

CITY OF RIO GRANDE CITY, TEXAS
ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED SEPTEMBER 30, 2008

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Reyna & Garza, PLLC

Certified Public Accountants

2111 Jackson Creek

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, 2008, 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, 2008, 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 February 16, 2009, 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, PLLC
Certified Public Accountants

February 16, 2009

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, 2008. 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 \$942,682 as a result of this year's operations. Net assets of our business-type activities: increased by \$411,977, or nearly 4 percent, net assets of our governmental activities: increased, by \$530,705 or nearly 5 percent.
- During the year, the City had expenses that were \$ 380,705 less than the \$ 7.3 million generated in tax and other revenues for governmental programs (before special items).
- In the City's business-type activities, revenues increased from \$3.2 million to \$ 3.4 million (or 6.3 percent) while expenses increased from \$2.3 million to \$ 2.8 million (or 21 percent).
- Total cost of all of the City's programs increased from \$7.2 million to \$ 9.7 million (or 35 percent).
- The General Fund ended the year with a fund balance of \$ 1 million.
- The resources available for appropriation were \$ 44 thousand more 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 \$10.6 million to \$11.15 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 \$ 7 million at September 30, 2008.

In 2008, net assets of our business-type activities increased by \$ 412 thousand, or nearly 4 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 2008	Governmental Activities 2007	Business-type Activities 2008	Business-type Activities 2007	Total 2008	Total 2007
Current and other assets	\$ 7,716,019	\$ 3,236,984	\$ 2,764,689	\$ 2,419,445	\$ 10,480,708	\$ 5,656,429
Capital assets	8,730,520	8,409,855	10,895,129	10,984,015	19,625,649	19,393,870
Total assets	\$ 16,446,539	\$ 11,646,839	\$ 13,659,818	\$ 13,403,460	\$ 30,106,357	\$ 25,050,299
Long-term liabilities	4,647,593	336,736	1,705,000	1,931,000	6,352,593	2,267,736
Other liabilities	640,835	682,696	440,988	370,607	1,081,823	1,053,303
Total liabilities	\$ 5,288,428	\$ 1,019,432	\$ 2,145,988	\$ 2,301,607	\$ 7,434,416	\$ 3,321,039
Net Assets:						
Invested in capital assets net of related debt	4,082,927	7,569,283	9,190,129	9,053,015	\$ 13,273,056	\$16,622,298
Restricted	0	0	194,058	214,377	194,058	214,377
Unrestricted	7,075,184	3,058,123	2,129,643	1,834,461	9,204,827	\$ 4,892,584
Total net assets	\$ 11,158,111	\$ 10,627,406	\$ 11,513,830	\$ 11,101,853	\$ 22,671,941	\$ 21,729,259

Table II
CITY OF RIO GRANDE CITY, TEXAS

CHANGES IN NET ASSETS

	Governmental Activities 2008	Governmental Activities 2007	Business-type Activities 2008	Business-type Activities 2007	Total 2008	Total 2007
Revenues:						
Program Revenues:						
Charges for Services	0	252,413	3,244,212	2,998,213	3,244,212	2,998,213
General Revenues:						
Maintenance and operations taxes	1,777,127	1,539,877	0	0	1,777,127	1,539,877
Grants	1,481,735	565,262	0	0	1,481,735	565,262
Sales Taxes	2,519,688	2,408,709	0	0	2,519,688	2,408,709
Franchise Taxes	527,951	491,073	0	0	527,951	491,073
Investment Earnings	74,484	88,166	40,256	0	114,740	88,166
Miscellaneous	927,309	494,261	109,881	196,011	1,037,190	690,272
Total Revenue	\$ 7,308,294	\$ 5,839,761	\$ 3,394,349	\$ 3,194,224	\$ 10,702,643	\$ 9,033,985
Expenses:						
General Government	1,112,682	887,670	0	0	1,112,682	887,670
Judicial	91,998	176,221	0	0	91,998	176,221
Public Safety	2,919,005	2,246,788	0	0	2,919,005	2,246,788
Public Works	946,020	463,680	0	0	946,020	463,680
Highways and Streets	174,339	131,465	0	0	174,339	131,465
Culture and Recreation	112,961	13,217	0	0	112,961	13,217
Libraries	139,180	101,176	0	0	139,180	101,176
Conservation & Development	200,295	93,880	0	0	200,295	93,880
Economic Development	1,174,552	706,348	0	0	1,174,552	706,348
Bond Interest & Cap Outlay	56,557	56,804	0	0	56,557	56,804
Utility I&S Fund	0	0	2,815,926	2,331,928	2,815,926	2,331,928
Total Expenses	\$ 6,927,589	\$ 4,877,249	\$ 2,815,926	\$ 2,331,928	\$ 9,743,515	\$ 7,209,177
Increase in net assets before transfers and special items	380,705	962,512	578,423	862,296	959,128	1,824,808
Transfers	150,000	720,118	(150,000)	(720,118)	0	0
Special Items - Resources	0	0	0	0	0	0
Special Items-Prior Period Adjustments	0	0	(16,446)	0	(16,446)	0
Net assets at 10/1	\$ 10,627,406	\$ 8,944,776	\$ 11,101,853	\$ 10,959,675	\$ 21,729,259	\$ 19,904,451
Net assets at 9/30	\$ 11,158,111	\$ 10,627,406	\$ 11,513,830	\$ 11,101,853	\$ 22,671,941	\$ 21,729,259

