

CITY OF RIO GRANDE CITY, TEXAS

CITY COUNCIL

Kevin D. Hiles, Mayor

Ruben O. Villareal, Mayor Pro – Tem

Ruben D. Saenz, Councilman

Juan M. Cantu, Councilman

Lupe Amador, Jr., Councilman

Hernan R. Garza, III, Councilman

CITY MANAGER

Juan F. Zuniga

CITY SECRETARY

Holly D. Guerrero

FINANCE DIRECTOR

Maria Barrera, CPA

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CITY OF RIO GRANDE CITY, TEXAS
ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED SEPTEMBER 30, 2007

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Reyna & Garza, PLLC

Certified Public Accountants

4416 S. McColl Road

Edinburg, TX 78539

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
City of Rio Grande City, Texas
101 S. Washington
Rio Grande City, Texas 78582

Members of the Council:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of City of Rio Grande City, Texas (the City) as of and for the year ended September 30, 2007, 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 major fund, and the aggregate remaining fund information of City of Rio Grande City, Texas as of September 30, 2007, 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 required supplementary information on pages 3 through 8 and 35 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 January 25, 2008, 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 Rio Grande City, Texas's basic financial statements.

The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the U.S. Office of Management and Budget Circular A-133, *Audits of State, Local Governments, and Non-Profit Organizations*, and is also not a required part of the financial statements of the City of Rio Grande City.

Although the combining fund statements, individual nonmajor fund financial statements and the schedule of expenditures of federal awards 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

January 25, 2008

Management's Discussion and Analysis
CITY OF RIO GRANDE CITY, TEXAS

MANAGEMENT'S DISCUSSION AND ANALYSIS

In this section of the Annual Financial and Compliance Report, we, the managers of City of Rio Grande City, Texas (the "City"), discuss and analyze the City's financial performance for the fiscal year ended September 30, 2007. Please read it in conjunction with the independent auditors' report on page 1, and the City's Basic Financial Statements, which begin on page 9.

FINANCIAL HIGHLIGHTS

- The City's net assets: increased by \$ 1,824,808 as a result of this year's operations. Net assets of our business-type activities: increased by \$ 142,178, or nearly 1.3 percent, net assets of our governmental activities: increased, by \$ 1,682,630 or nearly 19 percent.
- During the year, the City had expenses that were \$1.68 million less than the \$6.56 million generated in tax and other revenues for governmental programs (before special items).
- In the City's business-type activities, revenues decreased from \$3.3 million to \$3.2 million (or 3 percent) while expenses increased from \$2.6 million to \$3.1 million (or 19 percent).
- Total cost of all of the City's programs decreased from \$7.7 million to \$7.2 million (or 6 percent).
- The General Fund ended the year with a fund balance of \$ 1.04 million.
- The resources available for appropriation were \$ 138 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 9 and 10. 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 12 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 19) 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 9. 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. 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 12 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 certain programs. 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 increased from \$ 8.9 million to \$ 10.6 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 – was \$ 3.06 million at September 30, 2007.

In 2007, net assets of our business-type activities increased by \$ 142,178, or nearly 1.3 percent. This increase is relatively insignificant to the overall operations of the City.

Table I
CITY OF RIO GRANDE CITY, TEXAS

NET ASSETS

	Governmental Activities 2007	Governmental Activities 2006	Business-type Activities 2007	Business-type Activities 2006	Total 2007	Total 2006
Current and other assets	\$ 3,236,984	\$ 2,199,860	\$ 2,419,445	\$ 2,435,294	\$ 5,656,429	\$ 4,635,154
Capital assets	8,409,855	8,317,306	10,984,015	11,026,461	19,393,870	19,343,767
Total assets	11,646,839	\$ 10,517,166	13,403,460	\$ 13,461,755	25,050,299	\$ 23,978,921
Long-term liabilities	336,736	\$ 981,166	1,931,000	\$ 2,146,000	2,267,736	\$ 3,127,166
Other liabilities	682,696	591,224	370,607	356,077	1,053,303	947,301
Total liabilities	1,019,432	\$ 1,572,390	2,301,607	\$ 2,502,077	3,321,039	\$ 4,074,467
Net Assets:						
Invested in capital assets net of related debt	7,569,283	\$ 7,336,140	9,053,015	8,880,461	16,622,298	\$ 16,216,601
Restricted	0	0	214,377	173,396	214,377	173,396
Unrestricted	3,058,123	1,608,636	1,834,461	1,905,821	4,892,584	\$ 3,514,457
Total net assets	10,627,406	\$ 8,944,776	11,101,853	\$ 10,959,678	21,729,259	\$ 19,904,454

Table II
CITY OF RIO GRANDE CITY, TEXAS

CHANGES IN NET ASSETS

	Governmental Activities 2007	Governmental Activities 2006	Business-type Activities 2007	Business-type Activities 2006	Total 2007	Total 2006
Revenues:						
Program Revenues:						
Charges for Services	252,413	\$ 1,068,029	2,998,213	\$ 3,285,436	3,250,626	\$ 4,353,465
General Revenues:						
Maintenance and operations taxes	1,539,877	1,522,103	0	0	1,539,877	1,522,103
Grants	565,262	823,806	0	0	565,262	823,806
Sales Taxes	2,408,709	2,292,704	0	0	2,408,709	2,292,704
Franchise Taxes	491,073	0	0	0	491,073	0
Investment Earnings	88,166	47,677	0	54,934	88,166	102,611
Miscellaneous	494,261	102,784	196,011	0	690,272	102,784
Total Revenue	\$ 5,839,761	\$ 5,857,103	\$ 3,194,224	\$ 3,340,370	\$ 9,033,985	\$ 9,197,473
Expenses:						
General Government	887,670	\$ 786,927	0	0	887,670	\$ 786,927
Judicial	176,221	829,241	0	0	176,221	829,241
Public Safety	2,246,788	2,214,776	0	0	2,246,788	2,214,776
Public Works	463,680	413,048	0	0	463,680	413,048
Highways and Streets	131,465	148,890	0	0	131,465	148,890
Culture and Recreation	13,217	36,929	0	0	13,217	36,929
Libraries	101,176	75,933	0	0	101,176	75,933
Planning	93,880	0	0	0	93,880	0
Economic Development	706,348	716,582	0	0	706,348	716,582
Bond Interest & Cap Outlay	56,804	442,301	0	0	56,804	442,301
Utility I&S Fund	0	0	2,331,928	2,082,414	2,331,928	2,082,414
Total Expenses	\$ 4,877,249	\$ 5,664,627	2,331,928	\$ 2,082,414	\$ 7,209,177	\$ 7,747,041
Increase in net assets before transfers and special items	962,512	192,476	862,296	1,257,956	1,824,808	1,450,432
Transfers	720,118	508,377	(720,118)	(508,377)	0	0
Special Items - Resources	0	0	0	0	0	0
Special Items-Prior Period Adjustments	0	64,920	0	0	0	64,920
Net assets at 10/1	\$ 8,944,776	\$ 8,179,003	\$ 10,959,675	\$ 10,210,099	\$ 19,904,451	\$ 18,389,102
Net assets at 9/30	\$ 10,627,406	\$ 8,944,776	\$ 11,101,853	\$ 10,959,678	\$ 21,729,259	\$ 19,904,454

The cost of all governmental activities this year was \$ 4.9 million. However, as shown in the Statement of Activities on pages 10 and 11, the amount that our taxpayers ultimately financed for these activities through City taxes was only \$ 4.08 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; \$565 thousand.

THE CITY'S FUNDS

As the City completed the year, its governmental funds (as presented in the balance sheet on page 12) reported a combined fund balance of \$ 2.8 million, which is above last year's total of \$ 1.4 million. Included in this year's total change in fund balance is an increase of approximately \$ 600 thousand in the City's General Fund.

Over the course of the year, the Council 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 \$ 1.04 million reported on page 12 differs from the General Fund's budgetary fund balance of \$899 thousand reported in the General Fund budgetary comparison schedule on page 35. This is principally due to cost savings.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At the end of the 2006-07 year, the City had \$ 19.4 million invested in a broad range of capital assets, including facilities, land, infrastructure, vehicles, and equipment.

