

CITY OF SAN JUAN, TEXAS
ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED SEPTEMBER 30, 2009

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UNQUALIFIED OPINION ON BASIC FINANCIAL STATEMENTS
ACCOMPANIED BY REQUIRED SUPPLEMENTARY INFORMATION AND OTHER SUPPLEMENTARY
INFORMATION INCLUDING THE
SUPPLEMENTARY SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Independent Auditor's Report

Honorable Mayor and City Council of
City of San Juan, Texas
709 S. Nebraska
San Juan, Tx

Members of the Council:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of City of San Juan, Texas (the City) as of and for the year ended September 30, 2009, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's administrators. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each component unit, each major fund, and the aggregate remaining fund information of City of San Juan, Texas as of September 30, 2009, and the respective changes in financial position and cash flows, where applicable, thereof, and the respective budgetary comparison for the general fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Management's discussion and analysis and other RSI such as budgetary comparison information on pages 4 through 9 and 19 and 47 through 49 are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. 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.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 26, 2010, on our consideration of the City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Governmental Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Our audit was performed for the purpose of forming an opinion on the financial statements that collectively comprise City of San Juan, Texas' basic financial statements.

The accompanying schedule of expenditures of federal 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 Non-Profit 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.

Although the combining fund statements are presented for purposes of additional analysis and are not a required part of the basic financial statements, they 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.

Reyna & Garza, CPA's
March 26, 2010

Management's Discussion and Analysis
CITY OF SAN JUAN

MANAGEMENT'S DISCUSSION AND ANALYSIS

In this section of the Annual Financial and Compliance Report, we, the managers of CITY OF SAN JUAN, discuss and analyze the City's financial performance for the fiscal year ended September 30, 2009. Please read it in conjunction with the independent auditors' report on page 2, and the City's Basic Financial Statements, which begin on page 10.

FINANCIAL HIGHLIGHTS

- The City's net assets: decreased by \$ 94,722 , as a result of this year's operations. While net assets of our business-type activities: increased by \$1,115,063, or nearly 4 percent, net assets of our governmental activities: decreased, by \$1,209,785 , or nearly 6 percent.
- During the year, the City had expenses that were \$ 1,245,930 thousand more than the \$10,859,971 million generated in tax and other revenues for governmental programs (before special items).
- In the City's business-type activities, revenues increased from \$6.37 to \$6.56 million (or 3 percent) while expenses decreased from \$6.09 million to \$6.02 million (or 1 percent).
- Total cost of all of the City's programs increased slightly with few changes in programs this year.
- The General Fund ended the year with a fund balance of \$2.97 million.
- The resources available for appropriation were \$186 thousand less than budgeted for the General Fund.

USING THIS ANNUAL REPORT

This annual report consists of a series of financial statements. The government-wide financial statements include the Statement of Net Assets and the Statement of Activities on pages 10 and 11. These provide information about the activities of the City as a whole and present a longer-term view of the City's property and debt obligations and other financial matters. They reflect the flow of total economic resources in a manner similar to the financial reports of a business enterprise.

Fund financial statements starting on page 13 report the City's operations in more detail than the government-wide statements by providing information about the City's most significant funds. For governmental activities, these statements tell how services were financed in the short term as well as what resources remain for future spending. They reflect the flow of current financial resources, and supply the basis for tax levies and the appropriations budget. For proprietary activities, fund financial statements tell how goods or services of the City were sold to external customers and how the sales revenues covered the expenses of the goods or services. The remaining statements, fiduciary statements (if applicable), provide financial information about

activities for which the City acts solely as a trustee or agent for the benefit of those outside of the City.

The notes to the financial statements (starting on page 24) provide narrative explanations or additional data needed for full disclosure in the government-wide statements or the fund financial statements.

The combining statements for non-major funds contain even more information about the City's individual funds.

Reporting the City as a Whole

The Statement of Net Assets and the Statement of Activities

The analysis of the City's overall financial condition and operations begins on page 10. Its primary purpose is to show whether the City is better off or worse off as a result of the year's activities. The Statement of Net Assets includes all the City's assets and liabilities at the end of the year while the Statement of Activities includes all the revenues and expenses generated by the City's operations during the year. These apply the accrual basis of accounting which is the basis used by private sector companies.

All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid. The City's revenues are divided into those provided by outside parties who share the costs of some programs, such grants provided by the U.S. Environmental Protection Agency to assist with programs. All the City's assets are reported whether they serve the current year or future years. Liabilities are considered regardless of whether they must be paid in the current or future years.

These two statements report the City's net assets and changes in them. The City's net assets (the difference between assets and liabilities) provide one measure of the City's financial health, or financial position. Over time, increases or decreases in the City's net assets are one indicator of whether its financial health is improving or deteriorating. To fully assess the overall health of the City, however, you should consider non-financial factors as well, such as changes in the City's property tax base and the condition of the City's facilities.

In the Statement of Net Assets and the Statement of Activities, we divide the City into two kinds of activities:

- **Governmental activities**—Most of the City's basic services are reported here, including public safety, public works, culture and recreation, economic development and assistance, and general administration. Property taxes, sales taxes, franchise taxes, charges for services, and state and federal grants finance most of these activities.

- **Business-type activities**—The City charges a fee to “customers” to help it cover all or most of the cost of providing services such as water, sewer, and solid waste services.

Reporting the City's Most Significant Funds

Fund Financial Statements

The fund financial statements begin on page 13 and provide detailed information about the most significant funds—not the City as a whole. Laws and/or contracts require the City to establish some funds, such as grants received under the Environmental Protection Agency. The City's administration establishes several other funds to help it control and manage money for particular purposes. The City's two kinds of funds—governmental and proprietary—use different accounting approaches.

· Governmental funds—Most of the City's basic services are reported in governmental funds. These use modified accrual accounting (a method that measures the receipt and disbursement of cash and all other financial assets that can be readily converted to cash) and report balances that are available for future spending. The governmental fund statements provide a detailed short-term view of the City's general operations and the basic services it provides. We describe the differences between governmental activities (reported in the Statement of Net Assets and the Statement of Activities) and governmental funds in reconciliation schedules following each of the fund financial statements.

· Proprietary funds—The City reports the activities for which it charges users (whether outside customers or other units of the City) in proprietary funds using the same accounting methods employed in the Statement of Net Assets and the Statement of Activities. In fact, the City's enterprise funds (one category of proprietary funds) are the business-type activities reported in the government-wide statements but containing more detail and additional information, such as cash flows.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Our analysis focuses on the net assets (Table I) and changes in net assets (Table II) of the City's governmental and business-type activities.

Net assets of the City's governmental activities decreased from \$21,462,075 to \$20,125,803 million. Unrestricted net assets – the part of net assets that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation, or other legal requirements – equaled \$4,484,727 million at September 30, 2009.

In 2009, net assets of our business-type activities increased by \$ 1,115,063 about 3.9 percent. This increase is significant to the overall operations of the City.

Table I
City of San Juan
NET ASSETS

	Governmental Activities 2009	Governmental Activities 2008	Business-type Activities 2009	Business-type Activities 2008	Total 2009	Total 2008
Current and other assets	12,848,264	16,591,210	5,867,272	5,046,749	18,715,536	21,637,959
Capital assets	25,328,278	23,486,922	30,548,072	30,735,854	55,876,350	54,222,776
Total assets	38,176,542	40,078,132	36,415,344	35,782,603	74,591,886	75,860,736
Long-term liabilities	16,485,000	17,195,000	5,049,000	5,875,000	21,534,000	23,070,000
Other liabilities	1,565,739	1,421,058	1,438,396	1,094,717	3,004,135	2,515,775
Total liabilities	18,050,739	18,616,058	6,487,396	6,969,717	24,538,135	25,585,775
Net Assets:						
Invested in capital assets net of related debt	8,133,278	5,746,923	0	25,307,718	8,133,278	31,054,641
Restricted	7,507,798	0	0	0	7,507,798	0
Unrestricted	4,484,727	15,715,152	29,927,948	3,505,167	34,412,675	19,220,319
Total net assets	20,125,803	21,462,075	29,927,948	28,812,885	50,053,751	50,274,960

Table II
City of San Juan
CHANGES IN NET ASSETS

	Governmental Activities 2009	Governmental Activities 2008	Business-type Activities 2009	Business-type Activities 2008	Total 2009	Total 2008
Revenues:						
Program Revenues:						
Charges for Services	1,370,455	723,637	6,367,464	6,106,182	7,737,919	6,829,819
Operating grants and contributions	230,968	263,299	0	0	230,968	263,299
General Revenues:						
Maintenance and operations taxes	3,820,457	3,536,143	0	0	3,820,457	3,536,143
Debt service taxes	1,146,392	1,030,670	0	0	1,146,392	1,030,670
Sales Taxes	2,558,707	2,593,750	0	0	2,558,707	2,593,750
Franchise Taxes	577,262	581,253	0	0	577,262	581,253
Investment Earnings	161,414	357,484	0	0	161,414	357,484
Miscellaneous	994,316	1,721,870	189,522	266,134	1,183,838	1,988,004
Total Revenue	\$10,859,971	\$10,808,106	\$6,556,986	\$6,372,316	\$17,416,957	\$17,180,422
Expenses:						
General Government	2,049,541	1,567,403	0	0	2,049,541	1,567,403
Public Safety	4,363,191	3,156,689	0	0	4,363,191	3,156,689
Public Works	2,020,509	2,832,596	0	0	2,020,509	2,832,596
Culture & Recreation	1,572,896	1,825,523	0	0	1,572,896	1,825,523
Economic Development & Asst.	1,325,200	730,939	0	0	1,325,200	730,939
Debt Service	770,058	727,189	0	0	770,058	727,189
Fiscal Agent's Fees	4,506	2,500	0	0	4,506	2,500
Utility Fund Services	0	0	3,940,893	4,112,770	3,940,893	4,112,770
Solid Waste Fund Services	0	0	2,083,114	1,993,412	2,083,114	1,993,412
Utility I&S Fund	0	0	0	0	0	0
Total Expenses	\$12,105,901	\$10,842,840	\$6,024,007	\$6,106,182	\$18,129,908	\$16,949,022
Increase in net assets before transfers and special items	(1,245,930)	(34,734)	532,979	282,399	(712,951)	247,665
Transfers	32,213	0	0	0	32,213	0
Special Items - Resources	0	0	0	0	0	0
Special Items-Prior Period Adjustments	3,932	594,651	582,084	2,500,571	586,016	1,335,221
Net assets at 10/1/08	\$21,335,588	\$20,902,158	\$28,812,885	\$26,029,915	\$50,148,473	\$46,932,075
Net assets at 9/30/09	20,125,803	21,462,075	\$29,927,948	\$28,812,885	\$50,053,751	\$50,274,960

The cost of all governmental activities this year was \$12.11 million. However, as shown in the Statement of Activities on pages 11 and 12, the amount that our taxpayers ultimately financed for these activities through City taxes was only \$ 4.97 million because some of the costs were paid by those who directly benefited from the programs or by other governments and organizations that subsidized certain programs with grants and contributions; \$231 thousand.

THE CITY'S FUNDS

As the City completed the year, its governmental funds (as presented in the balance sheet on pages 13 and 14 reported a combined fund balance of \$ 10.48 million, which is less than last year's total of \$ 14.16 million. Included in this year's total change in fund balance is a decrease of \$ 410 thousand in the City's General Fund.

Over the course of the year, the Board revised the City's budget several times. These budget amendments fall into one category. They involved amendments moving funds from programs that did not need all the resources originally appropriated, to programs with resource needs.

The City's General Fund balance of \$ 2.97 million reported on page 13 differs from the General Fund's budgetary fund balance of \$ 2.9 million reported in the General Fund budgetary comparison schedule on page 19. This is principally due to cost savings.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At the end of the 2008-09 year, the City had \$55.88 million invested in a broad range of capital assets, including facilities, land, infrastructure, vehicles, and equipment.