The cost of all governmental activities this year was \$ 9.7 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 \$ 1.78 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.

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 \$ 5.9 million, which is above last year's total of \$ 2.84 million. Included in this year's total change in fund balance is an increase of approximately \$2.7 million in the City's Capital Projects 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 \$ 1.008 million reported on page 12 differs from the General Fund's budgetary fund balance of \$ 1.039 million reported in the General Fund budgetary comparison schedule on page 38. This is principally due to a shortfall in tax revenues.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At the end of the 2007-08 year, the City had \$ 22.65 million invested in a broad range of capital assets, including facilities, land, infrastructure, vehicles, and equipment. This includes a brush truck for our Fire Department and six marked units for our Police Department.

Debt

The City entered into three new capital lease agreements with original values of \$224,666. The City also closed on three new debt issues valued at a total of \$23,585,000 from the Texas Water Development Board for water and wastewater projects. Of the total amount of bonds issued, \$3,795,000 of proceeds have been drawn down in 2007-2008. At year-end, the City had \$ 6.35 million in bonds, capital leases, and notes outstanding versus \$2.27 million last year, an increase of 179 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 2008-2009 budget and tax rates. On September 23, 2008 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 2007-2008.

However, the total tax levy increased by 9.4%, mostly due to new property added to the tax roll. Other general revenues were either projected to remain the same or increase very moderately.

General fund expenditures were projected to remain the same for the most part, with exceptions such as fuel. The budget also included a cost of living adjustment of 5% across the board for most employees. There were few capital expenditures proposed. For the coming year, capital outlay expenditure requests will be considered on a case-by-case basis and the departments will need to present the method of financing any requests.

If these estimates and projections are realized, this budget would provide a very modest increase in the City's general fund balance.

The Enterprise Fund-Public Utilities Department experienced a healthy surplus for 2008. The 2009 budget projects only a moderate surplus. The rate structure recommended in the September 2008 rate study is to be gradually implemented in phases in order to provide sufficient funds to service the new debt being undertaken over the next few years.

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
STATEMENT OF NET ASSETS
SEPTEMBER 30, 2008