Debt

The City entered into a capital lease agreement with an original value of \$67,174. At year-end, the City had \$ 2.27 million in bonds, capital leases, and notes outstanding versus \$3.13 million last year, a decrease of 27 percent.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The City's elected and appointed officials considered many factors when setting the fiscal year 2007-2008 budget and tax rates. On September 27, 2007 the City Council voted to levy a tax rate of \$.292292 on a \$100 assessed valuation. This rate is equal to the rate levied for 2006-2007. However, the total tax levy increased by 14.97%, mostly due to new property added to the tax roll. Other general revenues were conservatively projected to increase by 3-5%.

General fund expenditures were projected to increase modestly for the most part. The budget also included staff increases and salary adjustments to existing personnel, including a 5% across the board increase for most employees.

There were several capital expenditures proposed, mostly to be financed with capital leases.

If these estimates and projections are realized, the City's general fund balance is expected to increase appreciably by the close of 2008.

The Enterprise Fund-Public Utilities Department has experienced a modest surplus for 2007 and is expected to continue this trend for 2008. This increase in fund balance will be available for local match funds that may be needed for the water and wastewater projects that are vital to our continued growth and development.

In terms of long-term debt, the City will continue to amortize existing revenue bonds in the Enterprise Fund, and is assuming new bonded debt in the 2007-2008 fiscal year to fund the new water treatment plant and improvements to the waste water system. Although no new rate increases were adopted in the 2007-2008 budget, the City proposes to conduct a rate study to determine the effect on the debt service requirements for this new debt.

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 Rio Grande City, Texas, 101 S. Washington, Rio Grande City, Texas.

CITY OF RIO GRANDE CITY, TEXAS
STATEMENT OF NET ASSETS
SEPTEMBER 30, 2007

EXHIBIT A-1

Data Control Codes	Primary Government		
	Governmental Activities	Business Type Activities	Total
ASSETS			
1010	\$ 2,567,981	\$ 1,209,349	\$ 3,777,330
1150	694,752	677,257	1,372,009
1300	(26,064)	10,205	(15,859)
1410	-	38,669	38,669
1440	-	22,668	22,668
Restricted Assets:			
Temporarily Restricted:			
1611	-	460,087	460,087
Capital Assets:			
1710	851,810	339,036	1,190,846
1720	5,284,055	11,717,839	17,001,894
1730	1,006,598	599,223	1,605,821
1750	1,267,392	226,199	1,493,591
1760	-	(1,898,282)	(1,898,282)
1990	315	1,210	1,525
1000	<u>11,646,839</u>	<u>13,403,460</u>	<u>25,050,299</u>
LIABILITIES			
2020	87,774	127,215	214,989
2070	18,538	-	18,538
2140	-	21,382	21,382
2200	72,548	8,255	80,803
2240	503,836	-	503,836
2270	-	213,755	213,755
Noncurrent Liabilities			
2501	60,613	226,000	286,613
2502	276,123	1,705,000	1,981,123
2000	<u>1,019,432</u>	<u>2,301,607</u>	<u>3,321,039</u>
NET ASSETS			
3200	7,569,283	9,053,015	16,622,298
3810	-	214,377	214,377
3900	3,058,123	1,834,461	4,892,584
3000	<u>\$ 10,627,406</u>	<u>\$ 11,101,853</u>	<u>\$ 21,729,259</u>

The notes to the Financial Statements are an integral part of this statement.

CITY OF RIO GRANDE CITY, TEXAS
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2007

Data Control Codes	Expenses	<u>Program Revenues</u> Charges for Services
Primary Government:		
GOVERNMENTAL ACTIVITIES:		
10 General Government	\$ 887,670	\$ -
12 Judicial	176,221	-
20 Public Safety	2,246,788	252,413
30 Public Works	463,680	-
31 Highways and Streets	131,465	-
50 Culture and Recreation	13,217	-
55 Libraries	101,176	-
60 Planning	93,880	-
65 Economic Development and Assistance	706,348	-
73 Interest	56,804	-
Total Governmental Activities:	4,877,249	252,413
BUSINESS-TYPE ACTIVITIES:		
701 Public Utilities	2,331,928	2,998,213
Total Business-Type Activities:	2,331,928	2,998,213
TOTAL PRIMARY GOVERNMENT:	\$ 7,209,177	\$ 3,250,626

Data Control Codes	General Revenues:
	Taxes:
5010	Property Taxes, Levied for General Purposes
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
	Net Assets--Ending

The notes to the Financial Statements are an integral part of this statement.

Net (Expense) Revenue and Changes in Net Assets		
Primary Government		
Governmental Activities	Business-type Activities	Total
\$ (887,670)	\$ -	\$ (887,670)
(176,221)	-	(176,221)
(1,994,375)	-	(1,994,375)
(463,680)	-	(463,680)
(131,465)	-	(131,465)
(13,217)	-	(13,217)
(101,176)	-	(101,176)
(93,880)	-	(93,880)
(706,348)	-	(706,348)
(56,804)	-	(56,804)
<u>(4,624,836)</u>	<u>-</u>	<u>(4,624,836)</u>
-	666,285	666,285
-	666,285	666,285
<u>(4,624,836)</u>	<u>666,285</u>	<u>(3,958,551)</u>
1,539,877	-	1,539,877
2,408,709	-	2,408,709
491,073	-	491,073
113,172	-	113,172
18,546	-	18,546
565,262	-	565,262
362,543	196,011	558,554
88,166	-	88,166
720,118	(720,118)	-
<u>6,307,466</u>	<u>(524,107)</u>	<u>5,783,359</u>
1,682,630	142,178	1,824,808
8,944,776	10,959,675	19,904,451
<u>\$ 10,627,406</u>	<u>\$ 11,101,853</u>	<u>\$ 21,729,259</u>

CITY OF RIO GRANDE CITY, TEXAS
BALANCE SHEET
GOVERNMENTAL FUNDS
SEPTEMBER 30, 2007

Data Control Codes	10 General Fund	Major Special Revenue Fund	Other Funds	Total Governmental Funds
ASSETS				
1010 Cash and Cash Equivalents	\$ 934,598	\$ 1,274,847	\$ 358,536	\$ 2,567,981
1050 Taxes Receivable	120,982	-	-	120,982
1150 Receivables (net of allowance for uncollectibles)	65,156	-	9,015	74,171
1260 Intergovernmental Receivables	184,961	75,631	239,007	499,599
1300 Due from Other Funds	274,488	33,710	67,428	375,626
1990 Other Assets	315	-	-	315
1000 Total Assets	<u>\$ 1,580,500</u>	<u>\$ 1,384,188</u>	<u>\$ 673,986</u>	<u>\$ 3,638,674</u>
LIABILITIES AND FUND BALANCES				
Liabilities:				
2010 Accounts Payable	\$ 76,741	\$ 7,807	\$ 5,094	\$ 89,642
2020 Wages and Salaries Payable	(1,892)	24	-	(1,868)
2070 Intergovernmental Payable	18,538	-	-	18,538
2080 Due to Other Funds	158,228	3,852	239,610	401,690
2220 Deferred Revenues	289,417	-	-	289,417
2000 Total Liabilities	<u>541,032</u>	<u>11,683</u>	<u>244,704</u>	<u>797,419</u>
Fund Balances:				
Unreserved and Undesignated:				
3600 Reported in the General Fund	1,039,467	-	-	1,039,467
3610 Reported in the Special Revenue Fund	-	1,372,505	429,282	1,801,787
3000 Total Fund Balances	<u>1,039,467</u>	<u>1,372,505</u>	<u>429,282</u>	<u>2,841,254</u>
4000 Total Liabilities and Fund Balances	<u>\$ 1,580,499</u>	<u>\$ 1,384,188</u>	<u>\$ 673,986</u>	<u>\$ 3,638,673</u>

The notes to the Financial Statements are an integral part of this statement.

CITY OF RIO GRANDE CITY, TEXAS
 RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE
 STATEMENT OF NET ASSETS
 SEPTEMBER 30, 2007

Total Fund Balances - Governmental Funds	\$	2,841,254
<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 \$9,536,512 and the accumulated depreciation was \$1,219,207. 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>		
		7,336,139
<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 2007 capital outlays and debt principal payments is to increase (decrease) net assets.</p>		
		486,646
<p>The 2007 depreciation expense increases accumulated depreciation. The net effect of the current year's depreciation is to decrease net assets.</p>		
		(186,328)
<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>		
		149,695
Net Assets of Governmental Activities	\$	10,627,406

The notes to the Financial Statements are an integral part of this statement.