Debt

At year-end, the City had \$22.67 million in bonds and notes outstanding versus \$23.7 million last year a decrease of 4 percent.

Other obligations include accrued vacation pay and sick leave. More detailed information about the City's long-term liabilities is presented in the notes to the financial statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The City's elected and appointed officials considered many factors when setting the fiscal-year 2009-10 budget, tax rates. One of those factors is the economy. The City's population growth during 2000–2009 averaged annual gains of 4 percent. More recently, unemployment has

remained relatively constant. This compares with the State's unemployment rate of 7.0 percent and the national rate of 8.1 percent.

These indicators were taken into account when adopting the General Fund budget for 2009-10. Amounts available for appropriation in the General Fund budget are \$8.5 million, slightly higher than the final 2008-09 budget of \$8.2 million. The City will use its revenues to finance programs we currently offer. Budgeted expenditures are expected to decrease 1.6% percent to \$8.5 million from \$8.6 million in 2009. The City has added no major new programs or initiatives to the 2009-10 budget.

If these estimates are realized, the City's budgetary General Fund balance is expected to decrease slightly by the close of 2009-10

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the City's administration office, at CITY OF SAN JUAN, 709 S. Nebraska, San Juan, Texas.

CITY OF SAN JUAN, TEXAS
STATEMENT OF NET ASSETS
SEPTEMBER 30, 2009

EXHIBIT A-1

Data Control Codes	Primary Government			
	Governmental Activities	Business Type Activities	Total	
ASSETS				
1010	Cash and Cash Equivalents	\$ 10,664,769	\$ 5,121,132	\$ 15,785,901
1030	Investments - Current	5,301	1,769	7,070
1150	Receivables (net of allowance for uncollectibles)	2,173,836	743,953	2,917,789
1410	Inventories	4,097	-	4,097
	Capital Assets:			
1710	Land	1,467,171	283,978	1,751,149
1720	Infrastructure, net	19,054,281	-	19,054,281
1730	Buildings, net	2,177,981	179,667	2,357,648
1740	Improvements other than Buildings, net	1,797,653	28,257,188	30,054,841
1750	Machinery and Equipment, net	707,982	1,570,317	2,278,299
1780	Construction in Progress	123,210	256,922	380,132
1990	Other Assets	261	418	679
1000	Total Assets	<u>38,176,542</u>	<u>36,415,344</u>	<u>74,591,886</u>
LIABILITIES				
2020	Accounts Payable and other current liabilities	809,370	390,558	1,199,928
2140	Accrued Interest Payable	-	34,106	34,106
2220	Deferred Revenues	15,690	-	15,690
2270	Other Current Liabilities	30,679	586,732	617,411
	Noncurrent Liabilities			
2501	Due Within One Year	710,000	427,000	1,137,000
2502	Due in More Than One Year	16,485,000	5,049,000	21,534,000
2000	Total Liabilities	<u>18,050,739</u>	<u>6,487,396</u>	<u>24,538,135</u>
NET ASSETS				
3200	Invested in Capital Assets, Net of Related Debt	8,133,278	-	8,133,278
	Restricted for:			
3810	Restricted for	1,995,453	-	1,995,453
3820	Restricted for	480,876	-	480,876
3830	Restricted for	5,031,469	-	5,031,469
3900	Unrestricted Net Assets	4,484,727	29,927,948	34,412,675
3000	Total Net Assets	<u>\$ 20,125,803</u>	<u>\$ 29,927,948</u>	<u>\$ 50,053,751</u>

The accompanying notes are an integral part of this statement.

CITY OF SAN JUAN, TEXAS
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2009

Data Control Codes	Expenses	<u>Program Revenues</u> Charges for Services
Primary Government:		
GOVERNMENTAL ACTIVITIES:		
10 General Government	\$ 2,049,541	\$ 1,227,445
20 Public Safety	4,363,191	143,010
30 Public Works	2,020,509	-
50 Culture and Recreation	1,572,896	-
60 Conservation and Development	1,325,200	-
73 Bond Interest	770,058	-
75 Fiscal Agent's Fees	4,506	-
Total Governmental Activities:	12,105,901	1,370,455
BUSINESS-TYPE ACTIVITIES:		
701	3,940,893	4,271,275
702	2,083,114	2,096,189
Total Business-Type Activities:	6,024,007	6,367,464
TOTAL PRIMARY GOVERNMENT:	\$ 18,129,908	\$ 7,737,919

Data Control Codes	General Revenues: Taxes:
5010	Property Taxes, Levied for General Purposes
5011	Property Taxes, Levied for Debt Service
5120	Sales Taxes
5170	Franchise Taxes
5180	Other Taxes
5190	Penalty and Interest
5600	Grants and Contributions Not Restricted
5700	Miscellaneous Revenue
5800	Investment Earnings
5800	Transfers In (Out)
	Total General Revenues and Transfers
	Change in Net Assets
	Net Assets--Beginning
	Prior Period Adjustment
	Net Assets--Ending

The accompanying notes are an integral part of this statement.

Net (Expense) Revenue and Changes in Net Assets		
Primary Government		
Governmental Activities	Business-type Activities	Total
\$ (822,096)	\$ -	\$ (822,096)
(4,220,181)	-	(4,220,181)
(2,020,509)	-	(2,020,509)
(1,572,896)	-	(1,572,896)
(1,325,200)	-	(1,325,200)
(770,058)	-	(770,058)
(4,506)	-	(4,506)
<u>(10,735,446)</u>	<u>-</u>	<u>(10,735,446)</u>
-	330,382	330,382
-	13,075	13,075
<u>-</u>	<u>343,457</u>	<u>343,457</u>
<u>(10,735,446)</u>	<u>343,457</u>	<u>(10,391,989)</u>
3,820,457	-	3,820,457
1,146,392	-	1,146,392
2,558,707	-	2,558,707
577,262	-	577,262
27,051	-	27,051
241,417	-	241,417
230,968	-	230,968
725,848	189,522	915,370
161,414	-	161,414
32,213	-	32,213
<u>9,521,729</u>	<u>189,522</u>	<u>9,711,251</u>
(1,213,717)	532,979	(680,738)
21,335,588	28,812,885	50,148,473
3,932	582,084	586,016
<u>\$ 20,125,803</u>	<u>\$ 29,927,948</u>	<u>\$ 50,053,751</u>

CITY OF SAN JUAN, TEXAS
BALANCE SHEET
GOVERNMENTAL FUNDS
SEPTEMBER 30, 2009

Data Control Codes	10 General Fund	Major Special Revenue Fund	50 Debt Service Fund
ASSETS			
1010 Cash and Cash Equivalents	\$ 3,007,333	\$ 1,062,003	\$ 479,773
1030 Investments - Current	1,675	1,348	1,103
1050 Taxes Receivable	1,163,821	-	352,671
1150 Receivables (net of allowance for uncollectibles)	44,672	14	-
1260 Intergovernmental Receivables	258,110	266,350	-
1410 Inventories	4,097	-	-
1990 Other Assets	261	-	-
1000 Total Assets	<u>\$ 4,479,969</u>	<u>\$ 1,329,715</u>	<u>\$ 833,547</u>
LIABILITIES AND FUND BALANCES			
Liabilities:			
2010 Accounts Payable	\$ 181,116	\$ 318,714	\$ -
2020 Wages and Salaries Payable	120,518	4,135	-
2090 Due to Others	-	-	-
2220 Deferred Revenues	1,179,511	-	352,671
2270 Other Current Liabilities	30,589	90	-
2000 Total Liabilities	<u>1,511,734</u>	<u>322,939</u>	<u>352,671</u>
Fund Balances:			
Unreserved and Undesignated:			
3600 Reported in the General Fund	2,968,235	-	-
3610 Reported in the Special Revenue Fund	-	1,006,776	-
3620 Reported in the Debt Service Fund	-	-	480,876
3630 Reported in the Capital Projects Fund	-	-	-
3000 Total Fund Balances	<u>2,968,235</u>	<u>1,006,776</u>	<u>480,876</u>
4000 Total Liabilities and Fund Balances	<u>\$ 4,479,969</u>	<u>\$ 1,329,715</u>	<u>\$ 833,547</u>

The accompanying notes are an integral part of this statement.

60 Capital Projects	Other Funds	Total Governmental Funds
\$ 4,902,773	\$ 1,212,887	\$ 10,664,769
-	1,175	5,301
-	-	1,516,492
-	87,988	132,674
-	210	524,670
-	-	4,097
-	-	261
<u>\$ 4,902,773</u>	<u>\$ 1,302,260</u>	<u>\$ 12,848,264</u>
\$ 2,465	\$ 150,746	\$ 653,041
-	-	124,653
-	31,676	31,676
-	-	1,532,182
-	-	30,679
<u>2,465</u>	<u>182,422</u>	<u>2,372,231</u>
-	-	2,968,235
-	988,677	1,995,453
-	-	480,876
<u>4,900,308</u>	<u>131,161</u>	<u>5,031,469</u>
<u>4,900,308</u>	<u>1,119,838</u>	<u>10,476,033</u>
<u>\$ 4,902,773</u>	<u>\$ 1,302,260</u>	<u>\$ 12,848,264</u>

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CITY OF SAN JUAN, TEXAS
 RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE
 STATEMENT OF NET ASSETS
 FOR THE YEAR ENDED SEPTEMBER 30, 2009

Total Fund Balances - Governmental Funds	\$	10,476,033
<p>The City uses internal service funds to charge the costs of certain activities, such as self-insurance and printing, to appropriate functions in other governmental funds. The assets and liabilities of the internal service funds are included in governmental activities in the statement of net assets. The net effect of this consolidation is to Increase (decrease) net assets.</p>		
		-0-
<p>Capital assets used in governmental activities are not financial resources and therefore are not reported in governmental funds. At the beginning of the year, the cost of these assets was \$33,732,700 and the accumulated depreciation was \$10,245,778. In addition, long-term liabilities, including bonds payable, are not due and payable in the current period, and, therefore are not reported as liabilities in the funds. The net effect of including the beginning balances for capital assets (net of depreciation) and long-term debt in the governmental activities is to increase (decrease) net assets.</p>		
		5,746,923
<p>Current year capital outlays and long-term debt principal payments are expenditures in the fund financial statements, but they should be shown as increases in capital assets and reductions in long-term debt in the government-wide financial statements. The net effect of including the 2009 capital outlays and debt principal payments is to increase (decrease) net assets.</p>		
		3,403,524
<p>The 2009 depreciation expense increases accumulated depreciation. The net effect of the current year's depreciation is to decrease net assets.</p>		
		(1,017,169)
<p>Various other reclassifications and eliminations are necessary to convert from the modified accrual basis of accounting to accrual basis of accounting. These include recognizing deferred revenue as revenue, eliminating interfund transactions, reclassifying the proceeds of bond sales as an increase in bonds payable, and recognizing the liabilities associated with maturing long-term debt and interest. The net effect of these reclassifications and recognitions is to increase (decrease) net assets.</p>		
		1,516,492
Net Assets of Governmental Activities	\$	20,125,803

The accompanying notes are an integral part of this statement.

