038,648
Machinery and equipment	1,136,117	1,133,004
Construction in progress	1,698,769	359,139
	<u>72,179,337</u>	<u>69,654,496</u>
Total capital assets		
Less accumulated depreciation	<u>(26,028,233)</u>	<u>(23,672,597)</u>
Net capital assets	<u>46,151,104</u>	<u>45,981,899</u>
 Total assets	<u><u>\$ 49,645,084</u></u>	<u><u>\$ 48,897,875</u></u>

Continued

CITY OF McALLEN, TEXAS
McALLEN INTERNATIONAL AIRPORT FUND
BALANCE SHEET
September 30, 2006
With Comparative Amounts for September 30, 2005

	<u>2006</u>	<u>2005</u>
LIABILITIES		
Current liabilities:		
Accounts payable	\$ 98,236	\$ 123,648
Accrued expenses	<u>14,598</u>	<u>12,996</u>
Total current liabilities	<u>112,834</u>	<u>136,644</u>
Current liabilities (payable from restricted assets):		
Accrued expenses	74,072	-
Due to other funds	<u>-</u>	<u>308,380</u>
Total liabilities (payable from restricted assets)	<u>74,072</u>	<u>308,380</u>
Other noncurrent liabilities:		
Deferred revenues	193,032	94,433
Accumulated unpaid compensated absences	<u>42,130</u>	<u>62,209</u>
Total other noncurrent liabilities	<u>235,162</u>	<u>156,642</u>
Total liabilities	<u>422,068</u>	<u>601,666</u>
NET ASSETS		
Invested in capital assets	46,151,104	45,981,899
Restricted for improvements	2,639,193	2,049,088
Unrestricted	<u>432,719</u>	<u>265,222</u>
Total net assets	<u>49,223,016</u>	<u>48,296,209</u>
Total liabilities and net assets	<u><u>\$ 49,645,084</u></u>	<u><u>\$ 48,897,875</u></u>

Concluded

CITY OF McALLEN , TEXAS
McALLEN INTERNATIONAL AIRPORT FUND
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS
For the Year Ended September 30, 2006
With Comparative Amounts for the Year Ended September 30, 2005

	<u>2006</u>	<u>2005</u>
Operating revenues:		
Charges for services	\$ 743,782	\$ 590,112
Rentals	<u>2,720,599</u>	<u>2,560,998</u>
Total operating revenues	<u>3,464,381</u>	<u>3,151,110</u>
Operating expenses:		
Salaries, wages and employee benefits	992,660	891,163
Supplies	47,019	45,111
Contractual and other services	993,885	944,974
Repairs and maintenance	325,394	396,201
Depreciation and amortization	<u>2,368,750</u>	<u>2,255,704</u>
Total operating expenses	<u>4,727,708</u>	<u>4,533,153</u>
Operating loss	<u>(1,263,327)</u>	<u>(1,382,043)</u>
Nonoperating revenues (expenses):		
Intergovernmental	204,534	193,415
Investment earnings	130,316	69,596
Sale of capital assets	2,574	2,350
Other	<u>38,199</u>	<u>41,812</u>
Net nonoperating revenues	<u>375,623</u>	<u>307,173</u>
Loss before contributions and transfers	(887,704)	(1,074,870)
Capital contributions	2,918,476	3,109,428
Transfers out	<u>(1,103,965)</u>	<u>(1,071,811)</u>
Changes in net assets	926,807	962,747
Total net assets--beginning	<u>48,296,209</u>	<u>47,333,462</u>
Total net assets--ending	<u><u>\$ 49,223,016</u></u>	<u><u>\$ 48,296,209</u></u>

CITY OF McALLEN, TEXAS
McALLEN INTERNATIONAL AIRPORT FUND
STATEMENT OF CASH FLOWS
For the Year Ended September 30, 2006
With Comparative Amounts for the Year Ended September 30, 2005

	<u>2006</u>	<u>2005</u>
Cash flows from operating activities:		
Receipts from customers and users	\$ 3,870,224	\$ 2,746,900
Payments to employees	(1,009,858)	(894,995)
Payments to suppliers	(1,528,701)	(1,275,449)
Other receipts	<u>40,773</u>	<u>44,162</u>
Net cash provided by operating activities	<u>1,372,438</u>	<u>620,618</u>
Cash flows from noncapital financing activities:		
Subsidy from federal grant	204,534	193,415
Transfers to other funds	<u>(1,103,965)</u>	<u>(1,071,811)</u>
Cash used by non-capital financing activities	<u>(899,431)</u>	<u>(878,396)</u>
Cash flow from capital and related financing activities:		
Capital contributions	2,918,476	3,026,428
Purchases of capital assets	<u>(2,537,955)</u>	<u>(3,239,738)</u>
Net cash provided (used) by capital and related financing activities	<u>380,521</u>	<u>(213,310)</u>
Cash flow from investing activities:		
Investment activity net	(945,603)	408,904
Receipt of interest	<u>64,809</u>	<u>69,596</u>
Net cash provided (used) by investing activities	<u>(880,794)</u>	<u>478,500</u>
Net increase (decrease) in cash	(27,266)	7,412
Cash at beginning of year	<u>46,097</u>	<u>38,685</u>
Cash at end of year	<u><u>\$ 18,831</u></u>	<u><u>\$ 46,097</u></u>

Continued

CITY OF McALLEN, TEXAS
McALLEN INTERNATIONAL AIRPORT FUND
STATEMENT OF CASH FLOWS
For the Year Ended September 30, 2006
With Comparative Amounts for the Year Ended September 30, 2005

	<u>2006</u>	<u>2005</u>
Reconciliation of cash per statements of cash flows to the statements of net assets:		
Unrestricted cash	\$ 12,789	\$ 44,344
Restricted	<u>6,042</u>	<u>1,753</u>
Total cash	<u><u>\$ 18,831</u></u>	<u><u>\$ 46,097</u></u>
Reconciliation of operating income to net cash provided (used) by operating activities:		
Operating income	<u>\$ (1,263,327)</u>	<u>\$ (1,382,043)</u>
Adjustments to reconcile operating income to net cash provided (used) by operating activities:		
Depreciation expense	2,368,750	2,255,704
(Increase) decrease in accounts receivable	(80,030)	(149,334)
(Increase) decrease in intergovernmental receivables	485,873	(254,876)
Increase (decrease) in accounts payable	(25,412)	51,306
Increase (decrease) in compensated absences payable	(20,079)	13,340
Increase (decrease) in accrued liabilities	75,674	(245,922)
Increase (decrease) in due to other funds	(308,380)	308,380
Increase (decrease) in other liabilities	-	(426)
Increase (decrease) in deferred revenues	98,596	(19,673)
Miscellaneous income (expense)	<u>40,773</u>	<u>44,162</u>
Total adjustments	<u>2,635,765</u>	<u>2,002,661</u>
Net cash provided (used) by operating activities	<u><u>\$ 1,372,438</u></u>	<u><u>\$ 620,618</u></u>
Noncash investing, capital, and financing activities:		
Contributions of capital assets from government	-	83,000

Concluded

CITY OF McALLEN, TEXAS
McALLEN INTERNATIONAL AIRPORT FUND
SCHEDULE OF REVENUES AND EXPENSES-BUDGET AND ACTUAL (BUDGET BASIS)
For the Year Ended September 30, 2006

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual Amount</u>	<u>Variance with Final Budget Positive (Negative)</u>
Operating revenues:				
Charges for services	\$ 1,863,764	\$ 1,863,764	\$ 1,791,930	\$ (71,834)
Rentals	<u>2,549,087</u>	<u>2,549,087</u>	<u>2,720,599</u>	<u>171,512</u>
Total operating revenues	<u>4,412,851</u>	<u>4,412,851</u>	<u>4,512,529</u>	<u>99,678</u>
Non-operating revenues:				
Intergovernmental	3,439,519	3,439,519	2,074,862	(1,364,657)
Investment earnings	30,000	30,000	130,316	100,316
Other	<u>36,005</u>	<u>36,005</u>	<u>40,773</u>	<u>4,768</u>
Total non-operating revenues	<u>3,505,524</u>	<u>3,505,524</u>	<u>2,245,951</u>	<u>(1,259,573)</u>
Total revenues	<u>7,918,375</u>	<u>7,918,375</u>	<u>6,758,480</u>	<u>(1,159,895)</u>
Expenses:				
Salaries and benefits	942,490	966,007	992,660	(26,653)
Supplies	43,722	43,722	47,019	(3,297)
Contractual and other services	926,145	926,145	993,885	(67,740)
Repairs and maintenance	441,375	441,375	325,394	115,981
Capital outlay	<u>4,333,047</u>	<u>4,333,047</u>	<u>2,537,955</u>	<u>1,795,092</u>
Total expenses	<u>6,686,779</u>	<u>6,710,296</u>	<u>4,896,913</u>	<u>1,813,383</u>
Excess (deficiency) of revenues over expenses (budget basis) before transfers	1,231,596	1,208,079	1,861,567	653,488
Transfers:				
Transfers out	<u>(1,103,965)</u>	<u>(1,103,965)</u>	<u>(1,103,965)</u>	<u>-</u>
Excess (deficiency) of revenues over budget	<u>127,631</u>	<u>104,114</u>	<u>757,602</u>	<u>653,488</u>

Continued

CITY OF McALLEN, TEXAS
McALLEN INTERNATIONAL AIRPORT FUND
SCHEDULE OF REVENUES AND EXPENSES-BUDGET AND ACTUAL (BUDGET BASIS)
For the Year Ended September 30, 2006

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual Amount</u>	<u>Variance with Final Budget Positive (Negative)</u>
GAAP basis adjustments:				
Depreciation expense, not budgeted	\$ -	\$ -	\$ (2,368,750)	\$ (2,368,750)
Capital outlay-amounts budgeted as expenses per budget basis, capitalized per GAAP basis	<u>-</u>	<u>-</u>	<u>2,537,955</u>	<u>2,537,955</u>
Net income-GAAP basis	<u>\$ 127,631</u>	<u>\$ 104,114</u>	<u>\$ 926,807</u>	<u>\$ 822,693</u>

Concluded

CITY OF McALLEN, TEXAS
McALLEN INTERNATIONAL TOLL BRIDGE FUND
BALANCE SHEET
September 30, 2006
With Comparative Amounts for September 30, 2005

	<u>2006</u>	<u>2005</u>
ASSETS		
Current assets:		
Cash	\$ 201,090	\$ 284,175
Investments	1,606,280	1,539,500
Receivables, net:		
Accounts	<u>-</u>	<u>1,089</u>
 Total currents assets	 <u>1,807,370</u>	 <u>1,824,764</u>
Restricted assets:		
Cash	98,523	52,672
Certificate of deposit	5,356,982	2,270,393
Certificate of deposit-reserved for distribution	5,974,188	5,864,582
Investments	2,580,715	4,564,085
Accrued interest	105,792	12,504
Land	<u>183,532</u>	<u>183,532</u>
 Total restricted assets	 <u>14,299,732</u>	 <u>12,947,768</u>
Capital assets:		
Land	573,798	573,798
Buildings and systems	10,372,616	10,285,921
Improvements other than buildings	2,046,674	1,791,552
Machinery and equipment	960,183	847,679
Construction in progress	<u>-</u>	<u>58,368</u>
 Total capital assets	 13,953,271	 13,557,318
Less accumulated depreciation	<u>(5,589,286)</u>	<u>(5,155,653)</u>
 Net capital assets	 <u>8,363,985</u>	 <u>8,401,665</u>
Other assets		
Other assets, net	<u>661,547</u>	<u>671,117</u>
 Total other assets	 <u>661,547</u>	 <u>671,117</u>
 Total assets	 <u><u>\$ 25,132,634</u></u>	 <u><u>\$ 23,845,314</u></u>

Continued

CITY OF McALLEN , TEXAS
McALLEN INTERNATIONAL TOLL BRIDGE FUND
BALANCE SHEET
September 30, 2006
With Comparative Amounts for September 30, 2005

	<u>2006</u>	<u>2005</u>
LIABILITIES		
Current liabilities:		
Accounts payable	\$ 49,839	\$ 54,736
Accrued expenses	21,465	25,317
Due to other governmental agencies	751,761	754,016
Other	<u>8,364</u>	<u>-</u>
Total current liabilities	<u>831,429</u>	<u>834,069</u>
Current liabilities (payable from restricted assets):		
Accounts payable	22,110	3,673
Accrued expenses	6,448	95,588
Due to other funds	103,985	69,152
Current portion of revenue bonds	<u>225,000</u>	<u>210,000</u>
Total liabilities (payable from restricted assets)	<u>357,543</u>	<u>378,413</u>
Other noncurrent liabilities:		
Revenue bonds, net of current portion and discount	1,295,000	1,520,000
Deferred revenues	14,143	22,563
Accumulated unpaid compensated absences	<u>128,576</u>	<u>102,847</u>
Total other noncurrent liabilities	<u>1,437,719</u>	<u>1,645,410</u>
Total liabilities	<u>2,626,691</u>	<u>2,857,892</u>
NET ASSETS		
Invested in capital assets, net of related debt	7,370,161	7,370,594
Restricted for:		
Improvements	6,911,821	5,433,396
Debt service	856,250	851,225
Distribution	5,870,202	5,795,430
Unrestricted	<u>1,497,509</u>	<u>1,536,777</u>
Total net assets	<u>22,505,943</u>	<u>20,987,422</u>
Total liabilities and net assets	<u><u>\$ 25,132,634</u></u>	<u><u>\$ 23,845,314</u></u>

Concluded

CITY OF McALLEN , TEXAS
McALLEN INTERNATIONAL TOLL BRIDGE FUND
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS
For the Year Ended September 30, 2006
With Comparative Amounts for the Year Ended September 30, 2005

	<u>2006</u>	<u>2005</u>
Operating revenues:		
Charges for services	\$ 11,254,995	\$ 11,052,501
Rentals	1,477,446	1,320,919
Other	<u>207,220</u>	<u>211,904</u>
Total operating revenues	<u>12,939,661</u>	<u>12,585,324</u>
Operating expenses:		
Salaries, wages and employee benefits	1,343,162	1,264,280
Supplies	90,872	84,350
Contractual and other services	577,877	563,194
Repairs and maintenance	181,119	126,029
Depreciation and amortization	<u>457,081</u>	<u>336,833</u>
Total operating expenses	<u>2,650,111</u>	<u>2,374,686</u>
Operating income	<u>10,289,550</u>	<u>10,210,638</u>
Nonoperating revenues (expenses):		
Investment earnings	432,723	242,974
Net increase (decrease) in the fair value of investments	38,935	(17,156)
Interest expense	(73,315)	(82,578)
Sale (loss) on sale of capital assets	1,332	(14,169)
Other	<u>(3,404,976)</u>	<u>(2,767,292)</u>
Net nonoperating expenses	<u>(3,005,301)</u>	<u>(2,638,221)</u>
Income before contributions and transfers	7,284,249	7,572,417
Capital contributions	29,702	197,261
Transfers out	<u>(5,795,430)</u>	<u>(6,040,940)</u>
Changes in net assets	1,518,521	1,728,738
Total net assets--beginning	<u>20,987,422</u>	<u>19,258,684</u>
Total net assets--ending	<u><u>\$ 22,505,943</u></u>	<u><u>\$ 20,987,422</u></u>

CITY OF McALLEN, TEXAS
McALLEN INTERNATIONAL TOLL BRIDGE FUND
STATEMENT OF CASH FLOWS
For the Year Ended September 30, 2006
With Comparative Amounts for the Year Ended September 30, 2005

	<u>2006</u>	<u>2005</u>
Cash flows from operating activities:		
Receipts from customers and users	\$ 12,940,750	\$ 12,590,660
Payments to employees	(1,313,495)	(1,268,254)
Payments to suppliers	(932,525)	(741,004)
Other receipts	<u>6</u>	<u>131</u>
Net cash provided by operating activities	<u>10,694,736</u>	<u>10,581,533</u>
Cash flows from noncapital financing activities:		
Transfers to other funds	(5,760,597)	(6,012,134)
Income distribution to City of Hidalgo	(3,304,244)	(3,336,896)
Receipt of capital contributions	-	677,269
Nonoperating expenses	<u>(102,993)</u>	<u>(184,763)</u>
Cash used by non-capital financing activities	<u>(9,167,834)</u>	<u>(8,856,524)</u>
Cash flow from capital and related financing activities:		
Purchases of capital assets	(380,130)	(1,777,423)
Gain (loss) on sale of capital assets	1,332	-
Principal paid on capital debt	(210,000)	(200,000)
Interest paid on capital debt	<u>(74,102)</u>	<u>(83,328)</u>
Net cash used by capital and related financing activities	<u>(662,900)</u>	<u>(2,060,751)</u>
Cash flow from investing activities:		
Investment activity net	(1,279,606)	309,327
Receipt of interest	<u>378,370</u>	<u>219,653</u>
Net cash provided (used) by investing activities	<u>(901,236)</u>	<u>528,980</u>
Net increase (decrease) in cash	(37,234)	193,238
Cash at beginning of year	<u>336,847</u>	<u>143,609</u>
Cash at end of year	<u><u>\$ 299,613</u></u>	<u><u>\$ 336,847</u></u>