CITY OF RIO GRANDE CITY, TEXAS
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2007

Data Control Codes	10 General Fund	Major Special Revenue Fund	Other Funds	Total Governmental Funds
REVENUES:				
Taxes:				
5110 Property Taxes	\$ 1,484,053	\$ -	\$ -	\$ 1,484,053
5120 General Sales and Use Taxes	1,605,806	802,903	-	2,408,709
5170 Franchise Tax	491,073	-	-	491,073
5180 Other Taxes	-	-	113,172	113,172
5190 Penalty and Interest on Taxes	18,546	-	-	18,546
5200 Licenses and Permits	91,916	-	-	91,916
5300 Intergovernmental Revenue and Grants	117,361	3,016	444,885	565,262
5400 Charges for Services	184,833	-	-	184,833
5510 Fines	67,680	-	-	67,680
5520 Forfeits	-	-	137,152	137,152
5610 Investment Earnings	39,043	40,685	8,438	88,166
5620 Rents and Royalties	9,335	-	-	9,335
5700 Other Revenue	80,418	19,349	24,274	124,041
5020 Total Revenues	<u>4,190,064</u>	<u>865,953</u>	<u>727,921</u>	<u>5,783,938</u>
EXPENDITURES:				
Current:				
0010 General Government	731,001	-	-	731,001
0012 Judicial	101,853	-	74,368	176,221
0020 Public Safety	1,969,520	-	330,687	2,300,207
0030 Public Works	447,605	-	-	447,605
0031 Highways and Streets	131,465	-	-	131,465
0050 Culture and Recreation	11,439	-	-	11,439
0055 Libraries	101,176	-	-	101,176
0060 Planning	93,880	-	-	93,880
0065 Economic Development and Assistance	-	294,014	412,335	706,349
Debt Service:				
0071 Principal	198,106	-	10,837	208,943
0073 Interest	54,852	-	776	55,628
Capital Outlay:				
0080 Capital Outlay	202,514	1,937	9,203	213,654
6030 Total Expenditures	<u>4,043,411</u>	<u>295,951</u>	<u>838,206</u>	<u>5,177,568</u>
1100 Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>146,653</u>	<u>570,002</u>	<u>(110,285)</u>	<u>606,370</u>
OTHER FINANCING SOURCES (USES):				
7913 Proceeds from Capital Leases	67,174	-	-	67,174
7915 Transfers In	420,000	26,279	653,692	1,099,971
8911 Transfers Out (Use)	(25,195)	(189,208)	(165,450)	(379,853)
7080 Total Other Financing Sources (Uses)	<u>461,979</u>	<u>(162,929)</u>	<u>488,242</u>	<u>787,292</u>
1200 Net Change in Fund Balances	608,632	407,073	377,957	1,393,662
0100 Fund Balance - October 1 (Beginning)	<u>430,835</u>	<u>965,432</u>	<u>51,325</u>	<u>1,447,592</u>
3000 Fund Balance - September 30 (Ending)	<u>\$ 1,039,467</u>	<u>\$ 1,372,505</u>	<u>\$ 429,282</u>	<u>\$ 2,841,254</u>

The notes to the Financial Statements are an integral part of this statement.

CITY OF RIO GRANDE CITY, 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, 2007

Total Net Change in Fund Balances - Governmental Funds	\$	1,393,662
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.		-0-
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 2007 capital outlays and debt principal payments is to increase (decrease) net assets.		486,646
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.		(186,328)
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.		(11,350)
Change in Net Assets of Governmental Activities	<u>\$</u>	<u>1,682,630</u>

The notes to the Financial Statements are an integral part of this statement.

CITY OF RIO GRANDE CITY, TEXAS
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
SEPTEMBER 30, 2007

	Business Type Activities
ASSETS	
Current Assets:	
Cash and Cash Equivalents	\$ 1,209,349
Restricted Assets - Current:	
Restricted Assets-Cash & Cash Equivalents	460,087
Interest Receivable - Investments	1,672
Taxes Receivable	8,255
Accounts Receivable-Net of Uncollectible Allowance	667,330
Due from Other Funds	57,090
Inventories	38,669
Deferred Charges	22,668
Total Current Assets	2,465,120
Noncurrent Assets:	
Capital Assets:	
Land Purchase and Improvements	339,036
Infrastructure	11,717,839
Buildings	599,223
Machinery and Equipment	226,199
Accumulated Depreciation - Capital Assets	(1,898,282)
Other Assets	1,210
Total Noncurrent Assets	10,985,225
Total Assets	13,450,345
LIABILITIES	
Current Liabilities:	
Accounts Payable	127,215
Due to Other Funds	46,885
Accrued Interest Payable	21,382
Deferred Revenue	8,255
Bonds Payable - Current:	
Bonds Payable - Current	226,000
Other Current Liabilities	213,755
Total Current Liabilities	643,492
NonCurrent Liabilities:	
Bonds Payable - Noncurrent	1,705,000
Total Noncurrent Liabilities	1,705,000
Total Liabilities	2,348,492
NET ASSETS	
Investments in Capital Assets, Net of Debt	9,053,015
Restricted for Debt Service	214,377
Unrestricted Net Assets	1,834,461
Total Net Assets	\$ 11,101,853

The notes to the Financial Statements are an integral part of this statement.

CITY OF RIO GRANDE CITY, TEXAS
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2007

EXHIBIT D-2

	Business Type Activities
<hr/>	
OPERATING REVENUES:	
Charges for Water Services	\$ 1,984,096
Charges for Sewerage Service	985,402
Charges for Sanitation Service	28,715
Investment Earnings	72,099
Other Revenue	123,912
Total Operating Revenues	3,194,224
OPERATING EXPENSES:	
Personal Services - Salaries and Wages	535,062
Personal Services - Employee Benefits	200,005
Purchased Professional & Technical Services	89,877
Purchased Property Services	291,383
Other Operating Expenses	107,650
Supplies	926,637
Depreciation	77,447
Interest Expense	103,867
Total Operating Expenses	2,331,928
Income Before Transfers	862,296
Transfers Out	(720,118)
Change in Net Assets	142,178
Total Net Assets - October 1 (Beginning)	10,959,675
 Total Net Assets - September 30 (Ending)	 \$ 11,101,853

The notes to the Financial Statements are an integral part of this statement.

CITY OF RIO GRANDE CITY, TEXAS
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2007

	Business Type Activities
<u>Cash Flows from Operating Activities:</u>	
Cash Received from User Charges	\$ 3,237,982
Cash Payments to Employees for Services	(535,062)
Cash Payments for Suppliers	(1,656,172)
Net Cash Provided by Operating Activities	<u>1,046,748</u>
<u>Cash Flows from Non-Capital Financing Activities:</u>	
Increase(decrease) in Bonds	(215,000)
Operating Transfer Out	(720,118)
Net Cash Provided by (Used for) Non-Capital Financing Activities	<u>(935,118)</u>
<u>Cash Flows from Capital & Related Financing Activities:</u>	
Acquisition of Capital Assets	<u>(35,000)</u>
Net Increase in Cash and Cash Equivalents	76,630
Cash and Cash Equivalents at Beginning of the Year:	<u>1,592,806</u>
Cash and Cash Equivalents at the End of the Year:	<u>\$ 1,669,436</u>
<u>Reconciliation of Operating Income to Net Cash Provided By Operating Activities:</u>	
Operating Income:	\$ 862,296
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:	
Depreciation	77,447
Effect of Increases and Decreases in Current Assets and Liabilities:	
Decrease (increase) in Receivables	18,423
Decrease (increase) in Inventories	(19,657)
Decrease (increase) in Prepaid Expenses	(870)
Increase (decrease) in Accounts Payable	(9,289)
Increase (decrease) in Customer Deposits	25,339
Increase (decrease) in Due to/from Other Funds	93,059
Net Cash Provided by Operating Activities	<u>\$ 1,046,748</u>

The notes to the Financial Statements are an integral part of this statement.