CITY OF SAN JUAN, TEXAS
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2009

Data Control Codes	10 General Fund	Major Special Revenue Fund	50 Debt Service Fund
REVENUES:			
Taxes:			
5110 Property Taxes	\$ 3,774,865	\$ -	\$ 1,104,732
5120 General Sales and Use Taxes	1,919,941	638,766	-
5170 Franchise Tax	577,262	-	-
5180 Other Taxes	-	-	-
5190 Penalty and Interest on Taxes	185,975	-	55,442
5300 Intergovernmental Revenue and Grants	2,680	-	-
5400 Charges for Services	1,227,445	-	-
5510 Fines	143,010	-	-
5520 Forfeits	-	-	-
5550 Special Assessments	2,954	-	-
5610 Investment Earnings	46,654	15,080	8,086
5640 Contributions & Donations from Private Sources	12,275	33,504	-
5700 Other Revenue	127,209	357,065	-
5020 Total Revenues	<u>8,020,270</u>	<u>1,044,415</u>	<u>1,168,260</u>
EXPENDITURES:			
Current:			
0010 General Government	2,423,575	-	-
0020 Public Safety	3,972,920	-	-
0030 Public Works	619,459	-	-
0050 Culture and Recreation	1,459,698	-	-
0060 Conservation and Development	-	1,324,498	-
Debt Service:			
0071 Bond Principal	-	-	545,000
0073 Bond Interest	-	-	770,058
0075 Fiscal Agent's Fees	-	-	4,506
6030 Total Expenditures	<u>8,475,652</u>	<u>1,324,498</u>	<u>1,319,564</u>
1100 Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>(455,382)</u>	<u>(280,083)</u>	<u>(151,304)</u>
OTHER FINANCING SOURCES (USES):			
7912 Sale of Real and Personal Property	15,977	16,236	-
7915 Transfers In	-	-	168,148
8911 Transfers Out (Use)	-	(168,148)	-
7080 Total Other Financing Sources (Uses)	<u>15,977</u>	<u>(151,912)</u>	<u>168,148</u>
1200 Net Change in Fund Balances	(439,405)	(431,995)	16,844
0100 Fund Balance - October 1 (Beginning)	3,378,201	1,438,771	464,032
1300 Prior Period Adjustment	29,439	-	-
3000 Fund Balance - September 30 (Ending)	<u>\$ 2,968,235</u>	<u>\$ 1,006,776</u>	<u>\$ 480,876</u>

The accompanying notes are an integral part of this statement.

60 Capital Projects	Other Funds	Total Governmental Funds
\$ -	\$ -	\$ 4,879,597
-	-	2,558,707
-	-	577,262
-	27,051	27,051
-	-	241,417
-	85,898	88,578
-	-	1,227,445
-	372	143,382
-	69,303	69,303
-	-	2,954
62,045	29,549	161,414
-	96,611	142,390
151,521	17,424	653,219
213,566	326,208	10,772,719
-	6,322	2,429,897
-	265,278	4,238,198
2,485,038	147,240	3,251,737
-	467,962	1,927,660
-	702	1,325,200
-	-	545,000
-	-	770,058
-	-	4,506
2,485,038	887,504	14,492,256
(2,271,472)	(561,296)	(3,719,537)
-	-	32,213
-	-	168,148
-	-	(168,148)
-	-	32,213
(2,271,472)	(561,296)	(3,687,324)
7,171,780	1,706,641	14,159,425
-	(25,507)	3,932
\$ 4,900,308	\$ 1,119,838	\$ 10,476,033

CITY OF SAN JUAN, TEXAS
 RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES,
 AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES
 FOR THE YEAR ENDED SEPTEMBER 30, 2009

Total Net Change in Fund Balances - Governmental Funds	\$	(3,687,324)
<p>The city uses some internal service funds to charge the costs of certain activities primarily to the governmental funds. The net income (loss) of these internal service funds are reported with governmental activities. The net effect of this consolidation is to increase (decrease) net assets.</p>		
		-0-
<p>Current year capital outlays and long-term debt principal payments are expenditures in the fund financial statements, but they should be shown as increases in capital assets and reductions in long-term debt in the government-wide financial statements. The net effect of removing the 2009 capital outlays and debt principal payments is to increase (decrease) net assets.</p>		
		3,403,524
<p>Depreciation is not recognized as an expense in governmental funds since it does not require the use of current financial resources. The net effect of the current year's depreciation is to decrease net assets.</p>		
		(1,017,169)
<p>Various other reclassifications and eliminations are necessary to convert from the modified accrual basis of accounting to accrual basis of accounting. These include recognizing deferred revenue as revenue, adjusting current year revenue to show the revenue earned from the current year's tax levy, eliminating interfund transactions, reclassifying the proceeds of bond sales, and recognizing the liabilities associated with maturing long-term debt and interest. The net effect of these reclassifications and recognitions is to increase (decrease) net assets.</p>		
		87,252
Change in Net Assets of Governmental Activities	<u>\$</u>	<u>(1,213,717)</u>

The accompanying notes are an integral part of this statement.

CITY OF SAN JUAN, TEXAS
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL - GENERAL FUND
FOR THE YEAR ENDED SEPTEMBER 30, 2009

Data Control Codes	Budgeted Amounts		Actual Amounts (GAAP BASIS)	Variance With Final Budget Positive or (Negative)	
	Original	Final			
REVENUES:					
Taxes:					
5110	Property Taxes	\$ 3,715,273	\$ 3,715,273	\$ 3,774,865	\$ 59,592
5120	General Sales and Use Taxes	1,950,000	1,950,000	1,919,941	(30,059)
5170	Franchise Tax	533,668	533,668	577,262	43,594
5190	Penalty and Interest on Taxes	230,000	230,000	185,975	(44,025)
5300	Intergovernmental Revenue and Grants	-	-	2,680	2,680
5400	Charges for Services	1,125,450	1,212,661	1,227,445	14,784
5510	Fines	195,250	195,250	143,010	(52,240)
5550	Special Assessments	1,400	1,400	2,954	1,554
5610	Investment Earnings	280,000	280,000	46,654	(233,346)
5640	Contributions & Donations from Private Sources	10,000	10,000	12,275	2,275
5700	Other Revenue	152,429	79,000	127,209	48,209
5020	Total Revenues	8,193,470	8,207,252	8,020,270	(186,982)
EXPENDITURES:					
Current:					
0010	General Government	2,483,482	2,478,482	2,423,575	54,907
0020	Public Safety	3,874,568	3,898,927	3,972,920	(73,993)
0030	Public Works	736,411	746,411	619,459	126,952
0050	Culture and Recreation	1,494,418	1,558,028	1,459,698	98,330
6030	Total Expenditures	8,588,879	8,681,848	8,475,652	206,196
1100	Excess (Deficiency) of Revenues Over (Under) Expenditures	(395,409)	(474,596)	(455,382)	19,214
OTHER FINANCING SOURCES (USES):					
7912	Sale of Real and Personal Property	-	-	15,977	15,977
7080	Total Other Financing Sources (Uses)	-	-	15,977	15,977
1200	Net Change	(395,409)	(474,596)	(439,405)	35,191
0100	Fund Balance - October 1 (Beginning)	3,378,201	3,378,201	3,378,201	-
1300	Prior Period Adjustment	-	-	29,439	29,439
3000	Fund Balance - September 30 (Ending)	\$ 2,982,792	\$ 2,903,605	\$ 2,968,235	\$ 64,630

The accompanying notes are an integral part of this statement.

CITY OF SAN JUAN, TEXAS
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
SEPTEMBER 30, 2009

	Business-Type Activities - Enterprise Funds		
	Utility Fund	Solid Waste Fund	Total Enterprise Funds
ASSETS			
Current Assets:			
Cash and Cash Equivalents	\$ 4,280,691	\$ 840,441	\$ 5,121,132
Investments - Current	1,144	625	1,769
Accounts Receivable-Net of Uncollectible Allowance	447,870	296,083	743,953
Total Current Assets	<u>4,729,705</u>	<u>1,137,149</u>	<u>5,866,854</u>
Noncurrent Assets:			
Capital Assets:			
Land Purchase and Improvements	275,195	8,783	283,978
Accumulated Depreciation - Infrastructure	(1,014,530)	-	(1,014,530)
Buildings	132,225	47,442	179,667
Improvements other than Buildings	32,318,257	68,657	32,386,914
Accumulated Depreciation - Other Improvements	(3,115,196)	-	(3,115,196)
Machinery and Equipment	817,627	2,154,953	2,972,580
Accumulated Depreciation - Machinery & Equipment	-	(1,402,263)	(1,402,263)
Construction in Progress	256,922	-	256,922
Other Asset - Define	418	-	418
Total Noncurrent Assets	<u>29,670,918</u>	<u>877,572</u>	<u>30,548,490</u>
Total Assets	<u>34,400,623</u>	<u>2,014,721</u>	<u>36,415,344</u>
LIABILITIES			
Current Liabilities:			
Accounts Payable	119,212	102,417	221,629
Wages and Salaries Payable	28,432	18,006	46,438
Compensated Absences Payable	87,896	34,595	122,491
Accrued Interest Payable	32,190	1,916	34,106
Bonds Payable - Current:			
Revenue Bonds Payable	362,000	65,000	427,000
Other Current Liabilities	493,096	93,636	586,732
Total Current Liabilities	<u>1,122,826</u>	<u>315,570</u>	<u>1,438,396</u>
NonCurrent Liabilities:			
Bonds Payable - Non-Current:			
Revenue Bonds Payable	4,699,000	350,000	5,049,000
Total Noncurrent Liabilities	<u>4,699,000</u>	<u>350,000</u>	<u>5,049,000</u>
Total Liabilities	<u>5,821,826</u>	<u>665,570</u>	<u>6,487,396</u>
NET ASSETS			
Unrestricted Net Assets	<u>28,578,797</u>	<u>1,349,151</u>	<u>29,927,948</u>
Total Net Assets	<u>\$ 28,578,797</u>	<u>\$ 1,349,151</u>	<u>\$ 29,927,948</u>

The accompanying notes are an integral part of this statement.

CITY OF SAN JUAN, TEXAS
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2009

	Business-Type Activities - Enterprise Funds		
	Utility Fund	Solid Waste Fund	Total Enterprise Funds
OPERATING REVENUES:			
Charges for Services	\$ 4,271,275	\$ 2,096,189	\$ 6,367,464
Investment Earnings	70,246	9,595	79,841
Contributions & Donations from Private Source	-	50	50
Other Revenue	66,381	43,250	109,631
Total Operating Revenues	<u>4,407,902</u>	<u>2,149,084</u>	<u>6,556,986</u>
OPERATING EXPENSES:			
Personal Services - Salaries and Wages	956,082	580,950	1,537,032
Personal Services - Employee Benefits	280,412	188,029	468,441
Purchased Professional & Technical Services	152,557	513,403	665,960
Purchased Property Services	458,781	152,500	611,281
Other Operating Expenses	505,963	260,018	765,981
Supplies	686,734	216,474	903,208
Depreciation	673,412	171,740	845,152
Interest Expense	226,952	-	226,952
Total Operating Expenses	<u>3,940,893</u>	<u>2,083,114</u>	<u>6,024,007</u>
Operating Income	467,009	65,970	532,979
Total Net Assets - October 1 (Beginning)	27,529,704	1,283,181	28,812,885
Prior Period Adjustment	582,084	-	582,084
Total Net Assets - September 30 (Ending)	<u>\$ 28,578,797</u>	<u>\$ 1,349,151</u>	<u>\$ 29,927,948</u>

The accompanying notes are an integral part of this statement.