Continued

CITY OF McALLEN, TEXAS
McALLEN INTERNATIONAL TOLL BRIDGE FUND
STATEMENT OF CASH FLOWS
For the Year Ended September 30, 2006
With Comparative Amounts for the Year Ended September 30, 2005

	<u>2006</u>	<u>2005</u>
Reconciliation of cash per statements of cash flows to the statements of net assets:		
Unrestricted cash	\$ 201,090	\$ 284,175
Restricted	<u>98,523</u>	<u>52,672</u>
Total cash	<u><u>\$ 299,613</u></u>	<u><u>\$ 336,847</u></u>
Reconciliation of operating income to net cash provided (used) by operating activities:		
Operating income	<u>\$ 10,289,550</u>	<u>\$ 10,210,638</u>
Adjustments to reconcile operating income to net cash provided (used) by operating activities:		
Depreciation expense	457,081	336,833
(Increase) decrease in accounts receivable	1,089	5,336
Increase (decrease) in accounts payable	13,540	(43,286)
Increase (decrease) in compensated absences payable	25,731	24,161
Increase (decrease) in accrued liabilities	(92,205)	47,539
Increase (decrease) in other liabilities	8,364	-
Increase (decrease) in deferred revenues	(8,420)	181
Miscellaneous income (expense)	<u>6</u>	<u>131</u>
Total adjustments	<u>405,186</u>	<u>370,895</u>
Net cash provided (used) by operating activities	<u><u>\$ 10,694,736</u></u>	<u><u>\$ 10,581,533</u></u>
Noncash investing, capital, and financing activities:		
Contributions of capital assets from government	29,702	197,261
Increase in fair value of investments	38,935	(17,156)

CITY OF McALLEN, TEXAS
McALLEN INTERNATIONAL TOLL BRIDGE FUND
SCHEDULE OF REVENUES AND EXPENSES-BUDGET AND ACTUAL (BUDGET BASIS)
For the Year Ended September 30, 2006

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual Amount</u>	<u>Variance with Final Budget Positive (Negative)</u>
Operating revenues:				
Charges for services	\$ 11,410,706	\$ 11,410,706	\$ 11,254,995	\$ (155,711)
Rentals	1,283,294	1,283,294	1,477,446	194,152
Other	<u>102,300</u>	<u>102,300</u>	<u>207,220</u>	<u>104,920</u>
Total operating revenues	<u>12,796,300</u>	<u>12,796,300</u>	<u>12,939,661</u>	<u>143,361</u>
Non-operating revenues:				
Investment earnings	187,000	187,000	432,723	245,723
Net increase (decrease) in fair value of investment	-	-	38,935	38,935
Other	<u>-</u>	<u>-</u>	<u>31,040</u>	<u>31,040</u>
Total non-operating revenues	<u>187,000</u>	<u>187,000</u>	<u>502,698</u>	<u>315,698</u>
Total revenues	<u>12,983,300</u>	<u>12,983,300</u>	<u>13,442,359</u>	<u>459,059</u>
Expenses:				
Administration:				
Salaries and benefits	152,946	155,365	171,048	(15,683)
Supplies	24,800	24,800	23,715	1,085
Contractual and other services	263,100	263,100	382,769	(119,669)
Repairs and maintenance	3,815	3,815	4,590	(775)
Capital outlay	<u>435,000</u>	<u>722,034</u>	<u>380,130</u>	<u>341,904</u>
Total administration	<u>879,661</u>	<u>1,169,114</u>	<u>962,252</u>	<u>206,862</u>
Operations :				
Salaries and benefits	1,087,011	1,168,890	1,172,114	(3,224)
Supplies	65,000	65,000	67,157	(2,157)
Contractual and other services	204,915	204,915	144,740	60,175
Repairs and maintenance	<u>150,000</u>	<u>150,000</u>	<u>176,529</u>	<u>(26,529)</u>
Total operations	<u>1,506,926</u>	<u>1,588,805</u>	<u>1,560,540</u>	<u>28,265</u>

Continued

CITY OF McALLEN, TEXAS
McALLEN INTERNATIONAL TOLL BRIDGE FUND
SCHEDULE OF REVENUES AND EXPENSES-BUDGET AND ACTUAL (BUDGET BASIS)
For the Year Ended September 30, 2006

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual Amount</u>	<u>Variance with Final Budget Positive (Negative)</u>
Non-departmental expenses:				
Liability insurance	\$ 50,368	\$ 50,368	\$ 50,368	\$ -
Interest and fiscal charges	73,553	73,553	73,315	238
Bond principal requirement	210,000	210,000	-	210,000
Other	<u>3,702,679</u>	<u>3,702,679</u>	<u>3,404,982</u>	<u>297,697</u>
Total non-departmental expenses	<u>4,036,600</u>	<u>4,036,600</u>	<u>3,528,665</u>	<u>507,935</u>
Total expenses	<u>6,423,187</u>	<u>6,794,519</u>	<u>6,051,457</u>	<u>743,062</u>
Excess (deficiency) of revenues over expenses (budget basis) before transfers	<u>6,560,113</u>	<u>6,188,781</u>	<u>7,390,902</u>	<u>1,202,121</u>
Transfers:				
Transfers out	<u>(6,472,186)</u>	<u>(6,472,186)</u>	<u>(5,795,430)</u>	<u>676,756</u>
Transfers	<u>(6,472,186)</u>	<u>(6,472,186)</u>	<u>(5,795,430)</u>	<u>676,756</u>
Excess (deficiency) of revenues over budget	<u>87,927</u>	<u>(283,405)</u>	<u>1,595,472</u>	<u>1,878,877</u>
GAAP basis adjustments:				
Depreciation expense, not budgeted	-	-	(457,081)	(457,081)
Capital outlay-amounts budgeted as expenses per budget basis, capitalized per GAAP basis	<u>-</u>	<u>-</u>	<u>380,130</u>	<u>380,130</u>
Net income-GAAP basis	<u>\$ 87,927</u>	<u>\$ (283,405)</u>	<u>\$ 1,518,521</u>	<u>\$ 1,801,926</u>

Concluded

CITY OF McALLEN, TEXAS
McALLEN INTERNATIONAL TOLL BRIDGE FUND
SCHEDULE OF CASH RECEIPTS AND DISBURSEMENTS
IN RESTRICTED ACCOUNTS
For Fiscal Year Ended September 30, 2006

	<u>Distribution to City of McAllen</u>	<u>Current Debt Service</u>	<u>Future Debt Service</u>
Cash, certificates of deposit, and investments at September 30, 2005	<u>\$ 5,864,582</u>	<u>\$ 133,123</u>	<u>\$ 225,000</u>
Cash receipts:			
Transfers in	5,870,202	288,340	-
Net decrease in fair value of investments	-	-	-
Interest received	<u>116,344</u>	<u>5,126</u>	<u>1,057</u>
Total cash receipts	<u>5,986,546</u>	<u>293,466</u>	<u>1,057</u>
Total cash available	<u>11,851,128</u>	<u>426,589</u>	<u>226,057</u>
Cash disbursements:			
Interest and fiscal charges	-	79,111	-
Principal bond payment	-	210,000	-
Operating expenses	-	-	-
Capital assets	-	-	-
Interfund transfers	<u>5,876,940</u>	<u>-</u>	<u>1,025</u>
Total cash disbursements	<u>5,876,940</u>	<u>289,111</u>	<u>1,025</u>
Cash, certificates of deposit, and investments at September 30, 2006	<u>\$ 5,974,188</u>	<u>\$ 137,478</u>	<u>\$ 225,032</u>
Cash, certificates of deposit, and investments at September 30, 2006 is comprised of the following:			
Cash	\$ -	\$ -	\$ -
Certificates of deposit	4,533,738	-	225,000
Investments	1,336,464	137,478	-
Accrued interest	<u>103,986</u>	<u>-</u>	<u>32</u>
	<u>\$ 5,974,188</u>	<u>\$ 137,478</u>	<u>\$ 225,032</u>

<u>Contingency</u>	<u>Bridge Revenue Bonds</u>	<u>Anzaldua's International Bridge</u>	<u>Anzaldua's Start up</u>	<u>Combined Totals</u>
<u>\$ 500,000</u>	<u>\$ 789,410</u>	<u>\$ 4,357,472</u>	<u>\$ 894,648</u>	<u>\$ 12,764,235</u>
-	-	-	1,318,579	7,477,121
-	-	38,935	-	38,935
<u>4,454</u>	<u>31,471</u>	<u>150,059</u>	<u>73,841</u>	<u>382,352</u>
<u>4,454</u>	<u>31,471</u>	<u>188,994</u>	<u>1,392,420</u>	<u>7,898,408</u>
<u>504,454</u>	<u>820,881</u>	<u>4,546,466</u>	<u>2,287,068</u>	<u>20,662,643</u>
-	-	-	-	79,111
-	-	-	-	210,000
-	-	103,243	-	103,243
-	273,888	-	-	273,888
<u>2,239</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>5,880,204</u>
<u>2,239</u>	<u>273,888</u>	<u>103,243</u>	<u>-</u>	<u>6,546,446</u>
<u>\$ 502,215</u>	<u>\$ 546,993</u>	<u>\$ 4,443,223</u>	<u>\$ 2,287,068</u>	<u>\$ 14,116,197</u>
\$ -	\$ 31,729	\$ 51,823	14,970	\$ 98,522
500,000	500,000	2,024,933	2,107,049	9,890,720
-	13,049	2,338,559	91,629	3,917,179
<u>2,215</u>	<u>2,215</u>	<u>27,908</u>	<u>73,420</u>	<u>209,776</u>
<u>\$ 502,215</u>	<u>\$ 546,993</u>	<u>\$ 4,443,223</u>	<u>\$ 2,287,068</u>	<u>\$ 14,116,197</u>

CITY OF McALLEN , TEXAS
McALLEN EXPRESS TRANSIT FUND
BALANCE SHEET
September 30, 2006
With Comparative Amounts for September 30, 2005

	<u>2006</u>	<u>2005</u>
ASSETS		
Current assets:		
Cash	\$ 153,283	\$ 3,402
Total currents assets	<u>153,283</u>	<u>3,402</u>
Capital assets:		
Machinery and equipment	<u>1,835,998</u>	<u>823,396</u>
Total capital assets	1,835,998	823,396
Less accumulated depreciation	<u>(206,358)</u>	<u>(88,221)</u>
Net capital assets	<u>1,629,640</u>	<u>735,175</u>
Total assets	<u><u>\$ 1,782,923</u></u>	<u><u>\$ 738,577</u></u>
LIABILITIES		
Current liabilities:		
Accounts payable	\$ 7,419	\$ 4,667
Accrued expenses	<u>8,689</u>	<u>8,665</u>
Total current liabilities	<u>16,108</u>	<u>13,332</u>
Other noncurrent liabilities:		
Accumulated unpaid compensated absences	<u>6,974</u>	<u>10,863</u>
Total other noncurrent liabilities	<u>6,974</u>	<u>10,863</u>
Total liabilities	<u>23,082</u>	<u>24,195</u>
NET ASSETS		
Invested in capital assets	1,629,640	735,175
Unrestricted	<u>130,201</u>	<u>(20,793)</u>
Total net assets	<u>1,759,841</u>	<u>714,382</u>
Total liabilities and net assets	<u><u>\$ 1,782,923</u></u>	<u><u>\$ 738,577</u></u>

CITY OF McALLEN , TEXAS
McALLEN EXPRESS TRANSIT FUND
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
For the Year Ended September 30, 2006
With Comparative Amounts for the Year Ended September 30, 2005

	<u>2006</u>	<u>2005</u>
Operating revenues:		
Charges for services	\$ 228,952	\$ 148,637
Total operating revenues	<u>228,952</u>	<u>148,637</u>
Operating expenses:		
Salaries, wages and employee benefits	583,911	448,272
Supplies	6,485	7,659
Contractual and other services	59,657	58,350
Repairs and maintenance	288,195	175,482
Depreciation and amortization	<u>118,137</u>	<u>90,263</u>
Total operating expenses	<u>1,056,385</u>	<u>780,026</u>
Operating loss	<u>(827,433)</u>	<u>(631,389)</u>
Nonoperating revenues:		
Intergovernmental	250,276	-
Investment earnings	12,140	151
Sale of capital assets	-	42
Other	<u>-</u>	<u>83,832</u>
Net nonoperating revenues	<u>262,416</u>	<u>84,025</u>
Loss before contributions and transfers	(565,018)	(547,364)
Capital contributions	810,082	847,896
Transfers in	<u>800,394</u>	<u>413,850</u>
Changes in net assets	1,045,459	714,382
Total net assets--beginning	<u>714,382</u>	<u>-</u>
Total net assets--ending	<u><u>\$ 1,759,841</u></u>	<u><u>\$ 714,382</u></u>

CITY OF McALLEN, TEXAS
McALLEN EXPRESS TRANSIT FUND
STATEMENT OF CASH FLOWS
For the Year Ended September 30, 2006
With Comparative Amounts for the Year Ended September 30, 2005

	<u>2006</u>	<u>2005</u>
Cash flows from operating activities:		
Receipts from customers and users	\$ 228,952	\$ 148,637
Payments to employees	(587,776)	(428,744)
Payments to suppliers	(351,585)	(236,824)
Other receipts	<u>-</u>	<u>83,874</u>
Net cash provided by operating activities	<u>(710,409)</u>	<u>(433,057)</u>
Cash flows from noncapital financing activities:		
Subsidy from government	250,276	-
Transfers from other funds	<u>800,394</u>	<u>413,850</u>
Cash provided by non-capital financing activities	<u>1,050,670</u>	<u>413,850</u>
Cash flow from capital and related financing activities:		
Capital contributions	810,082	-
Purchases of capital assets	<u>(1,012,602)</u>	<u>22,458</u>
Net cash used by capital and related financing activities	<u>(202,520)</u>	<u>22,458</u>
Cash flow from investing activities:		
Receipt of interest	<u>12,140</u>	<u>151</u>
Net cash used by investing activities	<u>12,140</u>	<u>151</u>
Net increase in cash	149,881	3,402
Cash at beginning of year	<u>3,402</u>	<u>-</u>
Cash at end of year	<u><u>\$ 153,283</u></u>	<u><u>\$ 3,402</u></u>

Continued

CITY OF McALLEN, TEXAS
McALLEN EXPRESS TRANSIT FUND
STATEMENT OF CASH FLOWS
For the Year Ended September 30, 2006
With Comparative Amounts for the Year Ended September 30, 2005

	<u>2006</u>	<u>2005</u>
Reconciliation of cash per statements of cash flows to the statements of net assets:		
Total cash	<u>\$ 153,283</u>	<u>\$ 3,402</u>
Reconciliation of operating income to net cash provided (used) by operating activities:		
Operating income	<u>\$ (827,433)</u>	<u>\$ (631,389)</u>
Adjustments to reconcile operating income to net cash provided (used) by operating activities:		
Depreciation expense	118,137	90,263
Increase (decrease) in accounts payable	2,752	4,667
Increase (decrease) in compensated absences payable	(3,889)	10,863
Increase (decrease) in accrued liabilities	24	8,665
Miscellaneous income (expense)	<u>-</u>	<u>83,874</u>
Total adjustments	<u>117,024</u>	<u>198,332</u>
Net cash provided (used) by operating activities	<u>\$ (710,409)</u>	<u>\$ (433,057)</u>
Noncash investing, capital, and financing activities:		
Contributions of capital assets from government	-	847,896

Concluded

CITY OF McALLEN, TEXAS
McALLEN EXPRESS TRANSIT FUND
SCHEDULE OF REVENUES AND EXPENSES-BUDGET AND ACTUAL (BUDGET BASIS)
For the Year Ended September 30, 2006

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual Amount</u>	<u>Variance with Final Budget Positive (Negative)</u>
Operating revenues:				
Charges for services	<u>\$ 200,000</u>	<u>\$ 200,000</u>	<u>\$ 228,952</u>	<u>\$ 28,952</u>
Total operating revenues	<u>200,000</u>	<u>200,000</u>	<u>228,952</u>	<u>28,952</u>
Non-operating revenues:				
Intergovernmental	<u>1,918,714</u>	<u>1,918,714</u>	<u>1,060,358</u>	<u>(858,356)</u>
Investment earnings	<u>-</u>	<u>-</u>	<u>12,140</u>	<u>12,140</u>
Other	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total non-operating revenues	<u>1,918,714</u>	<u>1,918,714</u>	<u>1,072,498</u>	<u>(846,216)</u>
Total revenues	<u>2,118,714</u>	<u>2,118,714</u>	<u>1,301,450</u>	<u>(817,264)</u>
Expenses:				
Administration:				
Salaries and benefits	<u>572,609</u>	<u>589,861</u>	<u>583,911</u>	<u>5,950</u>
Supplies	<u>4,785</u>	<u>4,785</u>	<u>6,485</u>	<u>(1,700)</u>
Contractual and other services	<u>45,216</u>	<u>45,216</u>	<u>59,657</u>	<u>(14,441)</u>
Repairs and maintenace	<u>205,536</u>	<u>205,536</u>	<u>288,195</u>	<u>(82,659)</u>
Capital outlay	<u>2,108,089</u>	<u>2,108,089</u>	<u>1,012,602</u>	<u>1,095,487</u>
Total expenses	<u>2,936,235</u>	<u>2,953,487</u>	<u>1,950,850</u>	<u>1,002,637</u>
Deficiency of revenues over expenses (budget basis) before transfers	<u>(817,521)</u>	<u>(834,773)</u>	<u>(649,400)</u>	<u>185,373</u>
Transfers:				
Transfers in	<u>800,394</u>	<u>800,394</u>	<u>800,394</u>	<u>-</u>
Excess (deficiency) of revenues over budget	<u>(17,127)</u>	<u>(34,379)</u>	<u>150,994</u>	<u>185,373</u>