CITY OF RIO GRANDE CITY
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED SEPTEMBER 30, 2007

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The combined financial statements of the City of Rio Grande City, Texas (the “City”) have been prepared in conformity with accounting principles applicable to governmental units which are generally accepted in the United States of America. The Governmental Accounting Standards Board (“GASB”) is the accepted standard settling body for establishing governmental accounting and financial reporting principles.

A. REPORTING ENTITY

The City’s basic financial statements include the accounts of all its operations. The City evaluated whether any other entity should be included in these financial statements. The criteria for including organizations as component units within the City’s reporting entity, as set forth in GASB Statement No. 14, “The Financial Reporting Entity”, include whether:

- The organization is legally separate (can sue and be sued in its name)
- The City holds the corporate powers of the organization
- The City appoints a voting majority to the organization’s board
- The city is able to impose its will on the organization
- The organization has the potential to impose a financial benefit/burden on the City
- There is fiscal dependency by the organization on the City
- The exclusion of the organization would result in misleading or incomplete financial statements

The City also evaluated each legally separate, tax – exempt organization whose resources are used principally to provide support to the City to determine if its omission from the reporting entity would result in financial statements that are misleading or incomplete. GASB Statement No. 14 requires inclusion of such an organization as a component unit when: 1) The economic resources received or held by the organization are entirely or almost entirely for the direct benefit of the City, its component units, or its constituents; and 2) The City or its component units is entitled to, or has the ability to otherwise access, a majority of the economic resources received or held by the organization; and 3) Such economic resources are significant to the City.

Based on these criteria, the City has no component units. Additionally, the City is not a component unit of any other reporting entity as defined by the GASB statement.

The citizens of the City voted on May 1, 1993 to incorporate the City of Rio Grande City, Texas. The City operates under a Mayor – City Council form of government and provides the following services as authorized by its charter: public improvements, utilities (water and sewer), code enforcement, judicial and election functions, and general administrative services.

On May 18, 1998, a court order was issued ordering the Starr County Water Control and Improvement District No. 2 to relinquish all property, assets, and all control of the (former) Water District to the control of the City. This action was effective as of May 15, 1998, at which time the (former) Water District was assimilated into the operations of the City as the Public Utilities Department, an Enterprise Fund.

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's 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 nonoperating 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 nonoperating. 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 nonoperating.

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. The Economic Development Corporation Fund** –This fund is a special revenue fund to account for the ½ cent sales and use tax for economic and industrial development. Since the sales and use tax is approved specifically for such expenditures, the EDC fund is considered a Special Revenue Fund .

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

- 1. The Public Utilities Department** – This fund's function is to provide for a source of supply of water, its purification and distribution to customers and to collect and treat wastewater for municipal customers and administer a private franchised solid waste collection and transportation service.

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. **Debt Service Funds** – The City accounts for resources accumulated and payments made for principal and interest on long-term general obligation debt of governmental funds in a debt service fund. The City has no Debt Service Funds.
3. **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 has no Capital Projects Funds.
4. **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:

5. **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 only Enterprise Fund(s) is the Public Utilities Department.
6. **Internal Service Funds** – Revenues and expenses related to services provided to organizations inside the City on a cost reimbursement basis are accounted for in an internal service fund. The City has no internal service funds.

Fiduciary Funds:

7. **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.
8. **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 vacation 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 3 to 15 years for equipment, 2 to 15 years for vehicles, 30 years for infrastructure, 20 years for improvements, and 50 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.

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	\$ 851,810		\$ 851,810	
Buildings	1,186,761	(169,655)	1,017,106	
Furniture & Equipment	2,213,886	(1,049,552)	1,164,334	
Infrastructure	<u>5,284,055</u>	<u>0</u>	<u>5,284,055</u>	
Change in Net Assets				<u>\$ 8,317,305</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>	
Capital Leases Payable			351,512	
Loans Payable			<u>629,654</u>	
Change in Net Assets				<u>(981,166)</u>
Net Adjustment to Net Assets				<u>\$7,336,139</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 a 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</u> <u>Changes in Net</u> <u>Assets</u>	<u>Adjustments to</u> <u>Net Assets</u>
<u>Current Year Capital Outlay</u>			
Various Categories	<u>\$278,878</u>		
Total Capital Outlay	<u>278,878</u>	\$278,878	\$278,878
 <u>Debt Principal Payments</u>			
Capital Lease Principal	81,950		
Loan Principal	<u>125,818</u>		
Total Principal	<u>207,768</u>	<u>207,768</u>	<u>207,768</u>
Payments			
Total Adjustment to Net Assets		<u>\$ 486,646</u>	<u>\$ 486,646</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	\$ 34,646	\$ (34,646)	\$ (34,646)
Uncollected taxes (assumed collectible) from Current Year Levy	120,982	120,982	120,982
Other		(30,512)	130,533
<u>Reclassify Proceeds of Bonds, Loans & Capital Leases</u>			
Capital Leases		(67,174)	(67,174)
Total		<u>\$(11,350)</u>	<u>\$ 149,695</u>

III. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

A. BUDGETARY DATA

The City Council adopts an "appropriated budget" for the General Fund and certain Special Revenue Funds. 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 F-1.

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 City Council 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 Council. Once a budget is approved, it can only be formally amended by approval of a majority of the members of the Council. Amendments are presented to the Council at its regular meetings. Each amendment must have Council approval. As required by law, such amendments are made before the fact, and are reflected in the official minutes of the Council, 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 Council. All budget appropriations lapse at year end.

B. EXCESS OF EXPENDITURES OVER APPROPRIATIONS

General Fund expenditures exceeded appropriations by the amount(s) noted below;

<u>Functional Category</u>	<u>Amount</u>
General Government	\$ 4,672
Culture & Recreation	\$ 2,939
Libraries	\$ 4,014
Planning	\$ 2,080
Debt Principal	\$ 30,297

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, 2007, the carrying amount of the City's deposits (cash and interest-bearing savings accounts included in temporary investments) was \$4,237,418 and the bank balance was \$4,351,875. The City's cash deposits at September 30, 2007 and during the year ended September 30, 2007 were not 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, 2007, the City had the following investments (dollar amounts are in thousands).

<u>Investment Type</u>	Investment Maturities (in years)				
	Fair Value	Less than 1	1-5	6-10	More Than 10
JP Morgan U.S. Money Market	\$346,242	\$ 346,242			
JP Morgan U.S. Money Market	<u>113,845</u>	<u>113,845</u>			
Totals	\$460,087	\$460,087			

These investments are reported as restricted assets for the Proprietary Fund type.

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, 2007, 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 fiscal year.

C. DELINQUENT TAXES RECEIVABLE

Allowances for uncollectible tax receivables within the General Fund 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

Balances due to and due from other funds at September 30, 2007 consisted of the following:

Due From Fund	Due To Fund	Amount	Purpose
Public Utilities Department	General Fund	\$ 50,761	Short-term loans
CJD Task Force Grant	General Fund	35,546	Short-term loans
HIDTA Task Force	General Fund	93,261	Short-term loans
ORCA Contract #724659	General Fund	601	Short-term loans
TCF Contract #723242	General Fund	94,318	Short-term loans
TCDP Contract #726090	General Fund	1	Short-term loans
General Fund	Hotel Occupancy	67,428	Short-term loans
General Fund	Economic Development	33,710	Short-term loans
General Fund	Public Utilities Dept.	57,090	Short-term loans
	Total	<u>\$ 432,716</u>	

The outstanding balances between funds result mainly from time lag between the date that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made. All amounts due are scheduled to be repaid within one year.