CITY OF SAN JUAN, TEXAS
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2009

EXHIBIT D-3

	Business-Type Activities		
	Utility Fund	Solid Waste Fund	Total Enterprise Funds
<u>Cash Flows from Operating Activities:</u>			
Cash Received from User Charges	\$ 4,143,018	\$ 2,027,814	\$ 6,170,832
Cash Received from Assessments - Other Funds	136,627	52,895	189,522
Cash Payments to Employees for Services	(1,192,786)	(741,138)	(1,933,924)
Cash Payments for Suppliers	(1,391,960)	(873,431)	(2,265,391)
Cash Payments for Other Operating Expenses	(751,535)	(264,398)	(1,015,933)
Net Cash Provided by Operating Activities	<u>943,364</u>	<u>201,742</u>	<u>1,145,106</u>
<u>Cash Flows from Non-Capital Financing Activities:</u>			
Increase(decrease) in Short-term Loans	(67,468)	(11,897)	(79,365)
Prior Period Adjustment	582,084	(427)	581,657
Net Cash Provided by (Used for) Non-Capital Financing Activities	<u>514,616</u>	<u>(12,324)</u>	<u>502,292</u>
<u>Cash Flows from Capital & Related Financing Activities:</u>			
Acquisition of Capital Assets	(529,922)	(127,021)	(656,943)
Bond Payment	(339,000)	(60,000)	(399,000)
Net Cash Provided by (Used for) Capital & Related Financing Activities	<u>(868,922)</u>	<u>(187,021)</u>	<u>(1,055,943)</u>
<u>Cash Flows from Investing Activities:</u>			
Proceeds from Sale & Maturities of Securities	3,533,707	838,044	4,371,751
Net Increase in Cash and Cash Equivalents	4,122,765	840,441	4,963,206
Cash and Cash Equivalents at Beginning of the Year:	157,926	-	157,926
Cash and Cash Equivalents at the End of the Year:	<u>\$ 4,280,691</u>	<u>\$ 840,441</u>	<u>\$ 5,121,132</u>
<u>Reconciliation of Operating Income to Net Cash Provided By Operating Activities:</u>			
Operating Income:	\$ 467,009	\$ 65,970	\$ 532,979
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:			
Depreciation	673,412	171,740	845,152
Effect of Increases and Decreases in Current Assets and Liabilities:			
Decrease (increase) in Receivables	(128,257)	(68,375)	(196,632)
Decrease (increase) in Prepaid Expenses	(205)	-	(205)
Increase (decrease) in Accounts Payable	(93,888)	8,946	(84,942)
Increase (decrease) in Payroll Deductions	43,708	27,841	71,549
Increase (decrease) in Accrued Int Payable	(2,632)	(286)	(2,918)
Increase (decrease) in Due to Other Funds	(18,006)	(14,225)	(32,231)
Increase (decrease) in Other Current Liab.	2,223	10,131	12,354
Net Cash Provided by Operating Activities	<u>\$ 943,364</u>	<u>\$ 201,742</u>	<u>\$ 1,145,106</u>
<u>Reconciliation of Total Cash and Cash Equivalents:</u>			
Cash and Cash Equivalents on Balance Sheet	\$ 4,280,691	\$ 840,441	\$ 5,121,132

The accompanying notes are an integral part of this statement.

CITY OF SAN JUAN, TEXAS
STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
SEPTEMBER 30, 2009

	Agency Fund
<hr/>	
ASSETS	
Due from Other Funds	\$ 411,948
Total Assets	<u>\$ 411,948</u>
LIABILITIES	
Accounts Payable	\$ 411,948
Total Liabilities	<u>\$ 411,948</u>

The accompanying notes are an integral part of this statement.

CITY OF SAN JUAN

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED SEPTEMBER 30, 2009

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

CITY OF SAN JUAN (the "City") was incorporated on December 29, 1917, under Article XI, Section 5 of the Constitution of the State of Texas. The City operates under a City Commission-Manager form of government and provides the following services as authorized by its charter. The services include public safety (police and fire), public works, sanitation, health and social services, culture-recreation, public improvements, planning and zoning, and general administrative services. Other services include utilities (water & sewer services and solid waste collection).

The financial statements of the city 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 for establishing governmental accounting and financial reporting principles. The more significant accounting policies of the City are described below:

A. REPORTING ENTITY

The Board of Commissioners (the "Board") is elected by the public and it has the authority to make decisions, appoint administrators and managers, and significantly influence operations. It also has the primary accountability for fiscal matters. Therefore, the City is a financial reporting entity as defined by the Governmental Accounting Standards Board ("GASB") in its Statement No. 14, "The Financial Reporting Entity."

In evaluating how to define the City for financial reporting purposes, management has considered all potential component units. The decision to include a potential component unit in the reporting entity was made by applying the criteria set forth in Generally Accepted Accounting Principles (GAAP). The basic-but not the only-criterion for including a potential component unit within the reporting entity is the governing body's ability to exercise oversight responsibility. The most significant manifestation of this ability is financial interdependency. Other manifestations of the ability to exercise oversight responsibility include, but are not limited to, the selection of governing authority, the designation of management, the ability to significantly influence operations, and accountability for fiscal matters. A second criterion used in evaluating potential component units is the scope of public service. Application of this criterion involves considering whether the activity benefits the government and/or its citizens, whether the activity is conducted within the geographic boundaries of the government and is generally available to its citizens. A third criterion used to evaluate potential component units for inclusion or exclusion is the existence of special financing relationships, regardless of whether the government is able to exercise oversight responsibilities. Based upon the application of the above criteria, the following is a brief review of the City's component unit addressed in defining the City's reporting entity.

Blended Component Units – Blended component units, although legally separate entities, are in substance part of the government's operations and so data from these units are combined with data of the primary government. The City's blended component unit follows.

Included in the Reporting Entity

The San Juan Economic Development Corporation (the "EDC") was incorporated on May 31, 1996, under the Development Corporation Act of 1979, of the State of Texas. The EDC operates as a Component Unit of the City of San Juan, Texas (the "City"). The EDC's purpose is to promote economic development and encourage employment and public welfare on behalf of the City by developing, implementing, providing and financing projects under the Act as defined in Section 4B of the Act.

B. GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

The Statement of Net Assets and the Statement of Activities are government-wide financial statements. They report information on all of the CITY OF SAN JUAN nonfiduciary activities with most of the interfund activities removed. *Governmental activities* include programs supported primarily by taxes, State funds, grants and other intergovernmental revenues. *Business-type activities* include operations that rely to a significant extent on fees and charges for support.

The Statement of Activities demonstrates how other people or entities that participate in programs the City operates have shared in the payment of the direct costs. The "charges for services" column includes payments made by parties that purchase, use, or directly benefit from goods or services provided by a given function or segment of the City. The "grants and contributions" column includes amounts paid by organizations outside the City to help meet the operational or capital requirements of a given function. If a revenue is not a program revenue, it is a general revenue used to support all of the City's functions. Taxes are always general revenues.

Interfund activities between governmental funds and between governmental funds and proprietary funds appear as due to/due froms on the Governmental Fund Balance Sheet and Proprietary Fund Statement of Net Assets and as other resources and other uses on the governmental fund Statement of Revenues, Expenditures and Changes in Fund Balance and on the Proprietary Fund Statement of Revenues, Expenses and Changes in Fund Net Assets. All interfund transactions between governmental funds are eliminated on the government-wide statements. Interfund activities between governmental funds and enterprise funds remain on the government-wide statements and appear on the government-wide Statement of Net Assets as internal balances and on the Statement of Activities as interfund transfers. Interfund activities between governmental funds and fiduciary funds remain as due to/due froms on the government-wide Statement of Activities.

The fund financial statements provide reports on the financial condition and results of operations for three fund categories - governmental, proprietary, and fiduciary. Since the resources in the fiduciary funds cannot be used for City operations, they are not included in the government-wide statements. The City considers some governmental and enterprise funds major and reports their financial condition and results of operations in a separate column.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues result from providing goods and services in connection with a proprietary fund's principal ongoing operations; they usually come from exchange or exchange-like transactions. All other revenues are non-operating. Operating expenses can be tied specifically to the production of the goods and services, such as materials and labor and direct overhead. Other expenses are non-operating.

C. MEASUREMENT FOCUS, BASIS OF ACCOUNTING, AND FINANCIAL STATEMENT PRESENTATION

The government-wide financial statements use the economic resources measurement focus and the accrual basis of accounting, as do the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements use the current financial resources measurement focus and the modified accrual basis of accounting. With this measurement focus, only current assets, current liabilities and fund balances are included on the balance sheet. Operating statements of these funds present net increases and decreases in current assets (i.e., revenues and other financing sources and expenditures and other financing uses).

The modified accrual basis of accounting recognizes revenues in the accounting period in which they become both measurable and available, and it recognizes expenditures in the accounting period in which the fund liability is incurred, if measurable, except for un-matured interest and principal on long-term debt, which is recognized when due. The expenditures related to certain compensated absences and claims and judgments are recognized when the obligations are expected to be liquidated with expendable available financial resources. The City considers all revenues available if they are collectible within 60 days after year end.

Revenues from local sources consist primarily of property taxes. Property tax revenues and revenues received from the State are recognized under the "susceptible to accrual" concept, that is, when they are both measurable and available. The City considers them "available" if they will be collected within 60 days of the end of the fiscal year. Miscellaneous revenues are recorded as revenue when received in cash because they are generally not measurable until actually received. Investment earnings are recorded as earned, since they are both measurable and available.

Grant funds are considered to be earned to the extent of expenditures made under the provisions of the grant. Accordingly, when such funds are received, they are recorded as deferred revenues until related and authorized expenditures have been made. If balances have not been expended by the end of the project period, grantors some times require the City to refund all or part of the unused amount.

The Proprietary Fund Types and Fiduciary Funds are accounted for on a flow of economic resources measurement focus and utilize the accrual basis of accounting. This basis of accounting recognizes revenues in the accounting period in which they are earned and become measurable and expenses in the accounting period in which they are incurred and become measurable. The City applies all GASB pronouncements as well as the Financial Accounting Standards Board pronouncements issued on or before November 30, 1989, unless these pronouncements conflict or contradict GASB pronouncements. With this measurement focus, all assets and all liabilities associated with the operation of these funds are included on the fund statement of Net Assets. The fund equity is segregated into invested in capital assets net of related debt, restricted net assets, and unrestricted net assets.

D. FUND ACCOUNTING

The City reports the following major governmental funds:

- 1. The General Fund** – The general fund is the City's primary operating fund. It accounts for all financial resources except those required to be accounted for in another fund.

2. **Special Revenue Funds** – The City accounts for resources restricted to, or designated for, specific purposes by the City or a grantor in a special revenue fund. Most Federal and some State financial assistance is accounted for in a Special Revenue Fund, and sometimes unused balances must be returned to the grantor at the close of specified project periods.
3. **The Debt Service Fund** – The debt service fund is used to account for the accumulation of resources for and payment of, general long term debt principal, interest, and related costs.
4. **Capital Projects Funds** – The proceeds from long-term debt financing and revenues and expenditures related to authorized construction and other capital asset acquisitions are accounted for in a capital projects fund.

The City reports the following major enterprise fund(s):

1. **The Utility Fund** – The utility fund is used to account for all financial resources derived from providing basic services such as water and sewer services.
2. **The Solid Waste Fund** – The solid waste fund is used to account for all financial resources from providing basic services such as solid waste services.

Additionally, the City reports the following fund type(s):

Governmental Funds:

1. **Special Revenue Funds** – The City accounts for resources restricted to, or designated for, specific purposes by the City or a grantor in a special revenue fund. Most Federal and some State financial assistance is accounted for in a Special Revenue Fund, and sometimes unused balances must be returned to the grantor at the close of specified project periods.
2. **Capital Projects Funds** – The proceeds from long-term debt financing and revenues and expenditures related to authorized construction and other capital asset acquisitions are accounted for in a capital projects fund.
3. **Permanent Funds** – The City accounts for donations for which the donor has stipulated that the principal may not be expended and where the income may only be used for purposes that support the City's programs. The City has no Permanent Funds.

Proprietary Funds:

4. **Enterprise Funds** – The City's activities for which outside users are charged a fee roughly equal to the cost of providing the goods or services of those activities are accounted for in an enterprise fund. The City's non-major Enterprise Fund(s) is the Water I&S Fund.