EXHIBIT A-1

	Primary Government		Total
	Governmental Activities	Business Type Activities	
ASSETS			
Cash and Cash Equivalents	\$ 3,041,433	\$ 1,077,847	\$ 4,119,280
Investments - Current	505,246	848,552	1,353,798
Receivables (net of allowance for uncollectibles)	875,581	745,759	1,621,340
Internal Balances	(47,166)	47,166	-
Inventories	-	16,795	16,795
Deferred Charges	-	21,144	21,144
Capitalized Debt Issuance Costs	778,284	-	778,284
Restricted Assets:			
Temporarily Restricted:			
Temp. Restricted Asset	2,561,946	-	2,561,946
Capital Assets:			
Land	851,810	339,036	1,190,846
Infrastructure, net	5,284,055	11,717,840	17,001,895
Buildings, net	1,006,598	599,223	1,605,821
Machinery and Equipment, net	1,588,057	243,964	1,832,021
Accum. Depreciation on Capital Assets	-	(2,004,934)	(2,004,934)
Other Assets	695	7,426	8,121
Total Assets	<u>16,446,539</u>	<u>13,659,818</u>	<u>30,106,357</u>
LIABILITIES			
Accounts Payable and other current liabilities	367,150	152,951	520,101
Intergovernmental Payable	40,748	-	40,748
Accrued Interest Payable	-	19,063	19,063
Deferred Revenues	-	8,255	8,255
Deferred Revenues	232,937	-	232,937
Current Notes Payables	503,836	20,133	523,969
Other Current Liabilities	-	240,586	240,586
Noncurrent Liabilities			
Due in More Than One Year	4,143,757	1,705,000	5,848,757
Total Liabilities	<u>5,288,428</u>	<u>2,145,988</u>	<u>7,434,416</u>
NET ASSETS			
Invested in Capital Assets, Net of Related Debt	4,082,927	9,190,129	13,273,056
Restricted for	-	194,058	194,058
Unrestricted Net Assets	7,075,184	2,129,643	9,204,827
Total Net Assets	<u>\$ 11,158,111</u>	<u>\$ 11,513,830</u>	<u>\$ 22,671,941</u>

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

CITY OF RIO GRANDE CITY
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2008

	Expenses	Program Revenues <u>Charges for Services</u>
Primary Government:		
GOVERNMENTAL ACTIVITIES:		
General Government	\$ 1,112,682	\$ -
Judicial	91,998	-
Public Safety	2,919,005	-
Highways and Streets	131,300	-
Disaster Relief	43,039	-
Public Works	946,020	-
Culture and Recreation	112,961	-
Libraries	139,180	-
Conservation and Development	200,295	-
Economic Development and Assistance	1,174,552	-
Bond Interest	45,510	-
Issuance Costs	11,047	-
Total Governmental Activities:	6,927,589	-
BUSINESS-TYPE ACTIVITIES:		
Enterprise Fund	2,815,926	3,244,212
Total Business-Type Activities:	2,815,926	3,244,212
TOTAL PRIMARY GOVERNMENT:	\$ 9,743,515	\$ 3,244,212

General Revenues:

Taxes:
Property Taxes, Levied for General Purposes
Sales Taxes
Franchise Taxes
Other Taxes
Penalty and Interest
Grants and Contributions Not Restricted
Miscellaneous Revenue
Investment Earnings
Transfers In (Out)
Total General Revenues and Transfers
Change in Net Assets
Net Assets--Beginning
Prior Period Adjustment
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
\$ (1,112,682)	\$ -	\$ (1,112,682)
(91,998)	-	(91,998)
(2,919,005)	-	(2,919,005)
(131,300)	-	(131,300)
(43,039)	-	(43,039)
(946,020)	-	(946,020)
(112,961)	-	(112,961)
(139,180)	-	(139,180)
(200,295)	-	(200,295)
(1,174,552)	-	(1,174,552)
(45,510)	-	(45,510)
(11,047)	-	(11,047)
<u>(6,927,589)</u>	<u>-</u>	<u>(6,927,589)</u>
-	428,286	428,286
-	428,286	428,286
<u>(6,927,589)</u>	<u>428,286</u>	<u>(6,499,303)</u>
1,777,127	-	1,777,127
2,519,688	-	2,519,688
527,951	-	527,951
129,249	-	129,249
33,242	-	33,242
1,481,735	-	1,481,735
764,818	109,881	874,699
74,484	40,256	114,740
150,000	(150,000)	-
<u>7,458,294</u>	<u>137</u>	<u>7,458,431</u>
530,705	428,423	959,128
10,627,406	11,101,853	21,729,259
-	(16,446)	(16,446)
<u>\$ 11,158,111</u>	<u>\$ 11,513,830</u>	<u>\$ 22,671,941</u>