Transfers to and from other funds during the year ended September 30, 2007 consisted of the following:

Transfers To	Transfers From	Amount	Reason
General Fund	Public Utilities Dept.	\$ 300,000	Supplemental other funds sources
General Fund	Economic Development	120,000	Supplemental other funds sources
Hotel Occupancy	Historical Preservation	5,025	Supplemental other funds sources
Special Litigation	Public Utilities Dept.	420,118	Supplemental other funds sources
Economic Development	Hotel Occupancy	20,425	Supplemental other funds sources
Economic Development	General Fund	5,854	Supplemental other funds sources
Airport Fund	General Fund	5,650	Supplemental other funds sources
TCF Contract #723242	General Fund	13,691	Supplemental other funds sources
TCF Contract #723242	Economic Development	69,208	Supplemental other funds sources
TCF Contract #723242	Hotel Occupancy	140,000	Supplemental other funds sources
	Total	<u>\$ 1,099,971</u>	

E. CAPITAL ASSET ACTIVITY

Capital asset activity for the City for the year ended September 30, 2007, was as follows:

	Primary Government			
	<u>Beginning Balance</u>	<u>Additions</u>	<u>Retirements</u>	<u>Ending Balance</u>
Governmental Activities:				
Land	\$ 851,810	\$ 0	\$ (0)	\$ 851,810
Buildings	1,186,761	0	(0)	1,186,761
Furniture and Equipment	2,213,886	349,279	(70,401)	2,492,764
Infrastructure	<u>5,284,055</u>	<u>0</u>	<u>(0)</u>	<u>5,284,055</u>
Totals at Historic Cost	<u>\$ 9,536,512</u>	<u>\$ 349,279</u>	<u>\$(70,401)</u>	<u>\$ 9,815,390</u>
Less Accumulated Depreciation:				
Total Accumulated Depreciation	<u>(1,219,207)</u>	<u>(186,328)</u>	<u>0</u>	<u>(1,405,535)</u>
Governmental Activities Capital Assets, Net	<u>\$ 8,317,305</u>	<u>\$ 162,951</u>	<u>\$(70,401)</u>	<u>\$ 8,409,855</u>
Business-type Activities:				
Land	\$ 339,035	\$ 0	\$ (0)	\$ 339,035
Buildings and Improvements	599,223	0	(0)	599,223
Furniture and Equipment	247,272	0	(21,074)	226,198
Infrastructure	<u>11,682,840</u>	<u>35,000</u>	<u>(0)</u>	<u>11,717,840</u>
Totals at Historic Cost	<u>\$ 12,868,370</u>	<u>\$ 35,000</u>	<u>\$(21,074)</u>	<u>\$ 12,882,296</u>
Less Accumulated Depreciation				
Total Accumulated Depreciation	<u>(1,841,911)</u>	<u>(77,447)</u>	<u>21,074</u>	<u>(1,898,284)</u>
Business-type Activities Capital Assets, Net	<u>\$ 11,026,459</u>	<u>\$(42,447)</u>	<u>\$ (0)</u>	<u>\$ 10,984,012</u>

Depreciation expense was charged to governmental functions as follows:

General Government	\$ 156,669
Public Safety	11,806
Public Works	16,075
Culture & Recreation	<u>1,778</u>
Total Depreciation Expense	\$ 186,328

F. BONDS AND LONG-TERM NOTES PAYABLE

At September 30, 2007, long-term debt consisted of the following:

General Long Term Debt:

Renewal note payable to Texas State Bank dated November 4, 2004, payable in eleven monthly installments of \$1,051, including interest at 4.275%, with remaining unpaid balance due at maturity, secured by real estate. Renewed November 1, 2006. \$ 72,872

Renewal note payable to Texas State Bank dated January 19, 2005, payable in eleven monthly installments of \$2,253, including interest at 4.72%, with remaining unpaid balance due at maturity, secured by real estate. Renewed January 19, 2007. 162,496

Renewal note payable to Texas State Bank dated February 10, 2005, payable in eleven monthly installments of \$2,365, including interest at 4.95%, with remaining unpaid balance due at maturity, secured by real estate. Renewed February 20, 2007.	268,468
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Capital leases payable out of the General Fund.	<u>336,733</u> \$ <u>840,569</u>
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Revenue Bonds Payable:

\$600,000 Series 1989 Waterworks and Sewer System Revenue Serial Bonds due in annual installments of \$25,000 through \$60,000 to July 10, 2012; interest rate at 7.5% to 8.5%	270,000
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\$2,100,000 Series 1991 Waterworks and Sewer System Revenue Serial Bonds due in annual installments of \$110,000 through \$170,000 to July 10, 2012; interest rate at 5.5%	770,000
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\$210,000 Series 1992 Waterworks and Sewer System Revenue Serial Bonds due in annual installments of \$10,000 through \$15,000 to July 10, 2012; interest rate at 5.5%	70,000
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\$173,000 Series 1996 Waterworks and Sewer System Revenue Serial Bonds due in annual installments of \$5,000 through \$15,000 to July 10, 2016; interest rate at 5.69% to 6.74%	105,000
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\$811,000 Series 1996A Waterworks and Sewer System Revenue Serial Bonds due in annual installments of \$8,000 through \$46,000 to July 10, 2035; interest rate at 5.125%	<u>716,000</u>
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Total Revenue Bonds Payable	\$ <u>1,931,000</u>
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Total Long-Term Debt	<u>\$ 2,771,569</u>
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There are a number of limitations and restrictions contained in the revenue bond indenture. Management has indicated that the City is in compliance with all significant limitations and restrictions at September 30, 2007.

G. DEBT SERVICE REQUIREMENTS

Debt service requirements for long-term debt are as follows:

Year Ending	Capital Leases		Note Payable		Revenue Bonds	
	Principal	Interest	Principal	Interest	Principal	Interest
September 30						
2008	60,613	13,744	503,836	8,418	226,000	95,956
2009	54,306	11,012	0	0	233,000	85,350
2010	57,022	8,296	0	0	243,000	74,290
2011	44,008	5,755	0	0	255,000	62,502
2012	42,887	3,765	0	0	271,000	49,974
2013-2017	77,897	1,792	0	0	140,000	167,318
2018-2022	0	0	0	0	110,000	133,506
2023-2027	0	0	0	0	140,000	102,449
2028-2032	0	0	0	0	181,000	62,577
2033-2037	0	0	0	0	132,000	13,735
Total	<u>\$336,733</u>	<u>\$44,364</u>	<u>\$ 503,836</u>	<u>\$8,418</u>	<u>\$1,931,000</u>	<u>\$847,657</u>

H. DEFINED BENEFIT PENSION PLAN

Plan Description

The City's pension plan (the "Plan") is a non – traditional, joint contributory, defined benefit plan which provides retirement, disability, and death benefits to Plan members and beneficiaries through its affiliation with Texas Municipal Retirement System ("TMRS"), an agent multiple – employer public employee retirement system. TMRS operates under the authority of the Texas Government Code, Title 8, Subtitle G. The Texas legislature has the authority to establish or amend benefit provisions and the governing body of the City adopts the plan provisions within the options and constraints established by the legislature. TMRS issues a publicly available financial report that includes financial statements and required supplementary information for TMRS. That report may be obtained by writing to Texas Municipal Retirement System, P.O. Box 149153, Austin, TX 78714-9153 or calling (800) 924-8677. Additional nonauthoritative information is available at the TMRS web site, <http://www.tmr.org>.

Funding Policy

The contribution rate for the employees is 5%, and the City matching ratio is currently 1.5 to 1, both as adopted by the governing body of the City. The City's contributions to TMRS for the years ended September 30, 2007, 2006, and 2005 were \$91,931, \$95,500, and \$92,415, respectively.

Annual Pension Cost

Under the state law governing TMRS, the actuary annually determines the City contribution rate. This rate consists of the normal cost contribution rate and the prior service contribution rate, both of which are calculated to be a level of percent of payroll from year to year. The normal cost contribution rate finances the currently accruing monetary credits due to City matching percent, which are the obligation of the City as of an employee's retirement date, not at the time the employee's contributions are made. The normal cost contribution rate is the actuarially determined percent of payroll necessary to satisfy the obligation of the City to each employee at the time his/her retirement becomes effective. The prior service contribution rate amortizes the unfounded (over funded) actuarial liability (asset) over the remainder of the plan's 25-year amortization period. The unit credit actuarial cost method is used for determining the City contribution rate. Both the employees and the City make contributions monthly. Since the City needs to know its contribution rate in advance to budget for it, there is a one-year delay between the actuarial valuation that is

the basis for the rate and the calendar year when the rate goes into effect.

The City is one of 794 municipalities having the benefit plan administered by TMRS. Each of the 811 municipalities has an annual, actuarial valuation performed. All assumptions for the December 31, 2006 valuations are contained in the 2005 TMRS Comprehensive Annual Financial Report, a copy of which may be obtained by writing to P.O. Box 149153, Austin, Texas, 78714-9153.