CITY OF McALLEN, TEXAS
McALLEN EXPRESS TRANSIT FUND
SCHEDULE OF REVENUES AND EXPENSES-BUDGET AND ACTUAL (BUDGET BASIS)
For the Year Ended September 30, 2006

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual Amount</u>	<u>Variance with Final Budget Positive (Negative)</u>
GAAP basis adjustments:				
Depreciation expense, not budgeted	\$ -	\$ -	\$ (118,137)	\$ (118,137)
Capital outlay-amounts budgeted as expenses per budget basis, capitalized per GAAP basis	<u>-</u>	<u>-</u>	<u>1,012,602</u>	<u>1,012,602</u>
Net income-GAAP basis	<u>\$ (17,127)</u>	<u>\$ (34,379)</u>	<u>\$ 1,045,459</u>	<u>\$ 1,079,838</u>

**SUPPLEMENTARY INDIVIDUAL
INTERNAL SERVICE FUNDS
FINANCIAL STATEMENTS AND
SCHEDULES**

CITY OF McALLEN , TEXAS
FLEET MATERIALS MANAGEMENT FUND
BALANCE SHEET
September 30, 2006
With Comparative Amounts for September 30, 2005

	<u>2006</u>	<u>2005</u>
ASSETS		
Current assets:		
Cash	\$ 703,040	\$ 550,561
Receivables, net:		
Inventories, at cost	<u>373,866</u>	<u>420,429</u>
Total currents assets	<u>1,076,906</u>	<u>970,990</u>
Capital assets:		
Buildings	-	293,433
Improvements other than buildings	17,739	17,739
Machinery and equipment	<u>327,984</u>	<u>320,203</u>
Total capital assets	345,723	631,375
Less accumulated depreciation	<u>(220,534)</u>	<u>(468,760)</u>
Net capital assets	<u>125,189</u>	<u>162,615</u>
Total assets	<u>\$ 1,202,095</u>	<u>\$ 1,133,605</u>
LIABILITIES		
Current liabilities:		
Accounts payable	\$ 380,423	\$ 270,714
Accrued expenses	<u>14,160</u>	<u>9,881</u>
Total current liabilities	<u>394,583</u>	<u>280,595</u>
Other noncurrent liabilities:		
Deferred revenues	-	1,107
Accumulated unpaid compensated absences	<u>33,714</u>	<u>16,108</u>
Total other noncurrent liabilities	<u>33,714</u>	<u>17,215</u>
Total liabilities	<u>428,297</u>	<u>297,810</u>
NET ASSETS		
Invested in capital assets	125,189	162,615
Unrestricted	<u>648,609</u>	<u>673,180</u>
Total net assets	<u>773,798</u>	<u>835,795</u>
Total liabilities and net assets	<u>\$ 1,202,095</u>	<u>\$ 1,133,605</u>

CITY OF McALLEN , TEXAS
FLEET MATERIALS MANAGEMENT FUND
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS
For the Year Ended September 30, 2006
With Comparative Amounts for the Year Ended September 30, 2005

	<u>2006</u>	<u>2005</u>
Operating revenues:		
Charges for services	\$ 2,957,124	\$ 2,666,155
Total operating revenues	<u>2,957,124</u>	<u>2,666,155</u>
Operating expenses:		
Salaries, wages and employee benefits	788,555	656,050
Supplies	22,353	14,372
Contractual and other services	2,083,731	1,865,591
Repairs and maintenance	41,605	37,536
Depreciation and amortization	31,781	31,210
Other	<u>26,569</u>	<u>-</u>
Total operating expenses	<u>2,994,594</u>	<u>2,604,759</u>
Operating income (loss)	<u>(37,470)</u>	<u>61,396</u>
Nonoperating revenues (expenses):		
Investment earnings	21,012	10,202
Loss on sale of capital assets	(61,977)	(831)
Other	<u>1,105</u>	<u>22,936</u>
Net nonoperating revenues (expenses)	<u>(39,860)</u>	<u>32,307</u>
Income (loss) before contributions and transfers	(77,330)	93,703
Capital contributions	<u>15,333</u>	<u>-</u>
Changes in net assets	(61,997)	93,703
Total net assets--beginning	<u>835,795</u>	<u>742,093</u>
Total net assets--ending	<u><u>\$ 773,798</u></u>	<u><u>\$ 835,796</u></u>

CITY OF McALLEN, TEXAS
FLEET MATERIALS MANAGEMENT FUND
STATEMENT OF CASH FLOWS
For the Year Ended September 30, 2006
With Comparative Amounts for the Year Ended September 30, 2005

	<u>2006</u>	<u>2005</u>
Cash flows from operating activities:		
Receipts from customers and users	\$ 2,957,124	\$ 2,684,485
Payments to employees	(766,670)	(678,156)
Payments to suppliers	(2,019,093)	(1,799,708)
Other receipts	<u>1,105</u>	<u>22,105</u>
Net cash provided by operating activities	<u>172,466</u>	<u>228,726</u>
 Cash flow from capital and related financing activities:		
Purchases of capital assets	(49,238)	(37,079)
Gain on sale of capital assets	<u>8,239</u>	<u>831</u>
Net cash used by capital and related financing activities	<u>(40,999)</u>	<u>(36,249)</u>
 Cash flow from investing activities:		
Receipt of interest	<u>21,012</u>	<u>10,201</u>
Net cash provided by investing activities	<u>21,012</u>	<u>10,201</u>
Net increase in cash	152,479	202,678
Cash at beginning of year	<u>550,561</u>	<u>347,883</u>
Cash at end of year	<u><u>\$ 703,040</u></u>	<u><u>\$ 550,561</u></u>

Continued

CITY OF McALLEN, TEXAS
FLEET MATERIALS MANAGEMENT FUND
STATEMENT OF CASH FLOWS
For the Year Ended September 30, 2006
With Comparative Amounts for the Year Ended September 30, 2005

	<u>2006</u>	<u>2005</u>
Reconciliation of cash per statements of cash flows to the statements of net assets:		
Total cash	<u>\$ 703,040</u>	<u>\$ 550,561</u>
Reconciliation of operating income to net cash provided (used) by operating activities:		
Operating income	<u>\$ (37,470)</u>	<u>\$ 61,396</u>
Adjustments to reconcile operating income to net cash provided (used) by operating activities:		
Depreciation expense	31,781	31,210
(Increase) decrease in accounts receivable	-	18,330
(Increase) decrease in inventories	46,563	(3,980)
Increase (decrease) in accounts payable	109,709	121,771
Increase (decrease) in compensated absences payable	17,606	(11,176)
Increase (decrease) in accrued liabilities	4,279	(10,930)
Increase (decrease) in deferred revenues	(1,107)	-
Miscellaneous income (expense)	<u>1,105</u>	<u>22,936</u>
Total adjustments	<u>209,936</u>	<u>168,161</u>
Net cash provided (used) by operating activities	<u>\$ 172,466</u>	<u>\$ 229,557</u>
Noncash investing, capital, and financing activities:		
Contributions of capital assets from government	15,333	-

Concluded

CITY OF McALLEN, TEXAS
FLEET MATERIALS MANAGEMENT FUND
SCHEDULE OF REVENUES AND EXPENSES-BUDGET AND ACTUAL (BUDGET BASIS)
For the Year Ended September 30, 2006

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual Amount</u>	<u>Variance with Final Budget Positive (Negative)</u>
Operating revenues:				
Fleet billings	\$ 2,395,000	\$ 2,395,000	\$ 2,806,291	\$ 411,291
Materials management	<u>130,000</u>	<u>130,000</u>	<u>150,833</u>	<u>20,833</u>
Total operating revenues	<u>2,525,000</u>	<u>2,525,000</u>	<u>2,957,124</u>	<u>432,124</u>
Non-operating revenues:				
Investment earnings	-	-	21,012	21,012
Other	<u>-</u>	<u>-</u>	<u>(45,539)</u>	<u>(45,539)</u>
Total non-operating revenues	<u>-</u>	<u>-</u>	<u>(24,527)</u>	<u>(24,527)</u>
Total revenues	<u>2,525,000</u>	<u>2,525,000</u>	<u>2,932,597</u>	<u>407,597</u>
Expenses:				
Materials management:				
Salaries and benefits	124,479	127,857	136,113	(8,256)
Supplies	1,700	1,700	1,147	553
Contractual and other services	500	500	700	(200)
Repairs and maintenance	<u>1,780</u>	<u>1,780</u>	<u>8,483</u>	<u>(6,703)</u>
Total materials management	<u>128,459</u>	<u>131,837</u>	<u>146,443</u>	<u>(14,606)</u>
Fleet operations :				
Salaries and benefits	576,309	593,906	652,442	(58,536)
Supplies	15,914	20,114	21,206	(1,092)
Contractual and other services	1,608,300	1,614,800	2,070,538	(455,738)
Repairs and maintenance	22,050	27,350	33,122	(5,772)
Capital outlay	<u>35,500</u>	<u>19,500</u>	<u>49,238</u>	<u>(29,738)</u>
Total fleet operations	<u>2,258,073</u>	<u>2,275,670</u>	<u>2,826,546</u>	<u>(550,876)</u>

Continued

CITY OF McALLEN, TEXAS
FLEET MATERIALS MANAGEMENT FUND
SCHEDULE OF REVENUES AND EXPENSES-BUDGET AND ACTUAL (BUDGET BASIS)
For the Year Ended September 30, 2006

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual Amount</u>	<u>Variance with Final Budget Positive (Negative)</u>
Non-departmental expenses:				
Liability insurance	\$ 12,493	\$ 12,493	\$ 12,493	\$ -
Other	<u>-</u>	<u>-</u>	<u>26,569</u>	<u>(26,569)</u>
Total non-departmental expenses	<u>12,493</u>	<u>12,493</u>	<u>39,062</u>	<u>(26,569)</u>
Total expenses	<u>2,399,025</u>	<u>2,420,000</u>	<u>3,012,051</u>	<u>(592,051)</u>
Excess (deficiency) of revenues over expenses (budget basis)	125,975	105,000	(79,454)	(184,454)
GAAP basis adjustments:				
Depreciation expense, not budgeted	-	-	(31,781)	(31,781)
Capital outlay-amounts budgeted as expenses per budget basis, capitalized per GAAP basis	<u>-</u>	<u>-</u>	<u>49,238</u>	<u>49,238</u>
Net income-GAAP basis	<u>\$ 125,975</u>	<u>\$ 105,000</u>	<u>\$ (61,997)</u>	<u>\$ (166,997)</u>

Concluded

CITY OF McALLEN , TEXAS
EMPLOYEE BENEFITS FUND
BALANCE SHEET
September 30, 2006
With Comparative Amounts for September 30, 2005

	<u>2006</u>	<u>2005</u>
ASSETS		
Current assets:		
Cash	\$ 3,565	\$ 23,261
Certificate of deposit	1,424,232	1,782,305
Investments	1,750,879	2,263,634
Receivables, net:		
Accounts	131,651	99,703
Accrued interest	<u>62,312</u>	<u>16,682</u>
Total assets	<u><u>3,372,639</u></u>	<u><u>4,185,585</u></u>
LIABILITIES		
Current liabilities:		
Accounts payable	\$ 327	\$ 58,582
Accrued expenses	<u>1,002,005</u>	<u>1,093,355</u>
Total current liabilities	<u>1,002,332</u>	<u>1,151,937</u>
Other noncurrent liabilities:		
Accumulated unpaid compensated absences	<u>2,424</u>	<u>2,796</u>
Total other noncurrent liabilities	<u>2,424</u>	<u>2,796</u>
Total liabilities	<u>1,004,756</u>	<u>1,154,733</u>
NET ASSETS		
Unrestricted	<u>2,367,883</u>	<u>3,030,852</u>
Total net assets	<u>2,367,883</u>	<u>3,030,852</u>
Total liabilities and net assets	<u><u>\$ 3,372,639</u></u>	<u><u>\$ 4,185,585</u></u>

CITY OF McALLEN , TEXAS
EMPLOYEE BENEFITS FUND
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS
For the Year Ended September 30, 2006
With Comparative Amounts for the Year Ended September 30, 2005

	<u>2006</u>	<u>2005</u>
Operating revenues:		
Contributions	\$ 6,769,425	\$ 6,286,811
Total operating revenues	<u>6,769,425</u>	<u>6,286,811</u>
Operating expenses:		
Salaries, wages and employee benefits	100,720	87,147
Supplies	1,953	1,905
Contractual and other services	798,664	779,009
Self insurance claims	<u>7,196,117</u>	<u>5,033,147</u>
Total operating expenses	<u>8,097,454</u>	<u>5,901,208</u>
Operating income (loss)	<u>(1,328,029)</u>	<u>385,603</u>
Nonoperating revenues (expenses):		
Investment earnings	184,212	102,571
Net increase (decrease) in the fair value of investments	13,814	(14,236)
Other	<u>467,034</u>	<u>131,059</u>
Net nonoperating revenues	<u>665,060</u>	<u>219,394</u>
Income (loss)	<u>(662,969)</u>	<u>604,997</u>
Changes in net assets	(662,969)	604,997
Total net assets--beginning	<u>3,030,852</u>	<u>2,425,855</u>
Total net assets--ending	<u><u>\$ 2,367,883</u></u>	<u><u>\$ 3,030,852</u></u>

**CITY OF McALLEN, TEXAS
EMPLOYEE BENEFITS FUND
STATEMENT OF CASH FLOWS
For the Year Ended September 30, 2006
With Comparative Amounts for the Year Ended September 30, 2005**

	<u>2006</u>	<u>2005</u>
Cash flows from operating activities:		
Receipts from customers and users	\$ 6,737,477	\$ 6,259,762
Payments to employees	(100,408)	(88,349)
Payments to suppliers	(8,147,023)	(5,728,637)
Other receipts	<u>467,034</u>	<u>131,059</u>
Net cash provided (used) by operating activities	<u>(1,042,920)</u>	<u>573,835</u>
Cash flow from investing activities:		
Investment activity net	870,828	(661,806)
Receipt of interest	<u>152,396</u>	<u>71,653</u>
Net cash provided (used) by investing activities	<u>1,023,224</u>	<u>(590,153)</u>
Net decrease in cash	(19,696)	(16,318)
Cash at beginning of year	<u>23,261</u>	<u>39,579</u>
Cash at end of year	<u><u>\$ 3,565</u></u>	<u><u>\$ 23,261</u></u>

Continued

CITY OF McALLEN, TEXAS
EMPLOYEE BENEFITS FUND
STATEMENT OF CASH FLOWS
For the Year Ended September 30, 2006
With Comparative Amounts for the Year Ended September 30, 2005

	<u>2006</u>	<u>2005</u>
Reconciliation of cash per statements of cash flows to the statements of net assets:		
Total cash	<u>\$ 3,565</u>	<u>\$ 23,261</u>
Reconciliation of operating income to net cash provided (used) by operating activities:		
Operating income	<u>\$ (1,328,029)</u>	<u>\$ 385,603</u>
Adjustments to reconcile operating income to net cash provided (used) by operating activities:		
(Increase) decrease in accounts receivable	(31,948)	(27,049)
Increase (decrease) in accounts payable	(58,255)	58,582
Increase (decrease) in compensated absences payable	(372)	291
Increase (decrease) in accrued liabilities	(91,350)	25,349
Miscellaneous income (expense)	<u>467,034</u>	<u>131,059</u>
Total adjustments	<u>285,109</u>	<u>188,232</u>
Net cash provided (used) by operating activities	<u>\$ (1,042,920)</u>	<u>\$ 573,835</u>
Noncash investing, capital, and financing activities:		
Increase in fair value of investments	13,814	(14,236)

Concluded

CITY OF McALLEN, TEXAS
EMPLOYEE BENEFITS FUND
SCHEDULE OF REVENUES AND EXPENSES-BUDGET AND ACTUAL (BUDGET BASIS)
For the Year Ended September 30, 2006

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual Amount</u>	<u>Variance with Final Budget Positive (Negative)</u>
Revenues:				
Operating-contributions	\$ 6,180,598	\$ 6,180,598	\$ 6,769,425	\$ 588,827
Non-operating revenues:				
Investment earnings	-	-	184,212	184,212
Net increase (decrease) in fair value of investments	-	-	13,814	13,814
Other	175,000	175,000	467,034	292,034
Total non-operating revenues	175,000	175,000	665,060	490,060
Total revenues	6,355,598	6,355,598	7,434,485	1,078,887
Expenses:				
Administration:				
Salaries and benefits	103,554	106,814	100,720	6,094
Supplies	2,500	2,500	1,953	547
Contractual and other services	980,461	980,461	798,664	181,797
Self insurance claims	5,292,621	5,292,621	7,196,117	(1,903,496)
Total expenses	6,379,136	6,382,396	8,097,454	(1,715,058)
Excess (deficiency) of revenues over budget	(23,538)	(26,798)	(662,969)	(636,171)