Fiduciary Funds:

5. **Private Purpose Trust Funds** – The City accounts for donations for which the donor has stipulated that both the principal and the income may be used for purposes that benefit parties outside the City. The City has no Private Purpose Trust Funds.
6. **Agency Funds** – The City accounts for resources held for others in a custodial capacity in agency funds. The City has no Agency Funds.

E. OTHER ACCOUNTING POLICIES

1. For purposes of the statement of cash flows for proprietary funds, the City considers highly liquid investments to be cash equivalents if they have a maturity of three months or less when purchased.
2. In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. 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. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

3. It is the City's policy to permit some employees to accumulate earned but unused vacation and sick pay benefits. There is a liability for unpaid accumulated sick leave since the City does have a policy to pay any amounts when employees separate from service with the City. All vacation pay is accrued when incurred in the government-wide, proprietary, and fiduciary fund financial statements. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations and retirements.
4. Capital assets, which include land, buildings, furniture and equipment and infrastructure assets 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 more than \$5,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed.

Buildings, furniture and equipment of the City are depreciated using the straight line method over the following estimated useful lives. The estimated lives range from 5 to 20 years for equipment, 10 to 40 years for improvements, and 40 years for buildings.

5. Restricted Assets-Certain proceeds of enterprise fund revenue bonds, as well as certain resources set aside for their repayment, are classified as restricted assets on the balance sheet because their use is limited by applicable bond covenants.
6. Deferred revenues are those for which asset recognition criteria have been met, but for which revenue recognition criteria have not been met. Monies collected in advance from federal or state agencies are recorded as revenue in the year for which the expenditures are incurred.
7. When the City incurs an expense for which it may use either restricted or unrestricted assets, it uses the restricted assets first whenever they will have to be returned if they are not used.
8. Encumbrances-The City of San Juan, Texas, employs encumbrance accounting; under

which purchase order, contracts, and other commitments for the expenditure of monies are recorded in order to reserve that portion of the applicable appropriation

II. RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

A. EXPLANATION OF CERTAIN DIFFERENCES BETWEEN THE GOVERNMENTAL FUND BALANCE SHEET AND THE GOVERNMENT-WIDE STATEMENT OF NET ASSETS

Exhibit C-2 provides the reconciliation between the fund balance for total governmental funds on the governmental fund balance sheet and the net assets for governmental activities as reported in the government-wide statement of net assets. One element of that reconciliation explains that capital assets are not financial resources and are therefore not reported in governmental funds. In addition, long-term liabilities, including bonds payable, are not due and payable in the current period and are not reported as liabilities in the funds. The details of capital assets and long-term debt at the beginning of the year were as follows:

<u>Capital Assets</u> <u>at the Beginning of the year</u>	<u>Historic Cost</u>	<u>Accumulated</u> <u>Depreciation</u>	<u>Net Value at the</u> <u>Beginning of the</u> <u>Year</u>	<u>Change in Net</u> <u>Assets</u>
Land	\$ 801,079	0	\$ 801,079	
Buildings	2,215,645	0	2,215,645	
Furniture & Equipment	4,856,368	(4,054,230)	802,138	
Infrastructure	24,135,236	(6,191,547)	17,943,689	
Construction In Progress	96,662	0	96,662	
Improvements other than Buildings	<u>1,627,710</u>	<u>0</u>	<u>1,627,710</u>	
Change in Net Assets				<u>\$ 23,486,923</u>
 <u>Long-term Liabilities</u> <u>at the Beginning of the year</u>			<u>Payable at the</u> <u>Beginning of the</u> <u>Year</u>	
Bonds Payable			17,740,000	
Less Deferred Charges			0	
Loans Payable			<u>0</u>	
Change in Net Assets				<u>(17,740,000)</u>
 Net Adjustment to Net Assets				 <u>\$5,746,923</u>

B. EXPLANATION OF CERTAIN DIFFERENCES BETWEEN THE GOVERNMENTAL FUND STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES AND THE GOVERNMENT-WIDE STATEMENT OF ACTIVITIES

Exhibit C-4 provides the reconciliation between the net changes in fund balance as shown on the governmental fund statement of revenues, expenditures, and changes in fund balances and the changes in net assets of governmental activities as reported on the government-wide statement of activities. One element of that reconciliation explains that current year capital outlays and debt principal payments are expenditures in the fund financial statements, but should be shown as increases in capital assets and decreases in long-term debt in the government-wide statements. This adjustment affects both the net asset balance and the change in net assets. The details of this adjustment are as follows:

	<u>Amount</u>	<u>Adjustments to Changes in Net Assets</u>	<u>Adjustments to Net Assets</u>
<u>Current Year Capital Outlay</u>			
Various Categories	\$ 2,858,524		
Total Capital Outlay	<u>2,858,524</u>	<u>\$ 2,858,524</u>	\$ 2,858,524
<u>Debt Principal Payments</u>			
Bond Principal	545,000		
Total Principal Payments	<u>545,000</u>	<u>545,000</u>	<u>545,000</u>
Total Adjustment to Net Assets		<u>\$ 3,403,524</u>	<u>\$ 3,403,524</u>

Another element of the reconciliation on Exhibit C-4 is described as various other reclassifications and eliminations necessary to convert from the modified accrual basis of accounting to accrual basis of accounting. This adjustment is the result of several items. The details for this element are as follows:

	<u>Amount</u>	<u>Adjustments to Change in Net Assets</u>	<u>Adjustments to Net Assets</u>
<u>Adjustments to Revenue and Deferred Revenue</u>			
Taxes Collected from Prior Year Levies	\$ 352,702	\$ (352,702)	
Uncollected taxes (assumed collectible) from Current Year Levy	521,066	521,066	521,066
<u>Reclassify Proceeds of Bonds, Loans & Capital Leases</u>			
Other		(81,112)	995,426
Total		<u>\$ 87,252</u>	<u>\$ 1,516,492</u>

III. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

A. BUDGETARY DATA

The Board of Commissioners adopts an "appropriated budget" for the General Fund and Debt Service Fund. In accordance with Government Accounting Standards Board (GASB) Statement #34, a City is required to present the adopted and final amended budgeted revenues and expenditures for the General Fund. The City compares the final amended budget to actual revenues and expenditures. The General Fund Budget report appears in Exhibit C-5.

The following procedures are followed in establishing the budgetary data reflected in the general-purpose financial statements:

1. Prior to October 1, the City prepares a budget for the next succeeding fiscal year beginning October 1. The operating budget includes proposed expenditures and the means of financing them.
2. A meeting of the Board is then called for the purpose of adopting the proposed budget. At least ten days' public notice of the meeting must be given.
3. Prior to October 1, the budget is legally enacted through passage of an ordinance by the Board. Once a budget is approved, it can only be formally amended by approval of a majority of the members of the Board. Amendments are presented to the Board at its regular meetings. Each amendment must have Board approval. As required by law, such amendments are made before the fact, and are reflected in the official minutes of the Board, and are not made after fiscal year end. Because the City has a policy of careful budgetary control, several amendments were necessary during the year. However, none of these were deemed significant.

4. Budgeted amounts are as amended by the Board. All budget appropriations lapse at year end.

IV. DETAILED NOTES ON ALL FUNDS AND ACCOUNT GROUPS

A. DEPOSITS AND INVESTMENTS

The funds of the City must be deposited and invested under the terms of a contract, contents of which are set out in the Depository Contract Law. The depository bank places approved pledged securities for safekeeping and trust with the City's agent bank in an amount sufficient to protect City funds on a day-to-day basis during the period of the contract. The pledge of approved securities is waived only to the extent of the depository bank's dollar amount of Federal Deposit Insurance Corporation ("FDIC") insurance.

At September 30, 2009, the carrying amount of the City's deposits (cash, certificates of deposit, and interest-bearing savings accounts included in temporary investments) was \$15,785,901 and the bank balance was \$16,143,728. The City's cash deposits at September 30, 2009 and during the year ended September 30, 2009 were entirely covered by FDIC insurance or by pledged collateral held by the City's agent bank in the City's name.

The Public Funds Investment Act (Government Code Chapter 2256) contains specific provisions in the areas of investment practices, management reports and establishment of appropriate policies. Among other things, it requires the City to adopt, implement, and publicize an investment policy. That policy must address the following areas: (1) safety of principal and liquidity, (2) portfolio diversification, (3) allowable investments, (4) acceptable risk levels, (5) expected rates of return, (6) maximum allowable stated maturity of portfolio investments, (7) maximum average dollar-weighted maturity allowed based on the stated maturity date for the portfolio, (8) investment staff quality and capabilities, (9) and bid solicitation preferences for certificates of deposit. Statutes authorize the City to invest in (1) obligations of the U.S. Treasury, certain U.S. agencies, and the State of Texas; (2) certificates of deposit, (3) certain municipal securities, (4) money market savings accounts, (5) repurchase agreements, (6) bankers acceptances, (7) Mutual Funds, (8) Investment pools, (9) guaranteed investment contracts, (10) and common trust funds. The Act also requires the City to have independent auditors perform test procedures related to investment practices as provided by the Act. The City is in substantial compliance with the requirements of the Act and with local policies.

As of September 30, 2009, CITY OF SAN JUAN had the following investments (dollar amounts are in thousands).

<u>Investment Type</u>	<u>Fair Value</u>	<u>Investment Maturities (in years)</u>			
		<u>Less than 1</u>	<u>1-5</u>	<u>6-10</u>	<u>More Than 10</u>
TexPool Investments	\$ 7,070	\$ 7,070			
Totals	\$ 7,070	\$7,070			

Credit Risk To limit the risk that an issuer or other counterparty to an investment will not fulfill its obligations the City limits investments to Certificates of Deposits, Public Funds Investment Pools and Guaranteed Investment Contracts, collateralized by U.S. Government Securities. As of September 30, 2009, the city's investments were secured by U.S. Government Securities.

Custodial Credit Risk for Investments State law requires governmental entities to contract with financial institutions in which funds will be deposited to secure those deposits with insurance or pledged securities with a fair value equaling or exceeding the amount on deposit at the end of each business day. The pledged securities must be in the name of the governmental entity and held by the entity or its agent. Since the city complies with this law, it has no custodial credit risk for deposits.

Concentration of Credit Risk To limit the risk of loss attributed to the magnitude of a government's investment in a single issuer, the investment portfolio shall be diversified in terms of investment instruments maturity scheduling, and financial institutions. To further limit the risk all of the City investments are collateralized by U.S. Government Securities.

Interest Rate Risk To limit the risk that changes in interest rates will adversely affect the fair value of investments, the City requires that the investments shall be monitored by using specific identification.

B. PROPERTY TAXES

Property taxes are levied by October 1 on the assessed value listed as of the prior January 1 for all real and business personal property located in the City in conformity with Subtitle E, Texas Property Tax Code. Taxes are due on receipt of the tax bill and are delinquent if not paid before February 1 of the year following the year in which imposed. On January 31 of each year, a tax lien attaches to property to secure the payment of all taxes, penalties, and interest ultimately imposed. Property tax revenues are considered available (1) when they become due or past due and receivable within the current period and (2) when they are expected to be collected during a 60-day period after the close of the school fiscal year.

C. DELINQUENT TAXES RECEIVABLE

Delinquent taxes are prorated between maintenance and debt service based on rates adopted for the year of the levy Allowances for uncollectible tax receivables within the General and Debt Service Funds are based on historical experience in collecting property taxes. Uncollectible personal property taxes are periodically reviewed and written off, but the City is prohibited from writing off real property taxes without specific statutory authority from the Texas Legislature.

D. INTERFUND BALANCES

At year-end, there were no interfund balances.