The CITY OF RIO GRANDE CITY	
Schedule of Actuarial Liabilities and Funding Progress	
Actuarial Valuation Date December 31, 2006	
Actuarial Value of Assets	\$713,152
Actuarial Accrued Liability	\$1,481,636
Percentage Funded	48.1%
Unfunded (over-funded) Actuarial Accrued Liability (UAAL)	\$768,484
Annual covered payroll	\$2,414,206
UAAL as a Percentage of Covered Payroll	31.8%
Net Pension Obligation as of beginning of Period	\$0
Annual Pension Cost:	\$0
Annual Required Contribution (ARC)	\$91,931
Less: Contributions Made	\$91,931
NPO at the end of the period	\$0

I. CHANGES IN LONG-TERM LIABILITIES

Long-term activity for the year ended September 30, 2007, 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:					
Capital Leases	\$ 351,512	\$ 67,171	\$ (81,950)	\$ 336,733	\$ 60,613
Notes Payable	<u>629,654</u>	<u>0</u>	<u>(125,818)</u>	<u>503,836</u>	<u>503,836</u>
Total Bonds and Notes Payable	<u>\$ 981,166</u>	<u>\$ 0</u>	<u>\$ (207,768)</u>	<u>\$ 840,569</u>	<u>\$ 564,449</u>
Total Governmental Activities Long-term Liabilities	<u>\$ 981,166</u>	<u>\$ 67,171</u>	<u>\$ (207,768)</u>	<u>\$ 840,569</u>	<u>\$ 564,449</u>
Business-type Activities:					
Bonds and Notes Payable:					
Revenue Bonds Payable	\$ 2,146,000	\$ 0	\$ (215,000)	\$ 1,931,000	\$ 226,000
Total Bonds and Notes Payable	<u>\$ 2,146,000</u>	<u>\$ 0</u>	<u>(215,000)</u>	<u>\$ 1,931,000</u>	<u>226,000</u>
Total Business-type Activities Long-Term Liabilities	<u>\$ 2,146,000</u>	<u>\$ 0</u>	<u>\$ (215,000)</u>	<u>\$ 1,931,000</u>	<u>226,000</u>

Capital Leases Payable

The City is obligated under certain lease agreements which have been classified as capital leases. Property under capital leases consists of equipment and vehicles. Accumulated depreciation has been recorded against the assets under capital lease. The leases are payable out of the general fund.

Commitments under capitalized lease agreements for vehicles and equipment provide for minimum future lease payments as of September 30, 2007 as follows:

Year Ending September 30	
2008	\$ 74,357
2009	65,318
2010	65,318
2011	49,763
2012	46,652
2013-2017	<u>79,689</u>
	381,097
Less: amount representing interest	44,364
Present value of minimum lease payments	\$336,733

J. DEFERRED REVENUE

Deferred revenue at year-end consisted of the following:

	<u>General Fund</u>	<u>Enterprise Fund</u>	<u>Total</u>
Deferred Revenue	\$289,417	\$8,255	\$ 297,672
Total Deferred Revenue	<u>\$ 289,417</u>	<u>\$ 8,255</u>	<u>\$ 297,672</u>

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

K. COMMITMENTS AND CONTINGENCIES

The City is involved in various lawsuits concerning several issues. The city’s management and legal counsel estimate that the potential loss for a number of the cases is minimal, either in the potential for an unfavorable outcome or the potential loss in the event of loss. In addition the City’s legal counsel is unable to reasonably predict the outcome in favor of or against the City at this time for all the outstanding cases, and is not able to estimate a range of potential loss for all the cases.

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.

L. RISK MANAGEMENT

The City is exposed to various risks of loss related to torts, theft, damage, or destruction of assets, errors and omissions, injuries to employees, and natural disasters. During fiscal year 2007, the city has maintained general liability coverage at a cost that is considered to be economically justifiable by joining together with other governmental entities in the State as a member of the Texas Municipal League Intergovernmental Risk Pool (“TML”). TML is a self-funded pool operating as a common risk management and insurance program. The City pays an annual premium to TML for its insurance coverage. The agreement for the formation of TML provides that TML will be self-sustaining through member premiums and will reinsure through commercial companies for claims in excess of acceptable risk levels; however each category of coverage has its own level of reinsurance. The City continues to carry commercial insurance for other risks of loss. There were no significant reductions in commercial insurance coverage in the past fiscal year and settled claims resulting from these risks have not exceeded coverage in any of the past three years.

M. CONCENTRATIONS OF CREDIT RISK

Proprietary fund accounts receivable are concentrated within the geographic service area of the utility system, which is within the City. Those receivables are not concentrated within any individually significant customers. The City requires a deposit from each utility customer prior to establishing service. The net amount of proprietary fund accounts receivable at year end after deducting the allowance for doubtful accounts and after including estimated amounts for service provided but not yet billed at year end was \$667,330. Utility customer deposits held at year end totaled \$213,755.

N. HEALTH CARE COVERAGE

During the year ended September 30, 2007, employees of the City were covered by a health insurance plan (the “Plan”). The City paid premiums of \$264 per month per employee to the Plan. Employees, at their option, authorized payroll withholdings to pay premiums for dependents. All premiums were paid to a licensed insurer. The Plan was authorized by Article 3.51-2, Texas Insurance Code and was documented by contractual agreement.

The contract between the City and the licensed insurer is renewable March 1, 2008, and terms of coverage and premium costs are included in the contractual provisions.

Latest financial statements for the insurer (Blue Cross/Blue Shield of Texas) are available for the year ended December 31, 2007 and have been filed with the Texas Board of Insurance in Austin, Texas, and are public records.

CITY OF RIO GRANDE CITY, TEXAS
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL - GENERAL FUND
FOR THE YEAR ENDED SEPTEMBER 30, 2007

EXHIBIT G-1

Data Control Codes	Budgeted Amounts		Actual Amounts (GAAP BASIS)	Variance With Final Budget Positive or (Negative)	
	Original	Final			
REVENUES:					
Taxes:					
5110	Property Taxes	\$ 1,429,387	\$ 1,446,887	\$ 1,484,053	\$ 37,166
5120	General Sales and Use Taxes	1,589,658	1,589,658	1,605,806	16,148
5170	Franchise Tax	484,289	484,289	491,073	6,784
5190	Penalty and Interest on Taxes	16,204	16,204	18,546	2,342
5200	Licenses and Permits	189,992	189,992	91,916	(98,076)
5300	Intergovernmental Revenue and Grants	-	183,700	117,361	(66,339)
5400	Charges for Services	191,475	294,155	184,833	(109,322)
5510	Fines	-	-	67,680	67,680
5610	Investment Earnings	2,952	12,952	39,043	26,091
5620	Rents and Royalties	17,716	17,716	9,335	(8,381)
5700	Other Revenue	86,342	92,662	80,418	(12,244)
5020	Total Revenues	4,008,015	4,328,215	4,190,064	(138,151)
EXPENDITURES:					
Current:					
0010	General Government	704,854	726,329	731,001	(4,672)
0012	Judicial	119,831	119,831	101,853	17,978
0020	Public Safety	1,956,447	2,066,147	1,969,520	96,627
0030	Public Works	541,236	530,536	447,605	82,931
0031	Highways and Streets	150,000	150,000	131,465	18,535
0050	Culture and Recreation	37,352	8,500	11,439	(2,939)
0055	Libraries	93,662	97,162	101,176	(4,014)
0060	Planning	61,348	91,800	93,880	(2,080)
Debt Service:					
0071	Principal	174,309	167,809	198,106	(30,297)
0073	Interest	71,803	66,803	54,852	11,951
Capital Outlay:					
0080	Capital Outlay	322,129	294,254	202,514	91,740
6030	Total Expenditures	4,232,971	4,319,171	4,043,411	275,760
1100	Excess (Deficiency) of Revenues Over (Under) Expenditures	(224,956)	9,044	146,653	137,609
OTHER FINANCING SOURCES (USES):					
7913	Proceeds from Capital Leases	306,823	72,823	67,174	(5,649)
7915	Transfers In	420,000	420,000	420,000	-
8911	Transfers Out (Use)	(34,031)	(34,031)	(25,195)	8,836
7080	Total Other Financing Sources (Uses)	692,792	458,792	461,979	3,187
1200	Net Change in Fund Balances	467,836	467,836	608,632	140,796
0100	Fund Balance - October 1 (Beginning)	430,835	430,835	430,835	-
3000	Fund Balance - September 30 (Ending)	\$ 898,671	\$ 898,671	\$ 1,039,467	\$ 140,796