Continued

CITY OF McALLEN, TEXAS
EMPLOYEE BENEFITS FUND
SCHEDULE OF REVENUES AND EXPENSES-BUDGET AND ACTUAL (BUDGET BASIS)
For the Year Ended September 30, 2006

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual Amount</u>	<u>Variance with Final Budget Positive (Negative)</u>
GAAP basis adjustments:				
Depreciation expense, not budgeted	\$ -	\$ -	\$ -	\$ -
Capital outlay-amounts budgeted as expenses per budget basis, capitalized per GAAP basis	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net income-GAAP basis	<u>\$ (23,538)</u>	<u>\$ (26,798)</u>	<u>\$ (662,969)</u>	<u>\$ (636,171)</u>

Concluded

CITY OF McALLEN , TEXAS
GENERAL INSURANCE FUND
BALANCE SHEET
September 30, 2006
With Comparative Amounts for September 30, 2005

	<u>2006</u>	<u>2005</u>
ASSETS		
Current assets:		
Cash	\$ 41,629	\$ 884
Certificate of deposit	5,894,562	3,493,198
Investments	3,418,343	4,168,206
Receivables, net:		
Accounts	6,258	46,833
Accrued interest	<u>154,589</u>	<u>20,057</u>
Total current assets	<u>9,515,381</u>	<u>7,729,178</u>
Capital assets:		
Machinery and equipment	18,189	14,765
Less accumulated depreciation	<u>(7,686)</u>	<u>(4,676)</u>
Net capital assets	<u>10,503</u>	<u>10,089</u>
Total assets	<u><u>\$ 9,525,884</u></u>	<u><u>\$ 7,739,267</u></u>
LIABILITIES		
Current liabilities:		
Accounts payable	\$ 122,359	\$ 137,682
Accrued expenses	512,888	1,373,160
Due to other funds	<u>-</u>	<u>42,796</u>
Total current liabilities	<u>635,247</u>	<u>1,553,638</u>
Other noncurrent liabilities:		
Accumulated unpaid compensated absences	<u>33,027</u>	<u>25,005</u>
Total other noncurrent liabilities	<u>33,027</u>	<u>25,005</u>
Total liabilities	<u>668,274</u>	<u>1,578,643</u>
NET ASSETS		
Invested in capital assets	10,503	10,089
Unrestricted	<u>8,847,107</u>	<u>6,150,535</u>
Total net assets	<u>8,857,610</u>	<u>6,160,624</u>
Total liabilities and net assets	<u><u>\$ 9,525,884</u></u>	<u><u>\$ 7,739,267</u></u>

CITY OF McALLEN, TEXAS
GENERAL INSURANCE FUND
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS
For the Year Ended September 30, 2006
With Comparative Amounts for the Year Ended September 30, 2005

	<u>2006</u>	<u>2005</u>
Operating revenues:		
Contributions	\$ 4,120,290	\$ 4,003,021
Total operating revenues	<u>4,120,290</u>	<u>4,003,021</u>
Operating expenses:		
Salaries, wages and employee benefits	156,092	130,014
Supplies	3,503	3,160
Contractual and other services	1,890,745	2,630,552
Repairs and maintenance	495	705
Depreciation and amortization	3,010	2,953
Self insurance claims	<u>71,983</u>	<u>379,429</u>
Total operating expenses	<u>2,125,828</u>	<u>3,146,813</u>
Operating income	<u>1,994,462</u>	<u>856,208</u>
Nonoperating revenues (expenses):		
Investment earnings	321,232	178,969
Net increase (decrease) in the fair value of investments	32,542	(32,777)
Other	<u>348,750</u>	<u>204,190</u>
Net nonoperating revenues	<u>702,524</u>	<u>350,382</u>
Income before contributions and transfers	<u>2,696,986</u>	<u>1,206,590</u>
Changes in net assets	2,696,986	1,206,590
Total net assets--beginning	<u>6,160,624</u>	<u>4,954,034</u>
Total net assets--ending	<u><u>\$ 8,857,610</u></u>	<u><u>\$ 6,160,624</u></u>

**CITY OF McALLEN, TEXAS
GENERAL INSURANCE FUND
STATEMENT OF CASH FLOWS
For the Year Ended September 30, 2006
With Comparative Amounts for the Year Ended September 30, 2005**

	<u>2006</u>	<u>2005</u>
Cash flows from operating activities:		
Receipts from customers and users	\$ 4,160,865	\$ 3,988,058
Payments to employees	(148,069)	(129,319)
Payments to suppliers	(2,885,117)	(2,685,156)
Other receipts	<u>348,750</u>	<u>204,190</u>
Net cash provided by operating activities	<u>1,476,429</u>	<u>1,377,773</u>
Cash flow from capital and related financing activities:		
Purchases of capital assets	<u>(3,424)</u>	<u>-</u>
Net cash used by capital and related financing activities	<u>(3,424)</u>	<u>-</u>
Cash flow from investing activities:		
Investment activity net	(1,651,502)	(1,519,867)
Receipt of interest	<u>219,242</u>	<u>130,360</u>
Net cash used by investing activities	<u>(1,432,260)</u>	<u>(1,389,507)</u>
Net increase (decrease) in cash	40,745	(11,734)
Cash at beginning of year	<u>884</u>	<u>12,618</u>
Cash at end of year	<u><u>\$ 41,629</u></u>	<u><u>\$ 884</u></u>

Continued

CITY OF McALLEN, TEXAS
GENERAL INSURANCE FUND
STATEMENT OF CASH FLOWS
For the Year Ended September 30, 2006
With Comparative Amounts for the Year Ended September 30, 2005

	<u>2006</u>	<u>2005</u>
Reconciliation of cash per statements of cash flows to the statements of net assets:		
Total cash	<u>\$ 41,629</u>	<u>\$ 884</u>
Reconciliation of operating income to net cash provided (used) by operating activities:		
Operating income	<u>\$ 1,994,462</u>	<u>\$ 856,208</u>
Adjustments to reconcile operating income to net cash provided (used) by operating activities:		
Depreciation expense	3,010	2,953
(Increase) decrease in accounts receivable	40,575	(14,963)
Increase (decrease) in accounts payable	(15,323)	137,308
Increase (decrease) in compensated absences payable	8,023	695
Increase (decrease) in accrued liabilities	(860,272)	148,586
Increase (decrease) in due to other funds	(42,796)	42,796
Miscellaneous income (expense)	<u>348,750</u>	<u>204,190</u>
Total adjustments	<u>(518,033)</u>	<u>521,565</u>
Net cash provided (used) by operating activities	<u>\$ 1,476,429</u>	<u>\$ 1,377,773</u>
Noncash investing, capital, and financing activities:		
Increase in fair value of investments	32,542	(32,777)

Concluded

CITY OF McALLEN, TEXAS
GENERAL INSURANCE FUND
SCHEDULE OF REVENUES AND EXPENSES-BUDGET AND ACTUAL (BUDGET BASIS)
For the Year Ended September 30, 2006

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual Amount</u>	<u>Variance with Final Budget Positive (Negative)</u>
Revenues:				
Operating-contributions	\$ 4,156,298	\$ 4,156,298	\$ 4,120,290	\$ (36,008)
Non-operating revenues:				
Investment earnings	-	-	321,232	321,232
Net increase (decrease) in fair value of investments	-	-	32,542	32,542
Other	141,940	141,940	348,750	206,810
Total non-operating revenues	141,940	141,940	702,524	560,584
Total revenues	4,298,238	4,298,238	4,822,814	524,576
Expenses:				
Administration:				
Salaries and benefits	151,162	156,256	156,092	164
Supplies	3,500	4,050	3,503	547
Contractual and other services	2,498,590	2,492,635	1,890,745	601,890
Self insurance	1,678,582	1,678,582	71,983	1,606,599
Repairs and maintenance	1,945	1,945	495	1,450
Capital outlay	-	5,405	3,424	1,981
Total expenses	4,333,779	4,338,873	2,126,242	2,212,631
Excess (deficiency) of revenues over budget	(35,541)	(40,635)	2,696,572	2,737,207

Continued

CITY OF McALLEN, TEXAS
GENERAL INSURANCE FUND
SCHEDULE OF REVENUES AND EXPENSES-BUDGET AND ACTUAL (BUDGET BASIS)
For the Year Ended September 30, 2006

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual Amount</u>	<u>Variance with Final Budget Positive (Negative)</u>
GAAP basis adjustments:				
Depreciation expense, not budgeted	\$ -	\$ -	\$ (3,010)	\$ (3,010)
Capital outlay-amounts budgeted as expenses per budget basis, capitalized per GAAP basis	<u>-</u>	<u>-</u>	<u>3,424</u>	<u>3,424</u>
Net income-GAAP basis	<u>\$ (35,541)</u>	<u>\$ (40,635)</u>	<u>\$ 2,696,986</u>	<u>\$ 2,737,621</u>

Concluded

Concluded

CITY OF McALLEN , TEXAS
GENERAL DEPRECIATION FUND
BALANCE SHEET
September 30, 2006
With Comparative Amounts for September 30, 2005

	<u>2006</u>	<u>2005</u>
ASSETS		
Current assets:		
Cash	\$ 47,713	\$ 31,117
Certificate of deposit	2,498,553	1,980,306
Investments	2,113,732	2,736,374
Receivables, net:		
Accrued interest	<u>96,735</u>	<u>15,778</u>
Total currents assets	<u>4,756,733</u>	<u>4,763,575</u>
Capital assets:		
Machinery and equipment	11,775,839	9,115,492
Less accumulated depreciation	<u>(5,307,025)</u>	<u>(4,356,220)</u>
Net capital assets	<u>6,468,814</u>	<u>4,759,272</u>
Total assets	<u><u>\$ 11,225,547</u></u>	<u><u>\$ 9,522,847</u></u>
LIABILITIES		
Current liabilities:		
Accounts payable	<u>\$ 167,712</u>	<u>\$ -</u>
Total current liabilities	<u>167,712</u>	<u>-</u>
Total liabilities	<u>167,712</u>	<u>-</u>
NET ASSETS		
Invested in capital assets	6,468,814	4,759,272
Unrestricted	<u>4,589,021</u>	<u>4,763,575</u>
Total net assets	<u>11,057,835</u>	<u>9,522,847</u>
Total liabilities and net assets	<u><u>\$ 11,225,547</u></u>	<u><u>\$ 9,522,847</u></u>

CITY OF McALLEN , TEXAS
GENERAL DEPRECIATION FUND
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS
For the Year Ended September 30, 2006
With Comparative Amounts for the Year Ended September 30, 2005

	<u>2006</u>	<u>2005</u>
Operating revenues:		
Charges for services	\$ 2,756,144	\$ 2,014,679
Total operating revenues	<u>2,756,144</u>	<u>2,014,679</u>
Operating expenses:		
Depreciation and amortization	1,428,920	1,351,787
Other	<u>13,686</u>	<u>11,332</u>
Total operating expenses	<u>1,442,606</u>	<u>1,363,119</u>
Operating income	<u>1,313,538</u>	<u>651,560</u>
Nonoperating revenues (expenses):		
Investment earnings	189,287	120,748
Net increase (decrease) in the fair value of investments	7,890	(16,768)
Other	<u>24,273</u>	<u>(138,139)</u>
Net nonoperating revenues (expenses)	<u>221,450</u>	<u>(34,159)</u>
Income	<u>1,534,988</u>	<u>617,401</u>
Changes in net assets	1,534,988	617,401
Total net assets--beginning	<u>9,522,847</u>	<u>8,905,446</u>
Total net assets--ending	<u><u>\$ 11,057,835</u></u>	<u><u>\$ 9,522,847</u></u>

**CITY OF McALLEN, TEXAS
GENERAL DEPRECIATION FUND
STATEMENT OF CASH FLOWS
For the Year Ended September 30, 2006
With Comparative Amounts for the Year Ended September 30, 2005**

	<u>2006</u>	<u>2005</u>
Cash flows from operating activities:		
Receipts from customers and users	\$ 2,756,144	\$ 2,014,679
Payments to suppliers	154,026	(138,639)
Other receipts	<u>24,273</u>	<u>(138,139)</u>
Net cash provided by operating activities	<u>2,934,443</u>	<u>1,737,901</u>
Cash flow from capital and related financing activities:		
Purchases of capital assets	(3,138,462)	(915,408)
Gain on sale of capital assets	<u>-</u>	<u>138,139</u>
Net cash used by capital and related financing activities	<u>(3,138,462)</u>	<u>(777,269)</u>
Cash flow from investing activities:		
Investment activity net	104,395	(1,042,663)
Receipt of interest	<u>116,220</u>	<u>103,980</u>
Net cash provided (used) by investing activities	<u>220,615</u>	<u>(938,683)</u>
Net increase in cash	16,596	21,949
Cash at beginning of year	<u>31,117</u>	<u>9,168</u>
Cash at end of year	<u><u>\$ 47,713</u></u>	<u><u>\$ 31,117</u></u>

Continued

CITY OF McALLEN, TEXAS
GENERAL DEPRECIATION FUND
STATEMENT OF CASH FLOWS
For the Year Ended September 30, 2006
With Comparative Amounts for the Year Ended September 30, 2005

	<u>2006</u>	<u>2005</u>
Reconciliation of cash per statements of cash flows to the statements of net assets:		
Total cash	<u>\$ 47,713</u>	<u>\$ 31,117</u>
Reconciliation of operating income to net cash provided (used) by operating activities:		
Operating income	<u>\$ 1,313,538</u>	<u>\$ 651,560</u>
Adjustments to reconcile operating income to net cash provided (used) by operating activities:		
Depreciation expense	1,428,920	1,351,787
Increase (decrease) in accounts payable	167,712	(127,307)
Miscellaneous income (expense)	<u>24,273</u>	<u>(138,139)</u>
Total adjustments	<u>1,620,905</u>	<u>1,086,341</u>
Net cash provided (used) by operating activities	<u>\$ 2,934,443</u>	<u>\$ 1,737,901</u>
Noncash investing, capital, and financing activities:		
Increase in fair value of investments	7,890	(16,768)

Concluded

CITY OF McALLEN, TEXAS
GENERAL DEPRECIATION FUND
SCHEDULE OF REVENUES AND EXPENSES-BUDGET AND ACTUAL (BUDGET BASIS)
For the Year Ended September 30, 2006

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual Amount</u>	<u>Variance with Final Budget Positive (Negative)</u>
Revenues:				
Operating-charges for services	<u>\$ 2,756,144</u>	<u>\$ 2,756,144</u>	<u>\$ 2,756,144</u>	<u>\$ -</u>
Non-operating revenues:				
Investment earnings	-	-	189,287	189,287
Net increase (decrease) in fair value of investments	-	-	7,890	7,890
Other	<u>-</u>	<u>-</u>	<u>24,273</u>	<u>24,273</u>
Total non-operating revenues	<u>-</u>	<u>-</u>	<u>221,450</u>	<u>221,450</u>
Total revenues	<u>2,756,144</u>	<u>2,756,144</u>	<u>2,977,594</u>	<u>221,450</u>
Expenses:				
Contractual and other services	-	-	13,686	(13,686)
Capital outlay	<u>3,549,000</u>	<u>4,194,717</u>	<u>3,180,161</u>	<u>1,014,556</u>
Total expenses	<u>3,549,000</u>	<u>4,194,717</u>	<u>3,193,847</u>	<u>1,000,870</u>
Excess (deficiency) of revenues over expenses (budget basis)	(792,856)	(1,438,573)	(216,253)	1,222,320
GAAP basis adjustments:				
Depreciation expense, not budgeted	-	-	(1,428,920)	(1,428,920)
Capital outlay-amounts budgeted as expenses per budget basis, capitalized per GAAP basis	<u>-</u>	<u>-</u>	<u>3,180,161</u>	<u>3,180,161</u>
Net income-GAAP basis	<u><u>\$ (792,856)</u></u>	<u><u>\$ (1,438,573)</u></u>	<u><u>\$ 1,534,988</u></u>	<u><u>\$ 2,973,561</u></u>

**CAPITAL ASSETS USED IN THE
OPERATION OF
GOVERNMENTAL FUNDS**

CITY OF McALLEN , TEXAS
CAPITAL ASSETS USED IN THE OPERATION OF GOVERNMENTAL FUNDS
COMPARATIVE SCHEDULES BY SOURCE(1)
September 30, 2006
With Comparative Amounts for September 30, 2005

	<u>2006</u>	<u>2005</u>
Governmental funds capital assets:		
Land	\$ 29,372,443	\$ 22,493,589
Buildings and improvements	69,900,431	59,663,754
Furniture and equipments	32,792,171	32,202,833
Infrastructure	139,794,798	130,245,591
Construction in progress	<u>5,692,048</u>	<u>6,247,858</u>
 Total general fixed assets	 <u><u>\$ 277,551,891</u></u>	 <u><u>\$ 250,853,625</u></u>

Investments in governmental funds capital assets by source:

General fund revenues	\$ 31,058,734	\$ 30,212,930
Capital projects	125,390,904	106,890,419
Community development	17,651,495	17,117,098
Special revenues	56,759,485	56,759,485
Contributions from developers	34,765,470	27,947,890
Donations and transfers	<u>11,925,803</u>	<u>11,925,803</u>
 Total investments in general fixed assets	 <u><u>\$ 277,551,891</u></u>	 <u><u>\$ 250,853,625</u></u>

(1) This schedule presents only the capital assets balances related to governmental funds. Accordingly, the capital assets reported in the internal service funds are excluded from the above amounts. Generally, the capital assets of internal service funds are included as governmental activities in the statement of net assets

City of McAllen, Texas
Capital Assets Used in the Operation of Governmental Funds
Schedule By Function and Activity (1)
September 30, 2006

Function and Activity	Land	Buildings	Improvements Other than Buildings	Machinery and Equipment	Infrastructure	Construction in Progress	Total
General government:							
City commission	\$ 12,891,106	\$ 4,328,875	\$ 964,096	\$ 248,955	\$ 258,334	\$ 766,097	\$ 19,257,463
Special services	559,051	1,231,926	4,000	48,291	-	-	1,843,268
City manager	381,544	4,491,538	-	100,098	192,368	-	5,165,548
City secretary	-	-	-	35,447	-	-	35,447
Audit	-	-	-	6,394	-	-	8,394
Municipal court	-	-	7,950	367,631	-	-	375,581
Finance	-	-	86,645	28,632	-	-	115,277
Tax office	-	-	-	98,428	-	-	98,428
Purchasing	-	-	-	64,198	-	-	64,198
Legal	-	-	-	134,381	-	-	134,381
Personnel	-	-	-	471,084	-	-	471,084
Planning	-	-	2,842	77,061	-	-	79,903
MIS	-	-	-	1,060,558	-	-	1,060,558
MCN	-	-	25,000	325,311	-	-	350,311
City hall	769,674	5,501,968	238,558	897,785	9,469	-	7,217,454
CDBG	-	-	-	19,800	-	-	19,800
Bldg maintenance	-	-	-	22,612	-	-	22,612
Total general government	14,401,375	15,554,307	1,329,091	3,806,666	460,171	768,097	36,317,707
Public safety:							
Police	1,059,657	13,215,937	647,008	9,987,038	-	49,360	24,959,000
Animal control	-	-	-	14,450	-	-	14,450
Communication technology	-	-	-	23,555	-	-	23,555
Fire	824,095	1,665,428	114,239	4,534,414	-	272,804	7,410,980
Traffic safety	421,854	221,435	854,927	2,034,221	13,765,478	7,465	17,305,180
Downtown services	-	-	-	35,128	-	-	35,128
Inspection	-	-	-	57,840	-	-	57,840
Total public safety	2,305,406	15,102,800	1,616,174	16,686,646	13,765,478	329,629	49,806,133

Continued

City of McAllen, Texas
Capital Assets Used in the Operation of Governmental Funds
Schedule By Function and Activity (1)
September 30, 2006

Function and Activity	Land	Buildings	Improvements Other than Buildings	Machinery and Equipment	Infrastructure	Construction In Progress	Total
Highways & streets:							
Engineering	\$ 4,156,744	\$ -	\$ 394,890	\$ 1,194,034	\$ 17,798,819	-	\$ 23,544,487
Street cleaning	-	-	-	284,921	-	-	284,921
Street maintenance	119,805	-	91,095	1,126,579	68,755,271	3,538,766	73,631,516
Street lighting	-	-	734,174	363,765	452,162	-	1,550,101
Sidewalks	-	-	-	14,008	127,183	-	141,191
Drainage	1,313,057	-	55,061	2,019,610	37,889,648	262,901	41,540,277
Total highways and streets	5,589,606	-	1,275,220	5,002,917	125,023,083	3,801,667	140,692,493
Health & welfare:							
Health	10,753	159,122	-	135,741	-	-	305,616
Graffiti	-	-	-	51,418	-	-	51,418
Total health and welfare	10,753	159,122	-	187,159	-	-	357,034
Culture & recreation:							
Parks administration	2,185,293	730,752	3,310,445	157,536	52,477	-	6,436,503
Parks	3,183,547	2,905,766	20,111,676	1,809,281	235,416	155,774	28,401,460
Recreation	408,900	278,445	93,030	31,221	-	-	811,596
Pools	-	-	501,452	154,005	12,101	-	667,558
Senior citizen	-	16,248	83,076	-	246,072	-	345,396
Recreation center - lark	-	-	19,509	3,804	-	-	23,313
Recreation center - palmview	-	3,517	-	54,930	-	-	58,447
Quinta mazatlan	-	-	189,629	8,427	-	-	198,056
Library	339,111	6,611,981	5,995	4,137,022	-	638,881	11,732,990
Library north	-	1,098	-	517,303	-	-	518,401
Library south	948,452	1,098	-	235,254	-	-	1,184,804
Total culture and recreation	7,065,303	10,548,905	24,314,812	7,108,783	546,066	794,655	50,378,524
Total governmental funds capital assets	\$ 29,372,443	\$ 41,365,134	\$ 28,535,297	\$ 32,792,171	\$ 139,794,798	\$ 5,692,048	\$ 277,551,891

(1) This schedule presents only the capital asset balances related to governmental funds. Accordingly, the capital assets reported in the internal service funds are excluded from the above amounts. Generally, the capital assets of internal service funds are included as governmental activities in the statement of net assets.

Concluded

City of McAllen, Texas
Capital Assets Used in the Operation of Governmental Funds
Schedule of Changes By Function and Activity (1)
For the fiscal year ended September 30, 2006

Function and Activity	Governmental Funds Capital Assets September 30, 2005	Additions	Deductions	Governmental Funds Capital Assets September 30, 2006
General government:				
City commission	\$ 12,256,204	\$ 7,001,259	\$ -	\$ 19,257,463
Special services	1,843,268	-	-	1,843,268
City Manager	5,165,548	-	-	5,165,548
City secretary	35,447	-	-	35,447
Audit	6,394	-	-	6,394
Municipal court	265,430	185,537	75,386	375,581
Finance	119,757	-	4,480	115,277
Tax office	98,428	-	-	98,428
Purchasing	64,198	-	-	64,198
Legal	20,955	113,426	-	134,381
Personnel	489,372	-	18,288	471,084
Planning	77,720	17,516	15,333	79,903
MIS	1,055,333	17,285	12,060	1,060,558
MCN	357,120	-	6,809	350,311
City hall	7,101,032	116,422	-	7,217,454
CDBG	19,800	-	-	19,800
Bldg maintenance	22,612	-	-	22,612
Total general government	28,998,618	7,451,445	132,356	36,317,707
Public safety:				
Police	24,548,852	806,327	396,179	24,959,000
Animal control	-	14,450	-	14,450
Communication technology	23,555	-	-	23,555
Fire	7,346,365	992,662	928,047	7,410,980
Traffic safety	16,729,929	706,982	131,731	17,305,180
Downtown services	35,128	-	-	35,128
Inspection	57,014	14,325	13,499	57,840
Total public safety	48,740,843	2,534,746	1,469,456	49,806,133

Continued

City of McAllen, Texas
Capital Assets Used In the Operation of Governmental Funds
Schedule of Changes By Function and Activity (1)
For the fiscal year ended September 30, 2006

Function and Activity	Governmental Funds Capital Assets September 30, 2005	Additions	Deductions	Governmental Funds Capital Assets September 30, 2006
Highways & streets:				
Engineering	\$ 22,900,528	\$ 683,141	\$ 39,182	\$ 23,544,487
Street cleaning	284,921	-	-	284,921
Street maintenance	64,420,844	9,493,849	283,177	73,631,516
Street lighting	1,550,101	-	-	1,550,101
Sidewalks	141,191	-	-	141,191
Drainage	39,109,425	2,123,032	(307,820)	41,540,277
	<u>128,407,010</u>	<u>12,300,022</u>	<u>14,539</u>	<u>140,692,493</u>
Total highways and streets				
	<u>128,407,010</u>	<u>12,300,022</u>	<u>14,539</u>	<u>140,692,493</u>
Health & welfare:				
Health	318,510	-	12,894	305,616
Graffiti	51,418	-	-	51,418
	<u>369,928</u>	<u>-</u>	<u>12,894</u>	<u>357,034</u>
Total health and welfare				
	<u>369,928</u>	<u>-</u>	<u>12,894</u>	<u>357,034</u>
Culture & Recreation:				
Parks administration	6,436,503	-	-	6,436,503
Parks	23,308,094	5,134,748	41,382	28,401,460
Recreation	827,127	-	15,531	811,596
Pools	708,556	-	40,998	667,558
Senior citizen	345,396	-	-	345,396
Recreation center - lark	23,313	-	-	23,313
Recreation center - palmview	16,769	41,678	-	58,447
Qunita mazatlan	-	198,056	-	198,056
Library	11,012,189	777,296	56,495	11,732,990
Library north	482,622	35,779	-	518,401
Library south	1,176,657	21,592	13,445	1,184,804
	<u>44,337,226</u>	<u>6,209,149</u>	<u>167,850</u>	<u>50,378,524</u>
Total culture and recreation				
	<u>44,337,226</u>	<u>6,209,149</u>	<u>167,850</u>	<u>50,378,524</u>
Total governmental funds capital assets	<u>\$ 250,853,625</u>	<u>\$ 28,495,362</u>	<u>\$ 1,797,096</u>	<u>\$ 277,551,891</u>

(1) This schedule presents only the capital asset balances related to governmental funds. Accordingly, the capital assets reported in the internal service funds are excluded from the above amounts. Generally, the capital assets of internal service funds are included as governmental activities in the statement of net assets.

Concluded

STATISTICAL SECTION (Unaudited)

This part of the City of McAllen's comprehensive annual financial report presents detailed information as a context for understanding what the information in the financial statements, note disclosures, and required supplementary information says about the government's overall financial health.

Contents

Financial Trends

These schedules contain trend information to help the reader understand how the government's financial performance and well-being have changed over time.

Revenue Capacity

These schedules contain information to help the reader assess the government's most significant local revenue source, the property tax.

Debt Capacity

These schedules present information to help the reader assess the affordability of the government's current levels of outstanding debt and the government's ability to issue additional debt in the future.

Demographic and Economic Information

These schedules offer demographic and economic indicators to help the reader understand the environment within which the government's financial activities take place.

Operating Information

These schedules contain service and infrastructure data to help the reader understand how the information in the government's financial report related to the services the government provides and the activities it performs.

Other Information

Information that City considers useful to its citizens is included in this section.

Sources: Unless otherwise noted, the information in these schedules is derived from the comprehensive annual financial report for the relevant year.

City of McAllen, Texas, Texas, Texas
Net Assets by Component
Last Five Years
(accrual basis of accounting)

	Fiscal Year				
	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>
Governmental activities					
Invested in capital assets, net of related debt	\$ 86,076,359	\$120,350,059	\$139,183,586	\$151,721,693	\$171,986,623
Restricted	34,906,089	21,081,571	10,395,232	11,778,142	17,921,869
Unrestricted	70,787,338	78,100,912	85,630,973	89,869,113	87,922,212
Total governmental activities net assets	<u>\$191,769,786</u>	<u>\$219,532,542</u>	<u>\$235,209,791</u>	<u>\$253,368,948</u>	<u>\$277,830,704</u>
Business-type activities					
Invested in capital assets, net of related debt	\$131,884,763	\$134,166,341	\$135,776,847	\$173,466,134	\$209,134,340
Restricted	49,555,807	53,387,435	64,711,780	47,033,574	44,571,692
Unrestricted	11,383,662	12,008,473	16,621,053	14,094,199	19,168,546
Total business-type activities net assets	<u>\$192,824,232</u>	<u>\$199,562,249</u>	<u>\$217,109,680</u>	<u>\$234,593,907</u>	<u>\$272,874,578</u>
Primary government					
Invested in capital assets, net of related debt	\$217,961,122	\$254,516,400	\$274,960,433	\$325,187,827	\$381,120,963
Restricted	84,461,896	74,469,006	75,107,012	58,811,716	62,493,561
Unrestricted	82,171,000	90,109,385	102,252,026	103,963,312	107,090,758
Total primary government activities net assets	<u>\$384,594,018</u>	<u>\$419,094,791</u>	<u>\$452,319,471</u>	<u>\$487,962,855</u>	<u>\$550,705,282</u>

City of McAllen, Texas
Changes in Net Assets
Last Five Years
(accrual basis of accounting)

	Fiscal Year				
	2002	2003	2004	2005	2006
Expenses					
Governmental activities:					
General government	\$ 12,906,438	\$ 13,182,932	\$ 14,690,963	\$ 16,625,820	\$ 17,758,574
Public safety	34,384,019	35,762,375	38,751,270	41,608,209	41,964,290
Highways and streets	10,137,676	11,047,814	12,712,852	14,884,137	18,056,177
Health and welfare	5,142,952	5,404,155	5,641,957	4,024,532	3,322,904
Culture and recreation	10,644,143	11,326,712	12,367,664	12,478,352	14,182,788
Interest on long-term debt	1,737,096	932,771	260,546	17,377	29,704
Total governmental activities expenses	<u>74,952,324</u>	<u>77,656,759</u>	<u>84,425,252</u>	<u>89,638,427</u>	<u>95,314,437</u>
Business-type activities:					
Water services	9,604,181	9,323,615	9,873,183	11,829,462	13,011,620
Sewer services	7,199,937	7,334,088	7,667,018	8,644,246	9,110,829
Sanitation services	8,012,050	8,365,789	9,273,893	10,053,540	10,960,409
Golf course services	1,136,123	1,139,483	1,190,232	1,336,992	1,419,748
Civic center services	960,076	1,030,029	1,370,414	1,463,999	1,481,792
Airport services	3,834,761	3,787,879	4,316,654	4,497,261	4,655,977
Transit services	555,102	603,871	895,522	634,498	748,048
Bus services	-	-	-	768,139	1,051,887
Bridge services	5,643,188	5,370,822	5,855,638	5,868,513	6,105,402
Total business-type activities expenses	<u>36,945,418</u>	<u>36,955,576</u>	<u>40,442,554</u>	<u>45,096,650</u>	<u>48,545,712</u>
Total primary government expenses	<u>\$ 111,897,742</u>	<u>\$ 114,612,335</u>	<u>\$ 124,867,806</u>	<u>\$ 134,735,077</u>	<u>\$ 143,860,149</u>
Program Revenues					
Governmental activities:					
Charges for services:					
General government	\$ 1,014,266	\$ 1,371,627	\$ 1,470,547	\$ 1,608,627	\$ 1,861,027
Public safety	2,894,411	3,495,679	3,900,835	3,768,756	3,950,042
Highways and streets	381,288	499,383	567,005	555,666	609,428
Health and welfare	57,481	52,670	58,888	54,613	71,060
Culture and recreation	685,938	655,806	666,244	676,694	773,555
Operating grants and contributions	4,230,204	2,813,269	4,327,817	3,935,159	1,917,181
Capital grants and contributions	3,545,332	5,942,400	8,287,196	7,067,128	8,946,949
Total governmental activities program revenues	<u>12,808,920</u>	<u>14,830,834</u>	<u>19,278,532</u>	<u>17,666,643</u>	<u>18,129,242</u>
Business-type activities:					
Charges for services:					
Water services	11,319,094	10,738,905	11,511,690	13,548,751	15,209,812
Sewer services	8,166,020	8,177,699	9,246,476	10,506,385	11,552,515
Sanitation services	8,607,277	9,060,365	10,215,117	11,171,374	11,483,355
Bridge services	10,681,943	11,287,789	11,526,384	12,571,155	12,939,661
Other	3,851,606	4,310,234	4,951,097	5,005,750	5,580,798
Operating grants and contributions	-	-	-	193,415	491,251
Capital grants and contributions	3,148,247	3,141,312	1,582,526	5,136,724	8,454,071
Total business-type activities program revenues	<u>45,774,187</u>	<u>46,716,304</u>	<u>49,033,290</u>	<u>58,133,554</u>	<u>65,711,463</u>
Total primary government program revenues	<u>\$ 58,583,107</u>	<u>\$ 61,547,138</u>	<u>\$ 68,311,822</u>	<u>\$ 75,800,197</u>	<u>\$ 83,840,705</u>

(Continued)

City of McAllen, Texas
Changes in Net Assets
Last Five Years
(accrual basis of accounting)