E. CAPITAL ASSET ACTIVITY

Capital asset activity for the City for the year ended September 30, 2009, was as follows:

	Primary Government				<u>Ending Balance</u>
	<u>Beginning Balance</u>	<u>Additions</u>	<u>Retirements</u>	<u>Adjustment</u>	
Governmental Activities:					
Land	\$ 801,079	\$ 666,092	\$ -	\$ -	\$ 1,467,171
Buildings	2,215,645	12,474	-	-	2,228,119
Furniture and Equipment	4,856,368	436,356	(41,140)	17,714	5,269,298
Improvements	1,627,710	249,416	-	-	1,877,125
Infrastructure	24,135,236	1,491,064	-	-	25,626,301
Construction in Progress	96,662	123,210	(96,662)	-	123,210
Totals at Historic Cost	<u>\$ 33,732,700</u>	<u>\$2,978,612</u>	<u>\$ (137,802)</u>	<u>\$ 17,714</u>	<u>36,591,224</u>
Less Accumulated Depreciation:					
Total Accumulated Depreciation	<u>(10,245,777)</u>	<u>(1,017,169)</u>	<u>-</u>	<u>-</u>	<u>(11,262,946)</u>
Governmental Activities Capital Assets, Net	<u>\$ 23,486,923</u>	<u>\$1,961,443</u>	<u>\$ (137,802)</u>	<u>\$ 17,714</u>	<u>\$ 25,348,278</u>

Business-type Activities:					
Land	283,978	-	-	-	283,978
Buildings and Improvements	32,182,807	383,774	-	-	32,566,581
Furniture and Equipment	2,800,554	172,026	-	-	2,972,580
Construction in Progress	<u>155,779</u>	<u>101,143</u>	-	-	<u>256,922</u>
Totals at Historic Cost	<u>\$35,423,118</u>	<u>\$ 656,943</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 36,080,061</u>
Less Accumulated Depreciation					
Total Accumulated Depreciation	<u>(4,687,264)</u>	<u>(844,725)</u>	<u>-</u>	<u>-</u>	<u>(5,531,989)</u>
Business-type Activities Capital Assets, Net	<u>\$ 30,735,854</u>	<u>\$ (187,782)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 30,548,072</u>

Depreciation expense was charged to governmental functions as follows:

General Government	\$ 68,760
Public Safety	437,763
Public Works	417,189
Culture & Recreation	93,457
Economic Development & Assistance	<u>0</u>

Total Depreciation Expense \$ 1,017,169

F. BONDS AND LONG-TERM NOTES PAYABLE

At September 30, 2009, long-term debt consisted of the following:

General Long Term Debt:

\$6,800,000 Series 1999 Combination Tax and Revenue Certificate of Obligation due in annual installments of \$320,000 to \$625,000 through February 15, 2024; interest at 4.25% to 5.0%	2,905,000
\$2,650,000 Series 2004 Combination Tax and Revenue Certificate of Obligation due in annual installments of \$125,000 to \$220,000 through February 15, 2025; interest at 3.00% to 4.50%	355,000
\$1,800,000 Series 2005 Combination Tax and Limited Pledge Revenue Certificates of Obligation due in annual installments of \$60,000 to \$185,000 through February 15, 2022; interest at 3.650%	1,800,000
\$4,600,000 Series 2006 General Obligation Refunding Bonds, due in annual installments of \$20,000 to \$440,000 through February 15, 2024; interest rate range from 3.50% to 4.00%.	4,475,000
\$7,770,000 Series 2007 Combination Tax and Revenue Certificates of Obligation, due in annual installments of \$185,000 to \$530,000 through February 15, 2032; interest rate range from 4.30% to 5.00%.	7,660,000
Total General Long Term Debt	<u>\$ 17,195,000</u>

Revenue Bonds and Note Payable:

\$2,880,000 Series 1996 Waterworks and Sewer System Revenue and Refunding Bonds due in annual installments of \$35,000 through \$130,000 to August 1, 2016; interest rate at 5.7% to 6.95%	1,335,000
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\$649,000 Series 2001 Waterworks and Sewer System Revenue Bonds due in annual installments of \$54,084 through \$54,566 to May 1, 2002; interest at 5.7% to 6.95%	495,000
\$249,000 Series 2002 Junior Lien Waterworks and Sewer System Revenue Bonds payable in semi-annual installments through March 1, 2023; interest at %	201,000
\$2,650,000 Series 2004 Combination Tax and Revenue Certificate of Obligation due in annual installments of \$125,000 to \$220,000 through February 15, 2025; interest at 3.00% to 4.50%	1,515,000
\$2,180,000 Series 2006 Clean Water SRF due in annual installments of \$80,000 through \$145,00 to March 1, 2026; interest rate at 2.75% to 3.85%	1,930,000
Total Revenue Bonds and Note Payable	<u>\$ 5,476,000</u>
Total Long-Term Debt	<u>\$ 22,671,000</u>

There are a number of limitations and restrictions contained in the general obligation bond indenture. Management has indicated that the City is in compliance with all significant limitations and restrictions at September 30, 2009.

G. DEBT SERVICE REQUIREMENTS - BONDS

Debt service requirements for bonds are as follows:

Year Ending	General Obligation Bonds		Revenue Bonds	
	Principal	Interest	Principal	Interest
2010	710,000	735,670	427,000	229,269
2011	735,000	704,296	413,000	211,075
2012	775,000	671,179	436,000	193,429
2013	810,000	636,213	453,000	172,729
2014	845,000	600,176	480,000	152,174
2015-2019	4,690,000	2,420,163	1,634,000	492,642
2020-2024	5,030,000	1,379,981	1,258,000	203,638
2025-2029	2,090,000	626,470	375,000	13,059
2030-2034	1,510,000	115,750		
Total	<u>\$17,195,000</u>	<u>\$7,889,898</u>	<u>\$5,476,000</u>	<u>\$1,668,015</u>

H. CHANGES IN LONG-TERM LIABILITIES

Long-term activity for the year ended September 30, 2009, was as follows:

	<u>Beginning</u> <u>Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending</u> <u>Balance</u>	<u>Due Within</u> <u>One Year</u>
Governmental Activities:					
Bonds and Notes Payable:					
General Obligation Bonds	\$17,740,000	\$ -	\$ (545,000)	\$ 17,195,000	\$ 710,000
Total Bonds and Notes Payable	<u>\$17,740,000</u>	<u>\$ -</u>	<u>\$ (545,000)</u>	<u>\$ 17,195,000</u>	<u>\$ 710,000</u>
Total Governmental Activities Long-term Liabilities	<u>\$ 17,740,000</u>	<u>\$ -</u>	<u>\$ (545,000)</u>	<u>\$ 17,195,000</u>	<u>\$ 710,000</u>
Business-type Activities:					
Bonds and Notes Payable:					
Revenue Bonds Payable	\$ 5,875,000	\$ 0	\$ (399,000)	\$ 5,476,000	\$ 427,000
Loans Payable	<u>79,276</u>	<u>0</u>	<u>(79,276)</u>	<u>-</u>	<u>-</u>
Total Bonds and Notes Payable	<u>\$ 5,954,276</u>	<u>\$ 0</u>	<u>(478,276)</u>	<u>\$ 5,476,000</u>	<u>427,000</u>
Total Business-type Activities Long-term Liabilities	<u>\$ 5,954,276</u>	<u>\$ 0</u>	<u>\$ (478,276)</u>	<u>\$ 5,476,000</u>	<u>427,000</u>

I. DEFERRED REVENUE

Deferred revenue at year-end consisted of the following:

	<u>General</u> <u>Fund</u>	<u>Special</u> <u>Revenue</u> <u>Fund</u>	<u>Debt</u> <u>Service</u> <u>Fund</u>	<u>Total</u>
Deferred Revenue	\$1,179,511	\$0	\$352,671	\$ 1,532,182
Total Deferred Revenue	<u>\$ 1,179,511</u>	<u>\$0</u>	<u>\$ 352,671</u>	<u>\$ 1,532,182</u>

Net uncollected tax receivables in the general fund and debt service fund represents the largest portion of the total amount reflected as deferred revenues.

EMPLOYEE RETIREMENT BENEFIT

Plan Description

The City provides pension benefits for all of its eligible employees including the Fire Chief and Fire Marshall through a non-traditional, joint contributory, hybrid defined benefit plan in the state-wide Texas Municipal Retirement System (TMRS), an agent multiple-employer public employee retirement system. The plan provisions that have been adopted by the City are within the options available in the governing state statutes of TMRS.

TMRS issues a publicly available comprehensive annual financial report that includes financial statements and required supplementary information (RSI) for TMRS; the report also provides detailed explanations of the contributions, benefits and actuarial methods and assumptions used by the System. This report may be obtained by writing to TMRS, P.O. Box 149153, Austin, TX 78714-9153 or by calling 800-924-8677; in addition, the report is available on TMRS' website at www.TMRS.com.

The plan provisions are adopted by the governing body of the City, within the options available in the state statutes governing TMRS. Plan provisions for the City were as follows:

Employee deposit rate	6.0%	6.0%
Matching ratio (City to employee)	1.5 to 1	1.5 to 1
Years required for vesting	5	5
Service retirement eligibility (expressed as age / years of service)	60/5,0/25	60/5,0/25
Updated Service Credit	0%	0%
Annuity Increase (to retirees)	0% of CPI	0% of CPI

Contributions

Under the state law governing TMRS, the contribution rate for each City is determined annually by the actuary, using the Projected Unit Credit actuarial cost method. This rate consists of the normal cost contribution rate and the prior service cost contribution rate, which is calculated to be a level percent of payroll from year to year. The normal cost contribution rate finances the portion of an active member's projected benefit allocated annually; the prior service contribution rate amortizes the unfunded (overfunded) actuarial liability (asset) over the applicable period for that City. Both the normal cost and prior service contribution rates include recognition of the projected impact of annually repeating benefits, such as Updated Service Credits and Annuity Increases.

The City contributes to the TMRS Plan at an actuarially determined rate. Both the employees and the City make contributions monthly. Since the City needs to know its contribution rate in advance for budgetary purposes, there is a one-year delay between the actuarial valuation that serves as the basis for the rate and the calendar year when the rate goes into effect. The annual pension cost and net pension obligation/(asset) are as follows:

1. Annual Required Contribution (ARC)	\$	196,108
2. Interest on Net Pension Obligation		-
3. Adjustment to the ARC		-
4. Annual Pension Cost (APC)		196,108
5. Contributions Made		(274,415)
6. Increase (decrease) in net pension obligation		(78,307)
7. Net Pension Obligation/(Asset), beginning of year		-
8. Net Pension Obligation/(Asset), end of year	\$	(78,307)

Three Year Trend Information			
Fiscal Year Funding September 30,	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
2007	\$ 220,306	100%	\$ -
2008	345,521	100%	-
2009	274,415	139%	(78,307)

The required contribution rates for fiscal year 2009 were determined as part of the December 31, 2006 and 2007 actuarial valuations. Additional information as of the latest actuarial valuation, December 31, 2008, also follows:

Valuation Date	12/31/06	12/31/07	12/31/08
Actuarial Cost Method	Unit Credit	Projected Unit Credit	Projected Unit Credit
Amortization Method	Level Percent of Payroll	Level Percent of Payroll	Level Percent of Payroll
Remaining Amortization Period	25 year; open period	25 years; closed period	24 years; closed period
Asset Valuation Method	Amortized Cost	Amortized Cost	Amortized Cost
Actuarial Assumptions:			
Investment Rate of Return *	7.00%	7.00%	7.50%
Projected Salary Increases *	Varies by age and service	Varies by age and service	Varies by age and service
* Includes Inflation at Cost-of-Living Adjustments	3.00% N/A	3.00% 0.00%	3.00% 0.00%

The funded status as of December 31, 2008, the most recent actuarial valuation date, is as follows:

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Funded Ratio	Unfunded AAL (UAAL)	Covered Payroll	UAAL as a Percentage of Covered Payroll
12/31/08	\$ 4,914,317	\$ 5,206,148	94.40%	\$ 291,831	\$ 5,611,092	5.20%

The schedule of funding progress, presented as Required Supplementary Information following the notes to the financial statements, presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability of benefits.