CITY OF RIO GRANDE CITY, TEXAS
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL - ECONOMIC DEVELOPMENT CORPORATION FUND
FOR THE YEAR ENDED SEPTEMBER 30, 2007

EXHIBIT G-2

Data Control Codes	Budgeted Amounts		Actual Amounts	Adjustments	Actual Amounts	Variance With	
	Original	Final	on	to	BUDGET (See Note)	Final Budget Positive or (Negative)	
			GAAP Basis	Budget Basis			
REVENUES:							
Taxes:							
5120	General Sales and Use Taxes	\$ 794,829	\$ 794,829	\$ 802,903	\$ -	\$ 802,903	\$ 8,074
5300	Intergovernmental Revenue and Grants	-	-	3,016	-	3,016	3,016
5610	Investment Earnings	18,838	18,838	40,685	-	40,685	21,847
5700	Other Revenue	15,000	15,000	19,349	-	19,349	4,349
5020	Total Revenues	828,667	828,667	865,953	-	865,953	37,286
EXPENDITURES:							
Current:							
Conservation and Development:							
65	Economic Development and Assistance	750,898	750,898	294,014	-	294,014	456,884
Capital Outlay:							
80	Capital Outlay	-	-	1,937	-	1,937	(1,937)
6030	Total Expenditures	750,898	750,898	295,951	-	295,951	454,947
	Excess of Revenues Over Expenditures	77,769	77,769	570,002	-	570,002	492,233
OTHER FINANCING SOURCES (USES):							
7915	Transfers In	42,231	42,231	26,279	-	26,279	(15,952)
8911	Transfers Out (Use)	(120,000)	(120,000)	(189,208)	-	(189,208)	(69,208)
7080	Total Other Financing Sources (Uses)	(77,769)	(77,769)	(162,929)	-	(162,929)	(85,160)
1200	Change in Fund Balance	-	-	407,073	-	407,073	407,073
0100	Fund Balance - October 1 (Beginning)	965,432	965,432	965,432	-	965,432	-
3000	Fund Balance - September 30 (Ending)	\$ 965,432	\$ 965,432	\$ 1,372,505	\$ -	\$ 1,372,505	\$ 407,073

The accompanying notes are an integral part of this statement.

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CITY OF RIO GRANDE CITY, TEXAS
 COMBINING BALANCE SHEET
 NONMAJOR GOVERNMENTAL FUNDS
 SEPTEMBER 30, 2007

Data Control Codes	200 Hotel Occupancy Tax Fund	201 Forfeiture Fund	202 HIDTA Task Force Fund
ASSETS			
1010 Cash and Cash Equivalents	\$ 153,054	\$ 144,915	\$ -
1150 Receivables (net of allowance for uncollectibles)	9,015	-	-
1260 Intergovernmental Receivables	-	-	93,261
1300 Due from Other Funds	67,428	-	-
1000 Total Assets	<u>\$ 229,497</u>	<u>\$ 144,915</u>	<u>\$ 93,261</u>
LIABILITIES AND FUND BALANCES			
Liabilities:			
2010 Accounts Payable	\$ 3,824	\$ 1,270	\$ -
2080 Due to Other Funds	-	-	93,261
2000 Total Liabilities	<u>3,824</u>	<u>1,270</u>	<u>93,261</u>
Fund Balances:			
Unreserved and Undesignated:			
3610 Reported in the Special Revenue Fund	225,673	143,645	-
3000 Total Fund Balances	<u>225,673</u>	<u>143,645</u>	<u>-</u>
4000 Total Liabilities and Fund Balances	<u>\$ 229,497</u>	<u>\$ 144,915</u>	<u>\$ 93,261</u>

The notes to the Financial Statements are an integral part of this statement.

203 Treasury Forfeiture Fund	204 RGC Police Department Fund	205 Special Litigation Fund	206 Historical Preservation Fund	208 CJD Task Force Grant Fund	209 Airport Fund	210 TCDP Contract # 726090 Fund	211 ORCA #724659 Fund
\$ 59,602	\$ 362	\$ -	\$ -	\$ -	\$ -	\$ 1	\$ 601
-	-	-	-	-	-	-	-
-	-	-	-	35,546	-	-	-
-	-	-	-	-	-	-	-
<u>\$ 59,602</u>	<u>\$ 362</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 35,546</u>	<u>\$ -</u>	<u>\$ 1</u>	<u>\$ 601</u>
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
-	-	-	-	35,546	-	1	601
-	-	-	-	35,546	-	1	601
59,602	362	-	-	-	-	-	-
<u>59,602</u>	<u>362</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<u>\$ 59,602</u>	<u>\$ 362</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 35,546</u>	<u>\$ -</u>	<u>\$ 1</u>	<u>\$ 601</u>

CITY OF RIO GRANDE CITY, TEXAS
 COMBINING BALANCE SHEET
 NONMAJOR GOVERNMENTAL FUNDS
 SEPTEMBER 30, 2007

Data Control Codes	212 TCF Contract # 723242 Fund	Total Nonmajor Governmental Funds
ASSETS		
1010 Cash and Cash Equivalents	\$ 1	\$ 358,536
1150 Receivables (net of allowance for uncollectibles)	-	9,015
1260 Intergovernmental Receivables	110,200	239,007
1300 Due from Other Funds	-	67,428
1000 Total Assets	<u>\$ 110,201</u>	<u>\$ 673,986</u>
LIABILITIES AND FUND BALANCES		
Liabilities:		
2010 Accounts Payable	\$ -	\$ 5,094
2080 Due to Other Funds	110,201	239,610
2000 Total Liabilities	<u>110,201</u>	<u>244,704</u>
Fund Balances:		
Unreserved and Undesignated:		
3610 Reported in the Special Revenue Fund	-	429,282
3000 Total Fund Balances	<u>-</u>	<u>429,282</u>
4000 Total Liabilities and Fund Balances	<u>\$ 110,201</u>	<u>\$ 673,986</u>

The notes to the Financial Statements are an integral part of this statement.

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CITY OF RIO GRANDE CITY, TEXAS
 COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
 FUND BALANCES - NONMAJOR GOVERNMENTAL FUNDS
 FOR THE YEAR ENDED SEPTEMBER 30, 2007

Data Control Codes	200 Hotel Occupancy Tax Fund	201 Forfeiture Fund	202 HIDTA Task Force Fund	203 Treasury Forfeiture Fund
REVENUES:				
Taxes:				
5180 Other Taxes	\$ 113,172	\$ -	\$ -	\$ -
5300 Intergovernmental Revenue and Grants	-	-	208,825	-
5520 Forfeits	-	137,152	-	-
5610 Investment Earnings	3,102	2,272	-	2,589
5700 Other Revenue	-	-	-	-
5020 Total Revenues	<u>116,274</u>	<u>139,424</u>	<u>208,825</u>	<u>2,589</u>
EXPENDITURES:				
Current:				
General Government:				
0012 Judicial	-	-	-	-
0020 Public Safety	-	48,148	208,825	15,573
Conservation and Development:				
0065 Economic Development and Assistance	5,575	-	-	-
Debt Service:				
0071 Principal	-	10,837	-	-
0073 Interest	-	776	-	-
Capital Outlay:				
0080 Capital Outlay	-	9,203	-	-
6030 Total Expenditures	<u>5,575</u>	<u>68,964</u>	<u>208,825</u>	<u>15,573</u>
1100 Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>110,699</u>	<u>70,460</u>	<u>-</u>	<u>(12,984)</u>
OTHER FINANCING SOURCES (USES):				
7915 Transfers In	5,025	-	-	-
8911 Transfers Out (Use)	(160,425)	-	-	-
7080 Total Other Financing Sources (Uses)	<u>(155,400)</u>	<u>-</u>	<u>-</u>	<u>-</u>
1200 Net Change in Fund Balance	(44,701)	70,460	-	(12,984)
0100 Fund Balance - October 1 (Beginning)	<u>270,374</u>	<u>73,185</u>	<u>-</u>	<u>72,586</u>
3000 Fund Balance - September 30 (Ending)	<u>\$ 225,673</u>	<u>\$ 143,645</u>	<u>\$ -</u>	<u>\$ 59,602</u>

The notes to the Financial Statements are an integral part of this statement.