	Fiscal Year				
	2002	2003	2004	2005	2006
Net (Expense) Revenue					
Governmental activities	\$ (62,143,404)	\$ (62,825,925)	\$ (65,146,720)	\$ (71,971,784)	\$ (77,185,195)
Business-type activities	8,828,769	9,760,728	8,590,736	13,036,904	17,165,751
Total primary government net expense	<u>\$ (53,314,635)</u>	<u>\$ (53,065,197)</u>	<u>\$ (56,555,984)</u>	<u>\$ (58,934,880)</u>	<u>\$ (60,019,444)</u>
General Revenues and Other Changes in Net Assets					
Governmental activities					
Taxes					
Property taxes, levied for general purposes	\$ 15,936,574	\$ 17,369,817	\$ 21,481,560	\$ 22,967,254	\$ 24,666,561
Property taxes, levied for debt service	2,511,435	2,522,956	-	-	-
Hotel occupancy taxes	2,841,902	2,807,577	3,110,916	3,309,317	3,475,170
Sales tax	39,293,407	41,575,736	45,601,935	48,590,129	53,449,062
Franchise taxes	5,496,448	5,456,943	5,776,414	6,046,640	6,246,017
Unrestricted investment earnings	4,482,653	2,311,733	1,914,116	2,406,266	4,926,087
Royalties	-	-	-	5,635,649	4,773,487
Gain on sale of capital assets	-	-	-	-	81,418
Miscellaneous	5,445,353	11,071,206	8,790,048	2,284,804	3,992,983
Transfers	<u>6,836,592</u>	<u>7,472,708</u>	<u>(5,851,020)</u>	<u>(1,109,118)</u>	<u>36,166</u>
Total governmental activities	<u>82,844,364</u>	<u>90,588,676</u>	<u>80,823,969</u>	<u>90,130,941</u>	<u>101,646,951</u>
Business-type activities					
Unrestricted investment earnings	4,264,602	3,048,557	2,187,397	2,053,804	3,396,648
Gain on sale of capital assets	-	-	-	-	16,296,038
Miscellaneous	2,315,779	1,401,435	918,278	1,284,401	1,458,400
Transfers	<u>(6,836,592)</u>	<u>(7,472,708)</u>	<u>5,851,020</u>	<u>1,109,118</u>	<u>(36,166)</u>
Total business-type activities	<u>(256,211)</u>	<u>(3,022,716)</u>	<u>8,956,695</u>	<u>4,447,323</u>	<u>21,114,920</u>
Total primary government	<u>\$ 82,588,153</u>	<u>\$ 87,565,960</u>	<u>\$ 89,780,664</u>	<u>\$ 94,578,264</u>	<u>\$ 122,761,871</u>
Change in Net Assets					
Governmental activities	\$ 20,700,960	\$ 27,762,751	\$ 15,677,249	\$ 18,159,157	\$ 24,461,756
Business-type activities	8,572,558	6,738,012	17,547,431	17,484,227	38,280,671
Total primary government net expense	<u>\$ 29,273,518</u>	<u>\$ 34,500,763</u>	<u>\$ 33,224,680</u>	<u>\$ 35,643,384</u>	<u>\$ 62,742,427</u>

(Concluded)

City of McAllen, Texas
Fund Balances - Governmental Funds
Last Ten Years
(modified accrual basis of accounting)

	Fiscal Year									
	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>
General Fund										
Reserved	\$ 306,848	\$ 572,139	\$ 190,832	\$ 1,003,384	\$ 2,313,348	\$ 1,643,763	\$ 1,495,366	\$ 1,909,821	\$ 1,556,584	\$ 1,610,164
Unreserved	<u>18,604,124</u>	<u>22,077,107</u>	<u>23,668,674</u>	<u>28,953,769</u>	<u>35,209,759</u>	<u>34,782,640</u>	<u>40,898,712</u>	<u>45,747,278</u>	<u>53,332,096</u>	<u>37,695,319</u>
Total General Fund	<u>\$ 18,910,972</u>	<u>\$ 22,649,246</u>	<u>\$ 23,859,506</u>	<u>\$ 29,957,153</u>	<u>\$ 37,523,107</u>	<u>\$ 36,426,403</u>	<u>\$ 42,394,078</u>	<u>\$ 47,657,099</u>	<u>\$ 54,888,680</u>	<u>\$ 39,305,483</u>
All Other Governmental Funds										
Reserved	\$ -	\$ -	\$ 945,000	\$ 1,205,457	\$ 6,758,944	\$ 8,821,690	\$ 15,768,935	\$ 5,367,655	\$ 5,497,255	\$ 15,054,620
Unreserved, reported in:										
Special revenue funds	2,731,540	26,029,417	21,357,857	19,937,044	20,826,131	22,775,904	3,673,604	5,010,942	6,255,048	3,078,131
Capital projects funds	6,937,910	4,656,695	5,708,057	5,081,077	16,341,426	25,158,441	21,249,637	22,500,823	18,062,511	34,036,926
Debt service funds	<u>2,080,583</u>	<u>2,355,129</u>	<u>2,620,993</u>	<u>2,916,190</u>	<u>3,175,516</u>	<u>3,304,666</u>	<u>4,872,102</u>	-	-	-
Total all other governmental funds	<u>\$ 11,750,033</u>	<u>\$ 33,041,241</u>	<u>\$ 30,631,907</u>	<u>\$ 29,139,768</u>	<u>\$ 47,102,017</u>	<u>\$ 60,060,701</u>	<u>\$ 45,564,278</u>	<u>\$ 32,879,420</u>	<u>\$ 29,814,814</u>	<u>\$ 52,169,677</u>

City of McAllen, Texas
Changes in Fund Balances - Governmental Funds
Last Ten Years
(modified accrual basis of accounting)

	Fiscal Year									
	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Revenues										
Taxes	\$ 41,743,546	\$ 50,780,347	\$ 54,079,288	\$ 58,426,137	\$ 63,041,158	\$ 65,760,216	\$ 69,506,277	\$ 75,683,872	\$ 80,911,770	\$ 87,632,429
Licenses and permits	623,967	653,378	787,681	792,954	824,608	872,751	1,434,515	1,401,360	1,481,650	1,486,878
Intergovernmental	7,543,118	3,288,526	5,144,308	5,938,509	8,576,131	5,954,380	5,504,875	8,279,063	5,985,818	3,261,927
Charges for services	2,236,958	2,206,588	2,354,420	2,486,082	2,699,727	2,830,128	2,991,704	3,403,159	3,385,392	3,969,257
Fines and forfeitures	1,853,300	2,147,815	2,385,269	2,379,275	2,338,137	2,070,902	2,179,769	2,344,084	2,204,354	2,214,624
Investment earnings	1,717,604	3,061,026	2,360,553	4,117,036	5,861,970	3,648,354	2,046,152	1,686,288	2,067,760	4,177,110
Other	1,670,723	2,255,435	5,673,877	6,875,408	16,245,172	5,229,689	14,078,982	9,269,224	7,998,219	9,210,805
Total revenues	57,389,216	64,393,115	72,785,396	81,015,401	99,586,903	86,366,420	97,742,274	102,067,050	104,034,963	111,953,030
Expenditures										
General government	11,349,093	14,866,348	12,955,202	13,305,402	14,091,828	13,167,773	13,146,651	14,630,536	16,575,551	17,695,852
Public safety	18,805,201	21,604,550	24,076,366	27,209,400	35,741,264	36,070,171	33,889,335	36,472,347	39,195,430	40,954,974
Highways and streets	5,713,117	8,257,639	10,257,885	7,572,045	7,166,954	7,130,013	7,609,585	8,741,434	10,522,513	13,370,846
Health and welfare	4,573,307	1,691,191	3,456,136	6,336,776	5,108,889	5,023,136	5,408,861	5,645,362	4,007,202	3,333,002
Culture and recreation	7,195,028	7,284,569	10,295,971	14,827,494	9,900,452	10,273,642	10,281,247	11,193,195	11,283,389	12,944,311
Capital outlay	3,827,383	4,808,267	7,718,349	6,277,115	2,974,890	5,192,130	16,329,029	20,725,447	17,132,311	21,677,783
Debt service:										
Principal	2,895,000	2,370,000	2,830,000	2,550,000	2,640,000	2,725,000	25,970,000	5,915,000	25,000	25,000
Interest	1,276,622	2,442,084	2,103,390	2,053,992	1,910,666	1,759,168	1,109,026	314,546	17,472	15,762
Total expenditures	55,634,751	63,324,648	73,693,299	80,132,224	79,534,943	81,341,033	113,743,734	103,637,867	98,758,868	110,017,530
Excess of revenues over (under) expenditures	1,754,465	1,068,467	(907,903)	883,177	20,051,960	5,025,387	(16,001,460)	(1,570,817)	5,276,095	1,935,500
Other Financing Sources (Uses)										
Bond proceeds	-	25,000,000	-	-	-	-	-	-	-	4,800,000
Advances to other funds	-	-	(2,150,000)	-	-	-	-	-	-	-
Other	-	-	(104,991)	(334,757)	30,428	-	-	-	-	-
Transfers in	5,953,007	5,456,909	11,203,514	12,991,532	21,674,700	22,313,291	17,792,316	26,698,057	15,644,414	37,747,066
Transfers out	(5,033,700)	(6,495,894)	(9,239,694)	(8,934,444)	(16,228,885)	(15,476,699)	(10,319,608)	(32,549,077)	(16,753,532)	(37,710,900)
Total other financing sources (uses)	919,307	23,961,015	(291,171)	3,722,331	5,476,243	6,836,592	7,472,708	(5,851,020)	(1,109,118)	4,836,166
Net change in fund balances	\$ 2,673,772	\$ 25,029,482	\$ (1,199,074)	\$ 4,605,508	\$ 25,528,203	\$ 11,861,979	\$ (8,528,752)	\$ (7,421,837)	\$ 4,166,977	\$ 6,771,666
Debt service as a percentage of noncapital expenditures	8.05%	8.22%	7.48%	6.23%	5.94%	5.89%	27.80%	7.51%	0.05%	0.05%

City of McAllen, Texas
Tax Revenues by Source - Governmental Funds
Last Ten Years
(modified accrual basis of accounting)

<u>Fiscal Year</u>	<u>Property</u>	<u>Sales</u>	<u>Franchise</u>	<u>Hotel</u>	<u>Total</u>
1997	\$ 14,487,566	\$ 20,731,293	\$ 4,523,927	\$ 2,000,760	\$ 41,743,546
1998	14,869,275	29,437,107	4,164,736	2,309,229	50,780,347
1999	15,548,987	31,542,351	4,599,979	2,387,971	54,079,288
2000	16,141,020	35,369,124	4,359,640	2,556,353	58,426,137
2001	16,961,501	37,038,847	6,128,118	2,912,692	63,041,158
2002	18,173,534	39,248,332	5,496,448	2,841,902	65,760,216
2003	19,666,020	41,575,736	5,456,944	2,807,577	69,506,277
2004	21,194,607	45,601,935	5,776,414	3,110,916	75,683,872
2005	22,965,684	48,590,129	6,046,640	3,309,317	80,911,770
2006	24,462,180	53,449,062	6,246,017	3,475,170	87,632,429
Change 1997-2006	68.85%	157.82%	38.07%	73.69%	109.93%

City of McAllen, Texas
Taxable Sales by Category
Last Ten Years
(in Millions)

	Fiscal Year									
	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Retail	\$1,010	\$1,065	\$1,151	\$1,256	\$ 1,349	\$ 1,438	\$ 1,494	\$ 1,644	\$ 1,765	\$ 1,420
Services	91	105	108	122	136	150	168	191	188	131
Wholesale	72	94	100	106	108	130	138	150	154	121
Other	51	54	60	67	66	72	87	109	126	165
Total - All Industries	<u>\$1,224</u>	<u>\$1,318</u>	<u>\$1,419</u>	<u>\$1,551</u>	<u>\$ 1,659</u>	<u>\$ 1,790</u>	<u>\$ 1,887</u>	<u>\$ 2,094</u>	<u>\$ 2,233</u>	<u>\$ 1,837</u>

(1)

Other includes Agricultural/Forestry, Mining, Construction, Manufacturing, Transportation/Utilities, Financial Services, and Other

Percent Allocation of Taxable Sales - Retail Only

Building Materials						6%	6%	8%	8%	8%
General Merchandise						29%	30%	29%	29%	30%
Food Stores						7%	6%	6%	6%	6%
Automotive						4%	4%	4%	4%	3%
Clothing						16%	16%	17%	17%	18%
Home Furnishings						12%	12%	12%	12%	13%
Restaurants						14%	14%	14%	14%	13%
Miscellaneous Retail						11%	11%	10%	10%	10%
Total	<u>N/A</u>	<u>N/A</u>	<u>N/A</u>	<u>N/A</u>	<u>N/A</u>	<u>100%</u>	<u>100%</u>	<u>100%</u>	<u>100%</u>	<u>100%</u>

(1) Represents only three quarters of fiscal year.

N/A data not available

Source: State Comptroller's Office

The State Comptroller's Office does not report detail of the Retail category at the city level due to confidentiality issues. The allocation presented, which is by MSA is intended to give some indication.

City of McAllen, Texas
Assessed Value and Actual Value of Taxable Property (1)
Last Ten Fiscal Years

Fiscal Year Ended September 30	Tax Roll Year	Residential Property	Commercial Property	Industrial Property	Minerals	Other	Less: Tax-Exempt Property	Total Net Taxable Assessed Value	Total Direct Tax Rate
1997	1996	\$ 1,728,790,354	\$ 856,989,101	\$ 51,153,205	\$ 73,051,490	\$ 727,020,995	\$ 331,312,964	\$ 3,105,692,181	\$ 0.47
1998	1997	1,827,990,830	867,332,564	48,355,835	76,195,260	753,815,146	346,441,000	3,227,248,635	0.44
1999	1998	1,906,138,369	980,642,323	51,129,669	89,185,630	799,082,003	365,844,841	3,460,333,153	0.42
2000	1999	1,974,071,583	1,031,103,269	49,645,302	78,880,150	826,829,984	398,346,390	3,562,183,898	0.42
2001	2000	2,161,758,089	1,107,368,050	47,686,451	87,629,700	896,955,734	428,058,382	3,873,339,642	0.42
2002	2001	2,284,318,571	1,168,164,614	64,557,636	128,330,930	1,012,028,207	451,884,434	4,205,515,524	0.42
2003	2002	2,477,186,640	1,197,199,022	68,039,396	124,871,890	1,020,579,282	491,750,713	4,396,125,517	0.42
2004	2003	2,665,073,421	1,224,284,764	61,705,091	124,225,970	1,104,159,643	522,550,108	4,656,898,781	0.42
2005	2004	2,867,999,139	1,395,082,178	76,302,577	145,037,761	1,248,335,732	544,310,822	5,188,446,565	0.42
2006	2005	3,012,119,776	1,524,395,866	77,484,714	159,146,526	1,290,466,084	536,338,311	5,527,274,655	0.42

(1) The assessed value and actual value of properties is the same amount. The appraisal district appraises all property at market value.
A column for the actual value is not reflected.

Source: City of McAllen Tax Office

Schedule 8

City of McAllen, Texas
Direct and Overlapping Property Tax Rates
Last Ten Fiscal Years
(rate per \$100 of assessed value)

Fiscal Year Ended September 30	Tax Roll Year	City Direct Rates			Overlapping Rates					
		General Obligation			School Districts					Hidalgo County
		Basic Rate	Debt Service	Total Direct	McAllen	Hidalgo	Edinburg	Sharyland	P.S.J.A	
1997	1996	\$ 0.33	\$ 0.14	\$ 0.47	\$ 1.45	\$ 1.54	\$ 1.47	\$ 1.41	\$ 1.57	\$ 0.46
1998	1997	0.32	0.12	0.44	1.45	1.57	1.55	0.15	1.59	0.44
1999	1998	0.33	0.09	0.42	1.45	1.57	1.55	1.46	1.59	0.44
2000	1999	0.35	0.07	0.42	1.53	1.57	1.55	1.54	1.63	0.50
2001	2000	0.35	0.07	0.42	1.53	1.57	1.41	1.54	1.62	0.52
2002	2001	0.36	0.06	0.42	1.58	1.57	1.55	1.54	1.62	0.52
2003	2002	0.36	0.06	0.42	1.54	1.57	1.59	1.54	1.61	0.59
2004	2003	0.36	0.06	0.42	1.54	1.57	1.59	1.54	1.61	0.59
2005	2004	0.42	-	0.42	1.54	1.59	1.58	1.57	1.61	0.59
2006	2005	0.42	-	0.42	1.54	1.59	1.59	1.57	1.61	0.59

Source: Individual entities or through their websites

City of McAllen, Texas
Principal Property Tax Payers
Current Year and Nine Years Ago

<u>Taxpayer</u>	<u>2006</u>			<u>1997</u>		
	<u>Taxable Assessed Value</u>	<u>Rank</u>	<u>Percentage of Total City Taxable Assessed Value</u>	<u>Taxable Assessed Value</u>	<u>Rank</u>	<u>Percentage of Total City Taxable Assessed Value</u>
Universal Health Services	\$ 90,906,259	1	1.42%	\$ 38,571,116	1	1.24%
Rio Grande Regional Hospital	80,627,950	2	1.45%	19,924,470	4	0.64%
Simon Property Group	44,108,254	3	0.80%	25,607,678	3	0.82%
AEP Texas Central Co.	36,735,340	4	0.66%	16,649,020	7	0.54%
Wal-Mart Stores	35,274,128	5	0.64%	17,084,733	6	0.55%
Total E&P USA, Inc.	32,238,960	6	0.58%	-	-	-
Texas State Bank	30,611,330	7	0.55%	-	-	-
Sprint Spectrum LP	24,587,890	8	0.44%	-	-	-
H.E. Butt Grocery Co.	23,672,753	9	0.43%	17,240,171	5	0.56%
Southwestern Bell	22,968,540	10	0.42%	26,129,360	2	0.84%
Las Tiendas Plaza Partnership	-			12,896,319	8	0.42%
Valley Coca-Cola Bottling Co.	-			12,044,044	9	0.39%
Medcath of McAllen	-			11,098,331	10	0.36%
	<u>\$ 421,731,404</u>		7.62%	<u>\$ 197,245,242</u>		6.35%