K. OTHER POST EMPLOYMENT BENEFITS – TEXAS MUNICIPAL RETIREMENT SYSTEM – SUPPLEMENTAL DEATH BENEFITS

The city also participates in the cost sharing multiple-employer defined benefit group-term life insurance plan operated by the Texas Municipal Retirement System (TMRS) known as the Supplemental Death Benefits Fund (SDBF). The city elected, by ordinance, to provide group-term life insurance coverage to both current and retired employees. The city may terminate coverage under and discontinue participation in the SDBF by adopting an ordinance before November 1 of any year to be effective the following January 1.

The death benefit for active employees provides a lump-sum payment approximately equal to the employee’s annual salary (calculated based on the employee’s actual earnings, for the 12-month period preceding the month of death); retired employees are insured for \$7,500; this coverage is an “other postemployment benefit,” or OPEB.

The city contributes to the SDBF at a contractually required rate as determined by an annual actuarial valuation. The rate is equal to the cost of providing one-year term life insurance. The funding policy for

the SDBF program is to assure that adequate resources are available to meet all death benefit payments for the upcoming year; the intent is not to pre-fund retiree term life insurance during employees' entire careers.

The city's contributions to the TMRS SDBF for the years ended 2009, 2008 and 2007 were \$11,857 \$12,414 and \$11,658 respectively, which equaled the required contributions each year.

L. COMMITMENTS AND CONTINGENCIES

Federal and State Funds -The City has received federal and state funds as grants and other financial assistance. These funds must be spent only as allowed by the grant and other federal or state requirements. Also, the City must follow various laws and regulations when they receive these funds. If the City does not abide by these laws and regulations or does not spend the monies, as allowed under the grant agreements, the City may be required to return the grant monies, or portion thereof, to the granting agencies. The contingent liability, if any, that may be due to the federal and state agencies, cannot be readily determined.

M. LITIGATION

The City is involved in a lawsuit concerning its boundaries and extra territorial jurisdiction. While the lawsuit does not involve damages, it may impact the territorial rights of the city.

N. PRIOR PERIOD ADJUSTMENT

The City recognized prior period adjustments in the Governmental and Enterprise Funds totaling \$586,016. The following adjustments to beginning fund balances were necessary to reflect the actual balances at beginning of the year:

	Total
General Fund	29,439
Special Revenue Funds	(25,507)
Enterprise Funds	582,084
Total Net Prior Period Adjustments	586,016

COMBINING AND INDIVIDUAL FUND
STATEMENTS AND SCHEDULES

CITY OF SAN JUAN, TEXAS
 COMBINING BALANCE SHEET
 NONMAJOR GOVERNMENTAL FUNDS
 SEPTEMBER 30, 2009

Data Control Codes	200 Municipal Court Fund	201 Revolving Loan Fund	203 Park Development Fund
ASSETS			
1010 Cash and Cash Equivalents	\$ 42,039	\$ 218,528	\$ 200,913
1030 Investments - Current	-	800	375
1150 Receivables (net of allowance for uncollectibles)	-	86,301	-
1260 Intergovernmental Receivables	-	-	-
1000 Total Assets	<u>\$ 42,039</u>	<u>\$ 305,629</u>	<u>\$ 201,288</u>
LIABILITIES AND FUND BALANCES			
2010 Accounts Payable	\$ -	\$ -	\$ -
2090 Due to Others	-	-	-
2000 Total Liabilities	<u>-</u>	<u>-</u>	<u>-</u>
Fund Balances:			
Unreserved and Undesignated:			
3610 Reported in the Special Revenue Fund	42,039	305,629	201,288
3630 Reported in the Capital Projects Fund	-	-	-
3000 Total Fund Balances	<u>42,039</u>	<u>305,629</u>	<u>201,288</u>
4000 Total Liabilities and Fund Balances	<u>\$ 42,039</u>	<u>\$ 305,629</u>	<u>\$ 201,288</u>

The accompanying notes are an integral part of this statement.

204 Asset Forfeiture Fund-State	205 Miscellaneous Grants Fund	206 Crime Liaison Fund	207 Hotel/ Motel Fund	209 Asset Forfeiture Fund-Fed	210 Technology Fund	211 Developer's Escrow Fund	Total Nonmajor Special Revenue Funds
\$ 7,532	\$ 36,126	\$ 2,946	\$ 194,835	\$ 194,100	\$ 2,590	\$ 34,877	\$ 934,486
-	-	-	-	-	-	-	1,175
-	-	-	1,687	-	-	-	87,988
-	-	-	-	210	-	-	210
<u>\$ 7,532</u>	<u>\$ 36,126</u>	<u>\$ 2,946</u>	<u>\$ 196,522</u>	<u>\$ 194,310</u>	<u>\$ 2,590</u>	<u>\$ 34,877</u>	<u>\$ 1,023,859</u>
\$ -	\$ 1,234	\$ -	\$ -	\$ 2,272	\$ -	\$ -	\$ 3,506
-	-	-	-	-	-	31,676	31,676
-	1,234	-	-	2,272	-	31,676	35,182
7,532	34,892	2,946	196,522	192,038	2,590	3,201	988,677
-	-	-	-	-	-	-	-
<u>7,532</u>	<u>34,892</u>	<u>2,946</u>	<u>196,522</u>	<u>192,038</u>	<u>2,590</u>	<u>3,201</u>	<u>988,677</u>
<u>\$ 7,532</u>	<u>\$ 36,126</u>	<u>\$ 2,946</u>	<u>\$ 196,522</u>	<u>\$ 194,310</u>	<u>\$ 2,590</u>	<u>\$ 34,877</u>	<u>\$ 1,023,859</u>

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CITY OF SAN JUAN, TEXAS
 COMBINING BALANCE SHEET
 NONMAJOR GOVERNMENTAL FUNDS
 SEPTEMBER 30, 2009

Data Control Codes	604 2005 Bond Fund	Total Nonmajor Governmental Funds
ASSETS		
1010 Cash and Cash Equivalents	\$ 278,401	\$ 1,212,887
1030 Investments - Current	-	1,175
1150 Receivables (net of allowance for uncollectibles)	-	87,988
1260 Intergovernmental Receivables	-	210
1000 Total Assets	<u>\$ 278,401</u>	<u>\$ 1,302,260</u>
LIABILITIES AND FUND BALANCES		
2010 Accounts Payable	\$ 147,240	\$ 150,746
2090 Due to Others	-	31,676
2000 Total Liabilities	<u>147,240</u>	<u>182,422</u>
Fund Balances:		
Unreserved and Undesignated:		
3610 Reported in the Special Revenue Fund	-	988,677
3630 Reported in the Capital Projects Fund	131,161	131,161
3000 Total Fund Balances	<u>131,161</u>	<u>1,119,838</u>
4000 Total Liabilities and Fund Balances	<u>\$ 278,401</u>	<u>\$ 1,302,260</u>

The accompanying notes are an integral part of this statement.

CITY OF SAN JUAN, TEXAS
 COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
 FUND BALANCES - NONMAJOR GOVERNMENTAL FUNDS
 FOR THE YEAR ENDED SEPTEMBER 30, 2009

Data Control Codes	200 Municipal Court Fund	201 Revolving Loan Fund	203 Park Development Fund
REVENUES:			
Taxes:			
5180 Other Taxes	\$ -	\$ -	\$ -
5300 Intergovernmental Revenue and Grants	-	-	50,286
5510 Fines	-	-	-
5520 Forfeits	-	-	-
5610 Investment Earnings	305	4,463	18,740
5640 Contributions & Donations from Private Sources	-	-	96,611
5700 Other Revenue	5,806	-	-
5020 Total Revenues	<u>6,111</u>	<u>4,463</u>	<u>165,637</u>
EXPENDITURES:			
Current:			
0010 General Government	6,322	-	-
0020 Public Safety	-	-	-
0030 Public Works	-	-	-
0050 Culture and Recreation	-	-	449,513
0060 Conservation and Development	-	702	-
6030 Total Expenditures	<u>6,322</u>	<u>702</u>	<u>449,513</u>
1200 Net Change in Fund Balance	(211)	3,761	(283,876)
0100 Fund Balance - October 1 (Beginning)	42,250	301,868	510,655
1300 Prior Period Adjustment	-	-	(25,491)
3000 Fund Balance - September 30 (Ending)	<u>\$ 42,039</u>	<u>\$ 305,629</u>	<u>\$ 201,288</u>

The accompanying notes are an integral part of this statement.

204 Asset Forfeiture Fund-State	205 Miscellaneous Grants Fund	206 Crime Liaison Fund	207 Hotel/ Motel Fund	209 Asset Forfeiture Fund-Fed	210 Technology Fund	211 Developer's Escrow Fund	Total Nonmajor Special Revenue Funds
\$ -	\$ -	\$ -	\$ 27,051	\$ -	\$ -	\$ -	\$ 27,051
1,568	34,044	-	-	-	-	-	85,898
-	-	-	-	-	372	-	372
300	-	-	-	69,003	-	-	69,303
56	238	28	1,268	1,989	16	236	27,339
-	-	-	-	-	-	-	96,611
-	-	1,637	-	9,981	-	-	17,424
<u>1,924</u>	<u>34,282</u>	<u>1,665</u>	<u>28,319</u>	<u>80,973</u>	<u>388</u>	<u>236</u>	<u>323,998</u>
-	-	-	-	-	-	-	6,322
1,723	-	3,500	-	260,055	-	-	265,278
-	-	-	-	-	-	-	-
-	18,449	-	-	-	-	-	467,962
-	-	-	-	-	-	-	702
<u>1,723</u>	<u>18,449</u>	<u>3,500</u>	<u>-</u>	<u>260,055</u>	<u>-</u>	<u>-</u>	<u>740,264</u>
201	15,833	(1,835)	28,319	(179,082)	388	236	(416,266)
7,347	19,059	4,781	168,203	371,120	2,202	2,965	1,430,450
(16)	-	-	-	-	-	-	(25,507)
<u>\$ 7,532</u>	<u>\$ 34,892</u>	<u>\$ 2,946</u>	<u>\$ 196,522</u>	<u>\$ 192,038</u>	<u>\$ 2,590</u>	<u>\$ 3,201</u>	<u>\$ 988,677</u>

CITY OF SAN JUAN, TEXAS
 COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
 FUND BALANCES - NONMAJOR GOVERNMENTAL FUNDS
 FOR THE YEAR ENDED SEPTEMBER 30, 2009

Data Control Codes	604 2005 Bond Fund	Total Nonmajor Governmental Funds
REVENUES:		
Taxes:		
5180 Other Taxes	\$ -	\$ 27,051
5300 Intergovernmental Revenue and Grants	-	85,898
5510 Fines	-	372
5520 Forfeits	-	69,303
5610 Investment Earnings	2,210	29,549
5640 Contributions & Donations from Private Sources	-	96,611
5700 Other Revenue	-	17,424
5020 Total Revenues	<u>2,210</u>	<u>326,208</u>
EXPENDITURES:		
Current:		
0010 General Government	-	6,322
0020 Public Safety	-	265,278
0030 Public Works	147,240	147,240
0050 Culture and Recreation	-	467,962
0060 Conservation and Development	-	702
6030 Total Expenditures	<u>147,240</u>	<u>887,504</u>
1200 Net Change in Fund Balance	(145,030)	(561,296)
0100 Fund Balance - October 1 (Beginning)	276,191	1,706,641
1300 Prior Period Adjustment	-	(25,507)
3000 Fund Balance - September 30 (Ending)	<u>\$ 131,161</u>	<u>\$ 1,119,838</u>

The accompanying notes are an integral part of this statement.