CITY OF RIO GRANDE CITY
BALANCE SHEET
GOVERNMENTAL FUNDS
SEPTEMBER 30, 2008

	General Fund	Major Sp. Rev Economic Dev. Fund	Major Sp. Rev TCDP#726090 Fund
ASSETS			
Cash and Cash Equivalents	\$ 422,726	\$ 1,757,334	\$ 50
Investments - Current	505,173	-	-
Taxes Receivable	138,093	-	-
Receivables (net of allowance for uncollectibles)	92,447	-	-
Intergovernmental Receivables	195,376	64,580	169,639
Due from Other Funds	317,356	33,161	-
Restricted Assets:			
Temporarily Restricted Asset	-	-	-
Other Assets	695	-	-
Total Assets	\$ 1,671,866	\$ 1,855,075	\$ 169,689
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts Payable	\$ 72,539	\$ 19,711	\$ 151,668
Intergovernmental Payable	40,748	-	-
Due to Other Funds	208,496	3,187	18,021
Deferred Revenues	341,401	-	-
Total Liabilities	663,184	22,898	169,689
Fund Balances:			
Unreserved and Undesignated:			
Reported in the General Fund	1,008,682	-	-
Reported in the Special Revenue Fund	-	1,832,177	-
Reported in the Capital Projects Fund	-	-	-
Total Fund Balances	1,008,682	1,832,177	-
Total Liabilities and Fund Balances	\$ 1,671,866	\$ 1,855,075	\$ 169,689

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

Cap. Projects Waste Water Projects Fund	Major Sp.Rev. FEMA Fund	Other Funds	Total Governmental Funds
\$ 203,050	\$ 232,937	\$ 425,336	\$ 3,041,433
-	-	73	505,246
-	-	-	138,093
-	-	17,461	109,908
-	20,395	177,590	627,580
-	-	67,428	417,945
2,561,946	-	-	2,561,946
-	-	-	695
<u>\$ 2,764,996</u>	<u>\$ 253,332</u>	<u>\$ 687,888</u>	<u>\$ 7,402,846</u>
\$ 28,000	\$ -	\$ 95,232	\$ 367,150
-	-	-	40,748
50	20,395	214,962	465,111
-	232,937	-	574,338
<u>28,050</u>	<u>253,332</u>	<u>310,194</u>	<u>\$ 1,447,347</u>
-	-	-	1,008,682
-	-	458,610	2,290,787
<u>2,736,946</u>	<u>-</u>	<u>(80,916)</u>	<u>2,656,030</u>
<u>2,736,946</u>	<u>-</u>	<u>377,694</u>	<u>\$ 5,955,499</u>
<u>\$ 2,764,996</u>	<u>\$ 253,332</u>	<u>\$ 687,888</u>	<u>\$ 7,402,846</u>

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CITY OF RIO GRANDE CITY
 RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE
 STATEMENT OF NET ASSETS
 SEPTEMBER 30, 2008

Total Fund Balances - Governmental Funds	\$	5,955,499
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 \$9,815,390 and the accumulated depreciation was \$1,405,535. 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.		7,569,283
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 2008 capital outlays and debt principal payments is to increase (decrease) net assets.		775,206
The 2008 depreciation expense increases accumulated depreciation. The net effect of the current year's depreciation is to decrease net assets.		(241,896)
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.		(2,899,981)
Net Assets of Governmental Activities	<u>\$</u>	<u>11,158,111</u>

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

CITY OF RIO GRANDE CITY
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2008