Source: City of McAllen Tax Office

CITY OF McALLEN, TEXAS
PROPERTY TAX LEVIES AND COLLECTIONS
Last Two Fiscal Years
(Unaudited)

Fiscal Year	Tax Roll Year	Taxes Levied Within the Fiscal Year of the Levy	Adjustments to Levy in the Fiscal Year	Adjusted Taxes Levied for the Fiscal Year	Collected Within the Fiscal Year of the Levy		Collections in Subsequent Years	Total Collections	
					Amount	Percentage of Levy		Amount	
1997	1996	\$ 14,074,997	\$ - (1)	\$ 14,074,997	\$ 13,219,050	93.92 %	\$ 813,503	\$ 14,032,553	
1998	1997	13,596,399	- (1)	13,596,399	13,221,561	97.24	330,554	13,552,115	
1999	1998	14,578,384	63,515	14,641,899	13,788,245	94.17	796,144	14,584,389	
2000	1999	15,007,481	415,577	15,423,058	14,532,402	94.23	811,606	15,344,008	
2001	2000	16,318,380	465,165	16,783,545	15,292,213	91.11	1,325,111	16,617,324	
2002	2001	17,717,837	166,123	17,883,960	16,377,568	91.58	1,269,737	17,647,305	
- 2003	2002	18,520,877	294,960	18,815,837	17,598,726	93.53	954,020	18,552,746	
313 - 2004	2003	19,619,514	579,210	20,198,724	19,170,840	94.91	684,669	19,855,509	
- 2005	2004	21,858,925	328,104	22,187,029	20,938,827	94.37	685,420	21,624,247	
- 2006	2005	23,248,262	349,024	23,597,286	22,358,944	94.75	-	22,358,944	

(1) Data Unavailable

Source: City of McAllen Tax Office

CITY OF McALLEN, TEXAS
RATIOS OF OUTSTANDING DEBT BY TYPE
Last Ten Fiscal Years
(Unaudited)

Fiscal Year	Governmental Activities			Business-Type Activities					Total Primary Government	Percentage of Personal Income ^a	Per Capita ^a
	General Obligation Bonds	Sales Tax Revenue Obligations	Tax Notes	Water Revenue Bonds	Sewer Revenue Bonds	Certificates of Obligation	International Toll Bridge Bonds	Notes			
1997	\$ 20,350,000	\$ -		\$ 4,870,000	\$ 4,190,000	\$ 500,000	\$ 1,960,000	\$ -	\$ 31,870,000	2.30 %	\$ 2,290
1998	17,980,000	25,000,000		4,300,000	3,795,000	150,000	1,400,000	-	52,625,000	3.58	3,648
1999	15,930,000	24,220,000		14,632,700	8,752,300	-	822,071	-	64,357,071	4.08	4,308
2000	14,195,000	23,405,000		29,090,350	13,674,650	-	335,243	-	80,700,243	4.84	5,149
2001	12,405,000	22,555,000		28,411,450	12,978,550	-	170,243	-	76,520,243	4.29	4,793
2002	10,565,000	21,670,000		27,652,250	12,232,750	-	2,300,000	-	74,420,000	3.95	4,517
2003	5,890,000	375,000		27,022,400	11,277,600	-	2,120,000	2,000,000	48,685,000	2.55	3,007
2004	-	350,000		17,066,400	19,558,600	-	1,930,000	2,000,000	40,905,000	N/A	N/A
2005	-	325,000		24,953,600	20,151,400	-	1,730,000	2,000,000	49,160,000	2.44	3,047
2006	-	300,000	4,800,000	24,200,400	19,014,600	-	1,520,000	2,000,000	51,835,000	N/A	N/A

N/A Information not available

Note: Details regarding the City's outstanding debt can be found in the notes to the financial statements.

^aSee Schedule 16 for personal income and population data.

CITY OF McALLEN, TEXAS
RATIO OF GENERAL BONDED DEBT OUTSTANDING
Last Ten Fiscal Years
(Unaudited)

<u>Fiscal Year</u>	<u>General Obligation Bonds</u>	<u>Percentage of Actual Taxable Value of Property^a</u>	<u>Per Capita^b</u>
1997	\$ 20,350,000	0.66 %	\$ 205
1998	17,980,000	0.56 %	177
1999	15,930,000	0.46 %	151
2000	14,195,000	0.40 %	133
2001	12,405,000	0.32 %	111
2002	10,565,000	0.25 %	92
2003	5,890,000	0.13 %	50
2004	-	- %	N/A
2005	-	- %	N/A
2006	-	- %	N/A

Note: Details regarding the city's outstanding debt can be found in the notes to the financial statements.

^aSee Schedule 7 for property value data.

^bSee Schedule 16 for population data.

CITY OF McALLEN, TEXAS
DIRECT AND OVERLAPPING GOVERNMENTAL ACTIVITIES DEBT
As of September 30, 2006
(Unaudited)

<u>Governmental Unit</u>	<u>Debt Outstanding</u>	<u>Estimated Percentage Applicable</u>	<u>Estimated Share of Overlapping Debt</u>
Debt repaid with property taxes			
Hidalgo County	\$ 125,665,000 (2)	100.00%	\$ 125,665,000
McAllen Independent School District	133,060,936 (1)	94.04%	125,130,504
Sharyland Independent School District	35,929,094 (1)	4.68%	1,681,482
P.S.J.A Independent School District	118,015,000 (1)	4.59%	5,416,889
Hidalgo Independent School District	28,890,000 (1)	0.45%	130,005
Edinburg Independent School District	97,192,855 (1)	0.21%	<u>204,105</u>
Subtotal, overlapping debt			258,227,985
City of McAllen (direct debt)	-	100.00%	<u>-</u>
Total direct and overlapping debt			<u><u>\$ 258,227,985</u></u>

Source: (1) Debt outstanding data collected through the State of Texas Education Agency's web site.

(2) Debt outstanding data collected through the entity's web site.

**City of McAllen, Texas
Legal Debt Margin Information
Last Ten Fiscal Years**

Legal Debt Margin Calculation for Fiscal Year 2006

Assessed value	\$ 5,527,274,655
Debt limit (5% of assessed value)	276,363,733
Debt applicable to limit:	
General obligation bonds	-
Less: Amount set aside for repayment of general obligation debt	-
	<u>-</u>
Total net debt applicable to limit	<u>-</u>
Legal debt margin	<u>\$ 276,363,733</u>

	<u>Fiscal Year</u>									
	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>
Debt limit	\$ 155,284,609	\$ 161,362,435	\$ 173,016,658	\$ 178,109,195	\$ 193,666,982	\$ 210,275,776	\$ 219,806,276	\$ 232,844,939	\$ 259,422,328	\$ 276,363,733
Total net debt applicable to limit	<u>18,269,417</u>	<u>15,624,871</u>	<u>13,309,007</u>	<u>11,278,810</u>	<u>9,229,484</u>	<u>7,260,334</u>	<u>1,017,898</u>	<u>-</u>	<u>-</u>	<u>-</u>
Legal debt margin	\$ 137,015,192	\$ 145,737,564	\$ 159,707,651	\$ 166,830,385	\$ 184,437,498	\$ 203,015,442	\$ 218,788,378	\$ 232,844,939	\$ 259,422,328	\$ 276,363,733
Total net debt applicable to the limit as a percentage of debt limit	13.33%	10.72%	8.33%	6.76%	5.00%	3.58%	0.47%	0.00%	0.00%	0.00%

Note: State statutes do not prescribe a debt limit; however, by custom,
a practical economic debt limit of 5% of the assessed valuation is used.

CITY OF McALLEN, TEXAS
PLEDGED-REVENUE COVERAGE
Last Ten Fiscal Years
(Unaudited)

Fiscal Year	Water Revenue Bonds						Sewer Revenue Bonds					
	Total Revenues (a)	Less: Operating Expenses (b)	Net Available Revenue	Debt Service		Coverage	Total Revenues (a)	Less: Operating Expenses (b)	Net Available Revenue	Debt Service		Coverage
				Principal	Interest					Principal	Interest	
1997	\$ 7,914,855	\$ 5,093,106	\$ 2,821,749	\$ 225,000	\$ 249,163	5.95	\$ 6,206,165	\$ 4,237,195	\$ 1,968,970	\$ 50,000	\$ 149,747	9.86
1998	8,680,396	5,198,677	3,481,719	570,000	203,323	4.50	6,656,018	3,850,196	2,805,822	395,000	147,675	5.17
1999	9,103,734	5,814,544	3,289,190	575,000	428,568	3.28	7,241,418	4,135,347	3,106,071	410,000	268,594	4.58
2000	11,546,355	5,935,842	5,610,513	142,350	766,798	6.17	7,899,827	4,310,674	3,589,153	477,650	402,380	4.08
2001	13,620,766	6,101,989	7,518,777	678,900	1,559,373	3.36	8,919,843	4,428,743	4,491,100	696,100	680,989	3.26
2002	13,595,999	6,782,989	6,813,010	759,200	1,436,021	3.10	9,731,320	4,634,025	5,097,295	745,800	692,573	3.54
2003	13,306,102	6,937,001	6,369,101	629,850	1,447,424	3.07	9,494,989	4,722,740	4,772,249	955,150	611,917	3.05
2004	13,363,195	7,620,642	5,742,553	564,000	919,797	3.87	9,980,780	5,105,759	4,875,021	1,111,000	1,049,542	2.26
2005	15,080,924	8,595,829	6,485,095	597,600	1,105,234	3.81	11,470,919	5,586,088	5,884,831	1,172,400	1,044,476	2.65
2006	17,354,452	9,335,864	8,018,588	753,200	1,202,211	4.10	13,440,241	6,916,004	6,524,237	1,136,800	952,950	3.12

Note: (a) Includes operating revenues and non-operating revenues

(b) Operating expenses do not include interest, depreciation, or amortization expenses.

CITY OF McALLEN, TEXAS
DEMOGRAPHIC AND ECONOMIC STATISTICS
Last Ten Calendar Years
(Unaudited)

<u>Year</u>	<u>Estimated Population</u>	<u>Personal Income (thousands of dollars)</u>	<u>Per Capita Personal Income</u>	<u>Median Age</u>	<u>School Enrollment</u>	<u>Unemployment Rate</u>
1997	99,458	\$ 1,383,858	\$ 13,914	29.8	21,704	12.40%
1998	101,802	1,468,697	14,427	30.0	21,859	12.07%
1999	105,694	1,578,962	14,939	30.1	21,388	9.94%
2000	106,414	1,667,827	15,673	30.5	21,625	9.25%
2001	111,806	1,784,870	15,964	30.7	21,970	8.89%
2002	114,424	1,885,364	16,477	30.9	23,360	8.41%
2003	118,073	1,911,601	16,190	30.0	23,304	9.40%
2004	121,700	Not Available	Not Available	*	23,326	7.50%
2005	125,000	2,017,000	16,136	28.7	24,276	5.50%
2006	129,500 (A)	Not Available (B)	Not Available	* (C)	24,531 (D)	4.70% (E)

SOURCE:

(A) U.S Census Bureau-2000 and local estimates--City's planning department.

(B) U.S Census Bureau-2000 and 2005 community survey profile.

(C) U.S Census Bureau-2000 and 2005 community survey profile.

(D) McAllen Independent School District

(E) Texas Workforce Commission

**City of McAllen, Texas
Principal Employers in the Area**

2006				1997			
<u>Employer</u>	<u>Employees</u>	<u>Rank</u>	<u>Percentage of Total City Employment</u>	<u>Employer</u>	<u>Employees</u>	<u>Rank</u>	<u>Percentage of Total City Employment</u>
McAllen Independent School District	3,451	1	5.83%	McAllen Independent School District	Over 1,000	1	
City of McAllen	1,801	2	3.04%	City of McAllen	Over 1,000	2	
McAllen Medical Center	1,700	3	2.87%	McAllen Medical Center	Over 1,000	3	
South Texas College	1,664	4	2.81%	Wal-Mart	Over 1,000	4	
Rio Grande Regional Hospital	1,020	5	1.72%	Rio Grande Regional Hospital	Less than 1,000	5	
Wal-Mart	500	6	0.84%	K-Mart Stores	Less than 1,000	6	
International Bank of Commerce	425	7	0.72%	Levi Strauss	Less than 1,000	7	
Texas State Bank	400	8	0.68%	Rio Grande Foods	Less than 1,000	8	
Macy's	354	9	0.60%	Dillards	Less than 1,000	9	
J C Penny Company	350	10	0.59%	Allison Manufacturing	Less than 1,000	10	
Total	<u>11,665</u> (A)		<u>19.69%</u> (B)		<u>-</u> (C)		<u>0.00%</u> (D)

Unable to calculate these
columns due to insufficient
data

Source:

- (A) McAllen Chamber of Commerce
 (B) Texas Workforce Commission for total city employment
 (C) Official statement document on City of McAllen 1998 bond offering document and Texas Employment Commission
 (D) Total employment at December 1997 was 42,936 as per Texas Employment Commission for total city employment
 as indicated in the bond offering document

CITY OF McALLEN, TEXAS
FULL-TIME EQUIVALENT CITY GOVERNMENT EMPLOYEES BY FUNCTION/PROGRAM,
Last Ten Fiscal Years
(Unaudited)

Function/Program	full time only	full time only	full time only	full time only	full time only	full time only	full time only	full time only	full time only	
	Fiscal Year									
	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
General Government	78	93	97	106	121	129	141	151	157	166
Public Safety:										
Police:										
Officers	201	235	243	230	246	246	256	258	259	261
Civilians	110	117	112	105	120	116	127	131	134	136
Fire:										
Fire fighters and officers	126	126	127	126	126	127	130	133	138	145
Civilians	8	8	8	6	8	8	10	10	11	11
Other	25	39	41	43	45	51	57	65	66	66
Highways and streets	45	71	74	72	81	91	99	101	112	112
Health and welfare	26	16	16	12	12	13	13	15	15	15
Culture and Recreational	97	108	114	107	147	160	163	169	171	173
Water services	77	77	88	84	88	99	100	108	119	120
Sewer services	52	52	52	55	57	59	65	67	68	68
Sanitation	70	75	79	76	90	94	100	106	115	123
Golf course	15	13	13	17	18	14	17	19	15	14
Civic center	11	11	13	14	14	14	16	15	15	21
Airport	20	20	21	21	22	22	22	23	25	27
Transit terminal	-	-	-	2	9	9	10	10	11	12
Express transit	-	-	-	-	-	-	-	-	19	19
Bridge	31	31	29	30	30	35	36	43	40	42
Fleet Services	17	17	18	19	19	19	19	19	20	21
Employee benefits	-	-	-	-	-	2	2	2	2	3
Risk Management	-	-	-	-	-	2	3	3	3	3
Total	<u>1,009</u>	<u>1,109</u>	<u>1,145</u>	<u>1,125</u>	<u>1,253</u>	<u>1,310</u>	<u>1,386</u>	<u>1,448</u>	<u>1,515</u>	<u>1,558</u>

Source: City's Budget Document

CITY OF McALLEN, TEXAS
OPERATING INDICATORS BY FUNCTION/PROGRAM
Last Ten Fiscal Years
(Unaudited)

Function/Program	Fiscal Year									
	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Public Safety										
Police										
Number of employees-commissioned	201	235	243	230	246	248	246	258	259	260
Number of service calls	92,517	98,914	89,305	105,958	110,597	147,079	147,079	151,000	158,000	147,724
Fire										
Number of firemen	126	126	127	126	126	127	127	133	138	151
Total number of alarm responses	2,003	2,016	2,010	2,200	2,100	3,244	3,648	3,964	4,184	4,300
Code enforcement										
Number of employees	12	12	12	12	12	12	13	16	18	19
Number of building permits	1,575	1,617	1,749	1,719	1,900	931	1,753	1,739	2,012	1,987
Development services										
Street Resurfacing (linear miles)	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	18	25
Sidewalk Cnstruction (linear feet)	N/A	N/A	N/A	N/A	N/A	15,840	42,240	36,960	42,240	43,084
Cultural and recreational										
Parks and recreation										
Participants in special event programs	N/A	N/A	N/A	N/A	N/A	200,000	204,000	250,000	250,000	275,000
Participants in athletic programs	N/A	558	548	558	476	10,000	11,000	10,500	11,500	11,500
Participants in after school programs	N/A	N/A	N/A	N/A	N/A	1,640	1,640	2,187	3,300	3,232
Library-main										
Volumes in collection	N/A	N/A	N/A	N/A	N/A	307,828	344,968	386,052	404,057	428,300
Water and sewer system										
Number of water costumers	28,413	29,472	30,665	31,404	32,580	34,103	34,936	36,299	37,658	39,060
Number of sewer costumers	25,465	26,332	27,366	27,954	28,971	30,398	30,907	32,370	33,159	34,414
Average daily water consumption (gallons)	14,686,730	16,518,579	15,886,598	18,237,793	16,565,189	18,896,003	18,006,912	17,849,551	21,458,458	24,623,690
Maximum storage capacity (gallons) #2 plant	7,100,000	7,100,000	7,100,000	7,100,000	7,100,000	7,100,000	7,100,000	7,100,000	7,100,000	7,100,000
Maximum storage capacity (gallons)-north plant	-	-	-	-	-	-	-	-	4,000,000	4,000,000
Rainfall (inches)	22.61	24.81	19.14	12.91	22.38	13.78	27.02	25.12	10.76	12.27
Sanitation										
Refuse collected (tons)	20,200	22,800	22,600	25,000	25,000	25,198	25,780	26,801	27,728	27,080
Bulky/brush pickups (tons)	16,800	23,000	21,000	22,000	25,000	185,000	196,000	200,000	200,000	202,995
Recyclables collected (cubic yds)	N/A	N/A	N/A	N/A	N/A	3,701	2,800	4,543	4,543	4,700
Golf course										
Total number of rounds	N/A	N/A	N/A	27,222	42,840	42,420	43,237	43,952	42,624	45,844

Source: City Departments
Notes: N/A - Data not available.