CITY OF SAN JUAN, TEXAS
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL - DEBT SERVICE FUND
FOR THE YEAR ENDED SEPTEMBER 30, 2009

EXHIBIT I-1

Data Control Codes	Budgeted Amounts		Actual	Variance With Final Budget	
	Original	Final	BUDGET BASIS (See Note)	Positive or (Negative)	
REVENUES:					
Taxes:					
5110	Property Taxes	\$ 1,113,912	\$ 1,113,912	\$ 1,104,732	\$ (9,180)
5190	Penalty and Interest on Taxes	40,000	40,000	55,442	15,442
5610	Investment Earnings	-	-	8,086	8,086
5020	Total Revenues	1,153,912	1,153,912	1,168,260	14,348
EXPENDITURES:					
Current:					
Debt Service:					
0071	Bond Principal	545,000	545,000	545,000	-
0073	Bond Interest	770,060	770,060	770,058	2
0075	Fiscal Agent's Fees	7,000	7,000	4,506	2,494
6030	Total Expenditures	1,322,060	1,322,060	1,319,564	2,496
1100	Excess (Deficiency) of Revenues Over (Under) Expenditures	(168,148)	(168,148)	(151,304)	16,844
OTHER FINANCING SOURCES (USES):					
7915	Transfers In	168,148	168,148	168,148	-
7080	Total Other Financing Sources (Uses)	168,148	168,148	168,148	-
1200	Change in Fund Balance	-	-	16,844	16,844
0100	Fund Balance - October 1 (Beginning)	464,032	464,032	464,032	-
3000	Fund Balance - September 30 (Ending)	\$ 464,032	\$ 464,032	\$ 480,876	\$ 16,844

The accompanying notes are an integral part of this statement.

CITY OF SAN JUAN, TEXAS
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
BUDGET AND ACTUAL - UTILITY FUND
FOR THE YEAR ENDED SEPTEMBER 30, 2009

EXHIBIT I-2

	Budgeted Amounts		Actual	Variance With Final Budget Positive or (Negative)
	Original	Final	BUDGET BASIS (See Note)	
OPERATING REVENUES:				
Charges for Services	\$ 3,980,000	\$ 3,980,000	\$ 4,271,275	\$ 291,275
Investment Earnings	-	-	70,246	70,246
Other Revenue	165,000	165,000	66,381	(98,619)
Total Operating Revenues	4,145,000	4,145,000	4,407,902	262,902
OPERATING EXPENSES:				
Personal Services - Salaries and Wages	1,234,263	1,234,263	956,082	278,181
Personal Services - Employee Benefits	-	-	280,412	(280,412)
Purchased Professional & Technical Services	144,300	144,300	152,557	(8,257)
Purchased Property Services	1,151,080	1,151,080	458,781	692,299
Other Operating Expenses	956,752	956,752	505,963	450,789
Supplies	613,800	613,800	686,734	(72,934)
Depreciation	-	-	673,412	(673,412)
Interest Expense	229,583	229,583	226,952	2,631
Total Operating Expenses	4,329,778	4,329,778	3,940,893	388,885
Operating Income (Loss)	(184,778)	(184,778)	467,009	651,787
Net Assets - October 1 (Beginning)	27,529,704	27,529,704	27,529,704	-
Prior Period Adjustment	-	-	582,084	582,084
Net Assets - September 30 (Ending)	\$ 27,344,926	\$ 27,344,926	\$ 28,578,797	\$ 1,233,871

The accompanying notes are an integral part of this statement.

CITY OF SAN JUAN, TEXAS
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
BUDGET AND ACTUAL - SOLID WASTE
FOR THE YEAR ENDED SEPTEMBER 30, 2009

	Budgeted Amounts		Actual	Variance With Final Budget Positive or (Negative)
	Original	Final	BUDGET BASIS (See Note)	
OPERATING REVENUES:				
Charges for Services	\$ 2,000,700	\$ 2,000,700	\$ 2,096,189	\$ 95,489
Investment Earnings	-	-	9,595	9,595
Contributions & Donations from Private Source	-	-	50	50
Other Revenue	68,000	68,000	43,250	(24,750)
Total Operating Revenues	<u>2,068,700</u>	<u>2,068,700</u>	<u>2,149,084</u>	<u>80,384</u>
OPERATING EXPENSES:				
Personal Services - Salaries and Wages	758,542	773,542	580,950	192,592
Personal Services - Employee Benefits	-	-	188,029	(188,029)
Purchased Professional & Technical Services	5,500	5,500	513,403	(507,903)
Purchased Property Services	75,250	75,250	152,500	(77,250)
Other Operating Expenses	899,128	899,128	260,018	639,110
Supplies	415,500	415,500	216,474	199,026
Depreciation	-	-	171,740	(171,740)
Total Operating Expenses	<u>2,153,920</u>	<u>2,168,920</u>	<u>2,083,114</u>	<u>85,806</u>
Operating Income (Loss)	(85,220)	(100,220)	65,970	166,190
Net Assets - October 1 (Beginning)	<u>1,283,181</u>	<u>1,283,181</u>	<u>1,283,181</u>	<u>-</u>
Net Assets - September 30 (Ending)	<u>\$ 1,197,961</u>	<u>\$ 1,182,961</u>	<u>\$ 1,349,151</u>	<u>\$ 166,190</u>

The accompanying notes are an integral part of this statement.

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Reyna & Garza, PLLC

Certified Public Accountants

2111 Jackson Creek Ave.

Edinburg, TX 78539

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

Independent Auditor's Report

Honorable Mayor and City Council of the
City of San Juan, Texas
409 S. Nebraska
San Juan, Tx 78589

Members of the Council:

We have audited the financial statements of City of San Juan, Texas as of and for the year ended September 30, 2009, and have issued our report thereon dated March 26, 2010.

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.

Compliance

As part of obtaining reasonable assurance about whether City of San Juan, Texas's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion.

The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered The City of San Juan, Texas's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance 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 over financial reporting that might be material weaknesses. A material weakness is a 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 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.

We also noted other matters involving the internal control over financial reporting that we have reported to the administration of the City of San Juan, Texas in a separate letter dated March 26, 2010.

This report is intended for the information of the City council, the audit committee, the administration, any relevant regulatory agencies, federal awarding agencies and pass-through entities, and is not intended to be used and should not be used by anyone other than these specified parties.

Reyna & Garza, CPA's
March 26, 2010

Reyna & Garza, PLLC

Certified Public Accountants

2111 Jackson Creek Ave.
Edinburg, TX 78539

REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

Independent Auditor's Report

Honorable Mayor and City Council of the
City of San Juan, Texas
409 S. Nebraska
San Juan, Tx 78589

Members of the Council:

We have audited the compliance of City of San Juan, Texas with the types of compliance requirements described in the U.S. *Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended September 30, 2009. The City's 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 City of San Juan, Texas' administrators. Our responsibility is to express an opinion on the City's 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 City of San Juan, 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 of City of San Juan, Texas' compliance with those requirements.

In our opinion, City of San Juan, 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, 2009.

Internal Control Over Compliance

The administration of City of San Juan, 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's 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 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 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 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.

Schedule of Expenditures of Federal Awards

We have audited the basic financial statements of City of San Juan, Texas as of and for the year ended September 30, 2009, and have issued our report thereon dated March 26, 2010. Our audit was performed for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 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.

This report is intended for the information of the City Council, the audit committee, the administration, any relevant regulatory agency, federal awarding agencies and pass-through entities and is not intended to be used and should not be used by anyone other than these specified parties.

Reyna & Garza, CPA's
March 26, 2010

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED SEPTEMBER 30, 2009

I. Summary of the Auditor's Results:

A. The type of report issued:	Unqualified opinion.
B. Internal control over financial statements:	
Significant Deficiency(ies) indentified?	No
Significant Deficiency(ies) indentified which were not considered material weaknesses?	No
C. Noncompliance material to the financial statements noted?	No
D. Federal Awards: Type of Report on Compliance with major programs.	Unqualified opinion
E. Findings & Questioned Costs for Federal Awards as defined under Section __.510(a). OMB Circular 133	Yes
F. Dollar threshold used to distinguish between Type A And Type B programs.	\$300,000
G. Auditee qualified as a low-risk auditee?	Yes
H. Major Federal Program(s)	Wetland Treatment System

II. Findings Relating to the Financial Statements Which Are Required To Be Reported in Accordance with *Generally Accepted Government Auditing Standards*.

None

III. Findings and Questioned Costs for Federal Awards Including Audit Findings as Described in I.E. Above

None

CITY OF SAN JUAN, TEXAS
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED SEPTEMBER 30, 2009

None

CITY OF SAN JUAN, TEXAS
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED SEPTEMBER 30, 2009

(1)	(2)	(3)	(4)
FEDERAL GRANTOR/ PASS-THROUGH GRANTOR/ PROGRAM or CLUSTER TITLE	Federal CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
<u>ENVIRONMENTAL PROTECTION AGENCY</u>			
<u>Passed Through T.C.E.Q.</u>			
Wetland Treatment System	11.419		\$ 536,542
Total Passed Through T.C.E.Q.			<u>536,542</u>
TOTAL ENVIRONMENTAL PROTECTION AGENCY			<u>536,542</u>
<u>U.S. DEPARTMENT OF HOMELAND SECURITY</u>			
<u>Passed Through Texas Department of Homeland Sec.</u>			
State Homeland Security Grant	97.0040		17,369
Total Passed Through Texas Department of Homeland Sec.			<u>17,369</u>
TOTAL U.S. DEPARTMENT OF HOMELAND SECURITY			<u>17,369</u>
<u>U.S. DEPARTMENT OF JUSTICE</u>			
<u>Passed Through Drug Enforcement Agency</u>			
High Intensity Drug Enforcement Area			16,329
Total Passed Through Drug Enforcement Agency			<u>16,329</u>
TOTAL U.S. DEPARTMENT OF JUSTICE			<u>16,329</u>
<u>U.S. DEPARTMENT OF TRANSPORTATION</u>			
<u>Passed Through Texas Department of Transportation</u>			
Step Wave Grant S.T.E.P.	20.6000		949
Total Passed Through Texas Department of Transportation			<u>2,680</u>
TOTAL U.S. DEPARTMENT OF TRANSPORTATION			<u>3,629</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS			<u>\$ 573,869</u>

CITY OF SAN JUAN, TEXAS
NOTES ON ACCOUNTING POLICIES FOR FEDERAL AWARDS
YEAR ENDED SEPTEMBER 30, 2009

The City uses the fund types specified by the Governmental Accounting Standards Board. Special revenue funds are used to account for resources restricted to, or designated for, specific purposes. Federal and state financial assistance generally is accounted for in a Special Revenue Fund because it is restricted for specific purposes.

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 called the modified accrual basis of accounting. Nearly all Federal grant funds were accounted for in a Special Revenue Fund which is a Governmental Fund type. With this measurement focus, only current assets and current liabilities and the fund balance are included on the balance sheet. Operating statements of these funds present increases and decreases in net current assets.

The modified accrual 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 unmatured interest on General Long-Term Debt, which is recognized when due, and certain compensated absences and claims and judgments, which are recognized when the obligations are expected to be liquidated with expendable available financial resources.

Usually Federal grant funds are considered to be earned to the extent of expenditures made under the provisions of the grant. When Federal grant funds are received before related expenditures are made, they are recorded as deferred revenues.

The period of availability for federal grant funds for the purpose of liquidation of outstanding obligations made on or before the ending date of the federal project period extends 30 days beyond the federal project period ending date, in accordance with provisions in Section H, Period of Availability of Federal Funds, Part 3, OMB Circular A-133 Compliance Statement.