204 RGC Police Department Fund	205 Special Litigation Fund	206 Historical Preservation Fund	208 CJD Task Force Grant Fund	209 Airport Fund	210 TCDP Contract # 726090 Fund	211 ORCA #724659 Fund	212 TCF Contract # 723242 Fund
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
2,123	-	-	55,726	-	53,200	14,811	110,200
-	-	-	-	-	-	-	-
12	435	28	-	-	-	-	-
250	24,024	-	-	-	-	-	-
<u>2,385</u>	<u>24,459</u>	<u>28</u>	<u>55,726</u>	<u>-</u>	<u>53,200</u>	<u>14,811</u>	<u>110,200</u>
-	74,368	-	-	-	-	-	-
2,415	-	-	55,726	-	-	-	-
-	-	-	-	5,650	53,200	14,811	333,099
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
<u>2,415</u>	<u>74,368</u>	<u>-</u>	<u>55,726</u>	<u>5,650</u>	<u>53,200</u>	<u>14,811</u>	<u>333,099</u>
<u>(30)</u>	<u>(49,909)</u>	<u>28</u>	<u>-</u>	<u>(5,650)</u>	<u>-</u>	<u>-</u>	<u>(222,899)</u>
-	420,118	-	-	5,650	-	-	222,899
-	-	(5,025)	-	-	-	-	-
-	420,118	(5,025)	-	5,650	-	-	222,899
(30)	370,209	(4,997)	-	-	-	-	-
392	(370,209)	4,997	-	-	-	-	-
<u>\$ 362</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

CITY OF RIO GRANDE CITY, TEXAS
 COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
 FUND BALANCES - NONMAJOR GOVERNMENTAL FUNDS
 FOR THE YEAR ENDED SEPTEMBER 30, 2007

Data Control Codes	Total Nonmajor Special Revenue Funds	Total Nonmajor Governmental Funds
REVENUES:		
Taxes:		
5180 Other Taxes	\$ 113,172	\$ 113,172
5300 Intergovernmental Revenue and Grants	444,885	444,885
5520 Forfeits	137,152	137,152
5610 Investment Earnings	8,438	8,438
5700 Other Revenue	24,274	24,274
5020 Total Revenues	<u>727,921</u>	<u>727,921</u>
EXPENDITURES:		
Current:		
General Government:		
0012 Judicial	74,368	74,368
0020 Public Safety	330,687	330,687
Conservation and Development:		
0065 Economic Development and Assistance	412,335	412,335
Debt Service:		
0071 Principal	10,837	10,837
0073 Interest	776	776
Capital Outlay:		
0080 Capital Outlay	9,203	9,203
6030 Total Expenditures	<u>838,206</u>	<u>838,206</u>
1100 Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>(110,285)</u>	<u>(110,285)</u>
OTHER FINANCING SOURCES (USES):		
7915 Transfers In	653,692	653,692
8911 Transfers Out (Use)	(165,450)	(165,450)
7080 Total Other Financing Sources (Uses)	<u>488,242</u>	<u>488,242</u>
1200 Net Change in Fund Balance	377,957	377,957
0100 Fund Balance - October 1 (Beginning)	<u>51,325</u>	<u>51,325</u>
3000 Fund Balance - September 30 (Ending)	<u>\$ 429,282</u>	<u>\$ 429,282</u>

The notes to the Financial Statements are an integral part of this statement.

Reyna & Garza, PLLC

Certified Public Accountants

4416 S. McColl Road

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
City of Rio Grande City, Texas
101 S. Washington
Rio Grande City, Texas 78582

Members of the Council:

We have audited the financial statements of City of Rio Grande City, Texas as of and for the year ended September 30, 2007, and have issued our report thereon dated January 25, 2008. 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 Rio Grande City, 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 Rio Grande City, Texas' (the City's) internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City of Rio Grande City, Texas' internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified no deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the organization's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles, such that there is more than a remote likelihood that a misstatement of the organization's financial statements that is more than inconsequential will not be prevented or detected by the organization's internal control. We noted no matters involving the internal control over financial reporting and its operation that we consider to be significant deficiencies in internal control over financial reporting.

This report is intended for the information of the City Council, the audit committee, the administration, 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

January 25, 2008

CITY OF RIO GRANDE CITY, TEXAS

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED SEPTEMBER 30, 2007

I. Summary of the Auditor's Results:

- a) The auditor's report expresses an unqualified opinion on the General Purpose Financial Statements.
- b) No control deficiencies were noted during the audit of the General Purpose Financial Statements.
- c) No instances of noncompliance material to the General Purpose Financial Statements of the City of Rio Grande City, Texas, which would require to be reported in accordance with *Governmental Auditing Standards*, were disclosed during the audit.
- d) The City of Rio Grande City, Texas did not meet the criteria for a Single Audit, under OMB Circular A-133.

II. Findings - Financial Statement Audit

None

CITY OF RIO GRANDE CITY, TEXAS
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED SEPTEMBER 30, 2007

No findings were reported in prior audit.

CITY OF RIO GRANDE CITY, TEXAS
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED SEPTEMBER 30, 2007

(1)	(2)	(3)	(4)
FEDERAL GRANTOR/ PASS-THROUGH GRANTOR/ PROGRAM or CLUSTER TITLE	Federal CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
<u>OFFICE OF NATIONAL DRUG CONTROL POLICY</u>			
<u>Direct Programs</u>			
High Intensity Drug Trafficking Area Task Force	07.616	15PSSP616	\$ 21,110
High Intensity Drug Trafficking Area Task Force	07.616	16PSSP616	106,924
High Intensity Drug Trafficking Area Task Force	07.616	17PSSP616	80,792
Total CFDA Number 07.616			<u>208,826</u>
Total Direct Programs			<u>208,826</u>
TOTAL OFFICE OF NATIONAL DRUG CONTROL POLICY			<u>208,826</u>
<u>U.S. DEPARTMENT OF JUSTICE</u>			
<u>Direct Programs</u>			
BOJ Assistance - Bulletproof Vest Program	16.607	2006BUBX0613631	1,575
Total Direct Programs			<u>1,575</u>
<u>Passed Through Office of the Governor-CJD</u>			
Office of the Governor - Criminal Justice Division	16.738	DJ-05-A10-18428	55,726
Edward Byrne Memorial JAG Program	16.738	BSOC-OP-012	20,602
Edward Byrne Memorial JAG Program	16.738	BSOC-OP-020	15,638
Edward Byrne Memorial JAG Program	16.738	BSOC-OP-080	4,601
Total CFDA Number 16.738			<u>96,567</u>
Total Passed Through Office of the Governor-CJD			<u>96,567</u>
TOTAL U.S. DEPARTMENT OF JUSTICE			<u>98,142</u>
<u>HOMELAND SECURITY</u>			
<u>Homeland Security Grant Program</u>			
Homeland Security Grant Program	97.074	2005 HSGP-62168	75,000
Total Homeland Security Grant Program			<u>75,000</u>
TOTAL HOMELAND SECURITY			<u>75,000</u>
<u>DEPARTMENT OF HOUSING & URBAN DEVELOPMENT</u>			
<u>Passed Through Office of Rural Community Affairs</u>			
Office of Rural Community Affairs	14.228	724659	14,811
Office of Rural Community Affairs	14.228	726090	53,200
Total CFDA Number 14.228			<u>68,011</u>
Total Passed Through Office of Rural Community Affairs			<u>68,011</u>
TOTAL DEPARTMENT OF HOUSING & URBAN DEVELOPMENT			<u>68,011</u>

CITY OF RIO GRANDE CITY, TEXAS
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 FOR THE YEAR ENDED SEPTEMBER 30, 2007

(1)	(2)	(3)	(4)
FEDERAL GRANTOR/ PASS-THROUGH GRANTOR/ PROGRAM or CLUSTER TITLE	Federal CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
TOTAL EXPENDITURES OF FEDERAL AWARDS			<u>\$ 449,979</u>

CITY OF RIO GRANDE CITY, TEXAS
NOTES ON ACCOUNTING POLICIES FOR FEDERAL AWARDS
YEAR ENDED SEPTEMBER 30, 2007

- 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.

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