CITY OF McALLEN, TEXAS
CAPITAL ASSET STATISTICS BY FUNCTION/PROGRAM
Last Ten Fiscal Years
(Unaudited)

<u>Function/Program</u>	<u>Fiscal Year</u>									
	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>
Public Safety										
Police stations	1	1	1	1	1	1	1	1	1	1
Police sub-stations	12	11	11	11	11	11	10	7	7	7
Fire stations	6	6	6	6	6	6	6	6	6	6
Fire hydrants	2,651	2,781	2,593	2,600	2,600	2,600	2,600	3,090	3,350	3,350
Development Services										
City area:										
Square miles	43.0	44.0	46.0	46.0	46.8	46.8	N/A	48.1	48.3	47.7 (1)
Acres	27,599	27,898	29,701	29,830	29,931	29,931	30,528	30,782	30,933	30,552 (1)
Streets- paved (miles)	392	400	482	511	518	586	589	626	626	645
Cultural and Recreational										
Developed parks (acres)	258	276	334	334	N/A	456	456	551	689	689
Parks (acres)-undeveloped	45	112	67	107	101	128	128	106	401	401
Swimming pools	4	4	4	4	4	4	4	4	4	4
Tennis courts	20	20	20	20	20	25	25	25	25	25
Lighted baseball diamonds/athletic fields	12	15	15	15	17	17	17	17	17	17
Municipal golf (18-hole course)	1	1	1	1	1	1	1	1	1	1
Water and Sewer										
Water mains (miles)	502	520	539	557	569	580	630	630	677	700
Sanitary sewers (miles)	362	364	367	412	421	421	445	455	475	470
Storm (miles)	N/A	N/A	170	170	174	185	185	233	238	N/A

(1) Revised by engineering.

Source: City Departments

Note: N/A - data not available.

**CITY OF MCALLEN, TEXAS
MISCELLANEOUS STATISTICAL DATA**

Schedule 21

Section I--water rates

The rate charged for water furnished and consumed under the standard water rate schedule by Section 106-82 of the City Ordinance, amended October 1, 2006 to all classes of customers is as follows:

(1) Commodity Rate	Inside City Minimum rate
	\$4.00

(1) Per 1,000 gallons or any part thereof as follows: Residential-\$1.30/1,000 gallons for the first 20,000 gallons; plus \$1.60/1,000 for consumption over 20,000 gallons.

Commercial, Multi-family, and Industrial-\$1.30/1,000 gallons for the first 12-month average base consumption; plus \$1.60/1,000 for consumption over 20,000 gallons over the 12-month average base consumption.

Sprinkler-\$1.60/1,000 gallons

Section II--Estimated unaccounted gallons of water

<u>Class of customers</u>	<u>Number</u>	<u>Usage (gallons)</u>
Residential	33,258	4,887,705,750
Commercial	5,632	3,659,420,820
Industrial	170	440,520,100
Number of gallons shown to have passed through the master meters at the City's plants #1 and #2 during the period		9,323,732,670
Number of gallons billed		(8,987,646,670)
Estimated water used in fire hydrant testing, etc.		<u>(49,000,000)</u>
Estimated number of gallons unaccounted due to breaks, leaks, etc.		<u>287,086,000</u>

Source: McAllen Public Utility

**SINGLE AUDIT
SECTION**

This section contains information regarding grant activity, which was audited under the guidelines of the United States Office of Management and Budget Circular A-133 Compliance Supplement.

 CERTIFIED PUBLIC ACCOUNTANTS
BUSINESS CONSULTANTS
LONG CHILTON, LLP

A PARTNERSHIP OF PROFESSIONAL CORPORATIONS AND INDIVIDUALS

Members - Division of Firms,
American Institute of CPAs

**AUDITORS' 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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McAllen, Texas 78504
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www.longchilton.com

The Honorable Mayor,
Members of the City Commission,
Utility Chairman, and Trustees
City of McAllen, Texas

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of City of McAllen, Texas as of and for the year ended September 30, 2006, which collectively comprise City of McAllen's basic financial statements and have issued our report thereon dated December 1, 2006. 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 McAllen, Texas' internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of McAllen, 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 one instance of noncompliance or other matters that is required to be reported under *Government Auditing Standards* and which is described in the accompanying schedule of Findings and Questioned Costs as item 06-1.

We also noted certain matters that we reported to management of the City in a separate letter dated December 1, 2006.

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


LONG CHILTON, LLP
Certified Public Accountants

McAllen, Texas
December 1, 2006

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

The Honorable Mayor,
Members of the City Commission,
Utility Chairman, and Trustees
City of McAllen, Texas

Compliance

We have audited the compliance of the City of McAllen, Texas with the types of compliance requirements described in the U. S. Office of Management and Budget (OMB) *Circular A-133, Compliance Supplement* that is applicable to each of its major federal programs for the year ended September 30, 2006. The City of McAllen, Texas' major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the City of McAllen, Texas' management. Our responsibility is to express an opinion on the City of McAllen, Texas' compliance based on our audit.

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

In our opinion, the City of McAllen, Texas complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended September 30, 2006.

Internal Control Over Compliance

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

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended for the information and use of the audit committee, management, 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.

Long Chilton LLP
LONG CHILTON, LLP
Certified Public Accountants

McAllen, Texas
December 1, 2006

CITY OF McALLEN, TEXAS

SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS

Year Ended September 30, 2006

Federal Grantor/ Pass-Through Grantor/Program Title	Federal CFDA Number	Pass-Through Grantor's Number	Program or Award Amount	Disbursements/ Expenditures
U.S. Department of Homeland Security				
Intercity Bus Security Grant Program	97.057	HSTS04-04-G-GBU612	36,850	\$ 35,912
Pass through Texas Department of Public Safety	97.042	06TX-EMPG-079	23,732	23,732
Pass through Federal Emergency Management Agency	97.071	233-02-0102	600,000	200,000
Pass through Assistance to Firefighters Grant Program - Fire Prevention and Safety Program	97.044	EMW-2005-FP-03488	20,244	-
Pass through Division of Emergency Management - Buffer Zone Protection Program	97.078	2005-BZPP-45384	50,000	-
Homeland Security Grant	97.004	2004-SHSP 45384	399,451	321,580
Law Enforcement Terrorism Prevention Program	97.074	2005-LETPP 45384	122,065	-
Homeland Security Grant	97.073	2005-SHSP 45384	393,616	82,500
Total U.S. Department Homeland Security				663,724
U.S Department of the Interior				
Water 2025 Challenge Grant Program	15.507	05FC602018	186,168	103,014
Total U.S. Department of the Interior				103,014
U.S Environmental Protection Agency				
EPA E-Cycle Project Grant	66.808	X1-96626401-0	20,000	-
Total U.S. Environmental Protection Agency				-
U.S Department of Commerce				
Anzalduas International Crossing Border Station	11.300	08-01-04118	1,250,000	-
Total U.S. Department of Commerce				-
Total federal financial assistance expended				5,492,386
Texas Agencies				
Auto Theft Prevention 2006	-	SA00T011004106	350,000	329,818
Auto Theft Prevention 2007	-	SA00T011004107	345,000	32,565
Texas Dept. of Protective and Regulatory Service 2006	-	Community Youth Dev	65,650	48,811
Texas Comptroller of Public Accounts 2006	-	Tobacco Compliance Grant	5,000	4,293
Texas Comptroller of Public Accounts 2007	-	Tobacco Compliance Grant	6,000	-

Continued

CITY OF McALLEN, TEXAS

SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS

Year Ended September 30, 2006

<u>Federal Grantor/ Pass-Through Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Pass-Through Grantor's Number</u>	<u>Program or Award Amount</u>	<u>Disbursements/ Expenditures</u>
U.S. Department of Housing and Urban Development				
Direct Program:				
Community Development Block Grant:				
30th Year Entitlement Grant	14.218	CB04MC48506	\$ 2,134,000	\$ 1,427,092
31th Year Entitlement Grant	14.218	CB05MC48506	2,024,561	193,611
Home Program	14.239	M04MC480506	692,922	104,546
Home Program	14.239	M05MC480506	663,832	-
Total U.S. Department of Housing and Urban Development				<u>1,725,249</u>
U.S. Department of Transportation				
Direct Program:				
Airport Improvement Program	20.106	3-48-0144-31	2,792,784	2,129
Airport Improvement Program	20.106	3-48-0144-32	2,174,827	1,187,692
Airport Improvement Program	20.106	3-48-0144-33	1,075,285	667,862
Airport Improvement Program	20.106	3-48-0144-34	1,062,361	-
Federal Transit Administration	20.507	TX-90-X683-00	1,743,016	941,454
Federal Transit Administration	20.507	TX-90-X733-00	1,823,797	-
Intercity Bus Security Grant Program	20.509	ICB 0701 (21)	151,000	-
Pass through Texas Dept. of Transportation:				
STEP/Comprehensive Grant	20.600	586xxF6041	53,518	52,201
STEP/Click It or Ticket	20.600	586xxF6178	15,985	7,725
Safe Routes To School	20.600	CSJ 0921-02-108	111,440	9,819
Total U.S. Department of Transportation				<u>2,868,882</u>
U.S. Department of Justice				
Direct Program:				
Edward Byrne Memorial Justice Assistance Grant	16.738	2005-DJ-BX-0355	54,367	54,367
Edward Byrne Memorial Justice Assistance Grant	16.738	2006-DJ-BX-0101	34,698	34,698
Total U.S. Department of Justice				<u>89,065</u>
U.S. Department of Human Services				
Pass through Texas Office of the Attorney General	93.991	VCLG 06	39,000	37,909
Pass through Texas Office of the Attorney General	93.991	VCLG 07	39,000	4,543
Total U.S. Department of Human Services				<u>42,452</u>

Continued

CITY OF McALLEN, TEXAS

SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS

Year Ended September 30, 2006

<u>Federal Grantor/ Pass-Through Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Pass-Through Grantor's Number</u>	<u>Program or Award Amount</u>	<u>Disbursements/ Expenditures</u>
Texas Department of Transportation: Pass Through - Lower Rio Grande Valley Devel. Council	-	5307 Grant	155,345	\$ 155,345
Texas State Library and Archives Commission	-	442-06316	21,242	21,242
Texas State Library and Archives Commission	-	434-07182	36,250	-
Texas Commission on Environmental Quality: Pass Through-				
Lower Rio Grande Valley Development Council	-	06-21-G13	25,000	25,000
Lower Rio Grande Valley Development Council	-	06-21-G14	25,000	-
Total state financial assistance expended				<u>617,074</u>
Total federal and state financial assistance expended				\$ <u><u>6,109,460</u></u>

See independent auditors' report and accompanying notes.

Concluded

CITY OF McALLEN, TEXAS

NOTES TO SCHEDULE OF FEDERAL AND STATE AWARDS

Year Ended September 30, 2006

1. General

The accompanying Schedule of Expenditures of Federal and State Awards presents the activity of all federal and state award programs of City of McAllen, Texas, for the year ended September 30, 2005. The reporting entity consists of the primary government, organizations for which the primary government is financially accountable, and other organizations for which the primary government is not accountable, but for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete.

Financial accountability exists if a primary government appoints a voting majority of an organization's governing Board and is either able to impose its will on that organization or there is a potential for the organization to provide specific financial benefits to, or impose specific financial burdens on, the primary government. A primary government may also be financially accountable for governmental organizations with a separately elected governing Board, a governing Board appointed by another government, or a jointly appointed Board that is fiscally dependent on the primary government.

In accordance with Governmental Accounting Standards Board requirements, the City has reviewed other entities and activities for possible inclusion in the reporting entity and determined that there are none; however, federal financial assistance passed through other governmental agencies is included on the schedule.

2. Measurement Focus and Basis of Accounting

The federal and state grant funds were accounted for in the Special Revenue Fund, a component of the Governmental Fund type, and in an Enterprise Fund. The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. The Governmental Fund types are accounted for using a current financial resources measurement focus. With the Governmental Fund type measurement focus, only current assets and current liabilities generally are included on the balance sheet. Operating statements of these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in net current assets.

CITY OF MCALLEN

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS

Year Ended September 30, 2006

2. Measurement Focus and Basis of Accounting (continued)

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

Enterprise Funds are used to account for those operations that are financed and operated in a manner similar to private business or where the governing body has decided that the determination of revenues earned, costs incurred, and/or net income is necessary for management accountability. Enterprise Funds are accounted for on the flow of economic resources measurement focus and use the accrual basis of accounting. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred.

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

3. Subrecipients

Of the federal expenditures presented in the schedule, City of McAllen, Texas provided federal awards to subrecipients as follows:

<u>Program Title</u>	<u>Federal CFDA Number</u>	<u>Amount Provided to Subrecipients</u>
Community Development Block Grant – Entitlement Grants	14.218	\$ 624,072
Home Investment Partnerships Program	14.239	104,546

City of McAllen, Texas
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Fiscal Year Ended September 30, 2006

Section I - Summary of Auditors' Results

Financial Statements

Type of auditors' report issued: Unqualified

Internal control over financial reporting:

- Material weakness identified? ☐ yes ☒ no
- Reportable condition identified not considered to be a material weakness? ☐ yes ☒ none reported

Noncompliance material to financial statements reported? ☐ yes ☒ no

Federal and State Awards

Internal control over major programs:

- Material weakness identified? ☐ yes ☒ no
- Reportable condition identified that are not considered to be material weaknesses? ☐ yes ☒ none reported

Type of auditors' report issued on compliance for major programs: Unqualified

Any audit findings disclosed that are required to be reported in accordance with Section .510(a) OMB Circular A-133 ☐ yes ☒ no

Identification of major programs:

<u>CFDA Number</u>	<u>Name of Federal Program or Cluster</u>
14.218	Community Development Block Grant Program
20.507	Federal Transit - Formula Grants (Urbanized Area Formula Program)
Dollar threshold used to distinguish between Type A and Type B programs:	\$300,000
Auditee qualified as low-risk auditee?	<input checked="" type="checkbox"/> yes <input type="checkbox"/> no

City of McAllen, Texas
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Fiscal Year Ended September 30, 2006

**Section II - Findings Relating to the Financial Statement Audit as Required to Be
Reported in Accordance with Generally Accepted Government Auditing Standards**

A. Reportable Conditions in Internal Control

None reported

B. Compliance Findings

<u>PROGRAM</u>	<u>DESCRIPTION</u>
Finding No. 06-1	Passenger Facility Charge Program
Criteria:	All passenger facility charges must be expended only after appropriate Federal Aviation Administration approval.
Condition:	During our audit of the passenger facility charges program, we noted that the McAllen-Miller International Airport expended passenger facility charge funds on a capital asset for which prior approval had not been sought, as required by program policies.
Context:	Passenger facility charge funds in the amount of \$566,147 were expended without authorization.
Effect:	As a result, the McAllen-Miller International Airport was not in compliance with its passenger facility charge program requirements.
Cause:	The particular project was not included in the PFC Application that was approved by the Federal Aviation Administration.
Recommendation:	We recommend that only projects included in the application approved by the FAA be approved for acquisition by the current Director of Aviation.

Section III - Federal Award Findings and Questioned Costs

None reported

City of McAllen, Texas
SCHEDULE OF STATUS OF PRIOR FINDINGS
Fiscal Year Ended September 30, 2006

PROGRAM

U. S. Department of Transportation
Hidalgo International Bridge
Construction Grant
CFDA 20.205

**STATUS OF PRIOR YEARS
FINDINGS/NONCOMPLIANCE**

Davis-Bacon Act

The City did not appear to have a recurring instance of non-compliance with this requirement during the current fiscal year.

City of McAllen, Texas
CORRECTIVE ACTION PLAN
Fiscal Year Ended September 30, 2006

PROGRAM

**Reference Number: 06-1,
Passenger Facility Charges**

Finding:

CORRECTIVE ACTION PLAN

Passenger facility charge funds in the amount of \$566,147 were expended for a project that had not been previously approved by the Federal Aviation Administration (FAA). As a result, the Airport was not in compliance with the requirement that all PFC funds be expended only after appropriate agency approval.

Corrective Action Plan:

Only projects included in the application approved by the FAA will be approved for acquisition by the current Director of Aviation.