	General Fund	Major Sp. Rev Economic Dev. Fund	Major Sp. Rev TCDP#726090 Fund
REVENUES:			
Taxes:			
Property Taxes	\$ 1,652,595	\$ -	\$ -
General Sales and Use Taxes	1,679,792	839,896	-
Franchise Tax	527,951	-	-
Other Taxes	-	-	-
Penalty and Interest on Taxes	33,242	-	-
Licenses and Permits	104,727	-	-
Intergovernmental Revenue and Grants	150,677	-	745,154
Charges for Services	172,030	-	-
Fines	139,874	-	-
Forfeits	-	-	-
Investment Earnings	20,126	28,409	-
Rents and Royalties	7,800	-	-
Contributions & Donations from Private Sources	5,695	-	-
Other Revenue	72,796	9,664	-
Total Revenues	<u>4,567,305</u>	<u>877,969</u>	<u>745,154</u>
EXPENDITURES:			
Current:			
General Government	905,599	-	-
Judicial	91,998	-	-
Public Safety	2,338,282	-	-
Public Works	556,493	-	745,154
Highways and Streets	131,300	-	-
Disaster Relief	-	-	-
Culture and Recreation	98,819	-	-
Libraries	139,180	-	-
Conservation and Development	200,295	-	-
Economic Development and Assistance	-	386,694	-
Debt Service:			
Principal	140,260	-	-
Interest	45,561	-	-
Capital Outlay:			
Capital Outlay	369,046	3,310	-
Total Expenditures	<u>5,016,833</u>	<u>390,004</u>	<u>745,154</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>(449,528)</u>	<u>487,965</u>	<u>-</u>
OTHER FINANCING SOURCES (USES):			
Capital-related Debt Issued (Regular Bonds)	-	-	-
Proceeds from Capital Leases	224,666	-	-
Transfers In	222,000	43,707	-
Transfers Out (Use)	(27,923)	(72,000)	-
Other (Uses)	-	-	-
Total Other Financing Sources (Uses)	<u>418,743</u>	<u>(28,293)</u>	<u>-</u>
Net Change in Fund Balances	(30,785)	459,672	-
Fund Balance - October 1 (Beginning)	1,039,467	1,372,505	-
 Fund Balance - September 30 (Ending)	 <u>\$ 1,008,682</u>	 <u>\$ 1,832,177</u>	 <u>\$ -</u>

Cap. Projects	Waste Water Projects	Major Sp.Rev. FEMA Fund	Other Funds	Total Governmental Funds
\$ -	\$ -	\$ -	\$ -	\$ 1,652,595
-	-	-	-	2,519,688
-	-	-	-	527,951
-	-	-	129,249	129,249
-	-	-	-	33,242
-	-	-	-	104,727
-	-	91,826	493,528	1,481,185
-	-	-	-	172,030
-	-	-	-	139,874
-	-	-	249,595	249,595
21,222	-	-	7,912	77,669
-	-	-	-	7,800
-	-	-	-	5,695
-	-	-	-	82,460
<u>21,222</u>	<u>91,826</u>	<u>880,284</u>	<u>7,183,760</u>	
-	-	-	-	905,599
-	-	-	-	91,998
-	-	-	549,041	2,887,323
50,000	-	-	321,206	1,672,853
-	-	-	-	131,300
-	43,039	-	-	43,039
-	-	-	10,362	109,181
-	-	-	-	139,180
-	-	-	-	200,295
-	-	-	42,704	429,398
-	-	-	72,199	212,459
-	-	-	135	45,696
-	<u>48,787</u>	<u>160,388</u>	<u>581,531</u>	
<u>50,000</u>	<u>91,826</u>	<u>1,156,035</u>	<u>7,449,852</u>	
<u>(28,778)</u>	<u>-</u>	<u>(275,751)</u>	<u>(266,092)</u>	
2,885,000	-	910,000	3,795,000	
-	-	-	224,666	
-	-	14,216	279,923	
-	-	(30,000)	(129,923)	
<u>(119,276)</u>	<u>-</u>	<u>(670,055)</u>	<u>(789,331)</u>	
<u>2,765,724</u>	<u>-</u>	<u>224,161</u>	<u>3,380,335</u>	
<u>2,736,946</u>	<u>-</u>	<u>(51,590)</u>	<u>3,114,243</u>	
<u>-</u>	<u>-</u>	<u>429,282</u>	<u>2,841,254</u>	
<u>\$ 2,736,946</u>	<u>\$ -</u>	<u>\$ 377,692</u>	<u>\$ 5,955,497</u>	

CITY OF RIO GRANDE CITY
 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, 2008

Total Net Change in Fund Balances - Governmental Funds	\$	3,114,243
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 2008 capital outlays and debt principal payments is to increase (decrease) net assets.		775,206
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.		(241,896)
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.		(3,116,848)
Change in Net Assets of Governmental Activities	\$	530,705

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

CITY OF RIO GRANDE CITY
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
SEPTEMBER 30, 2008

	Business Type Activities
	Enterprise Fund
ASSETS	
Current Assets:	
Cash and Cash Equivalents	\$ 1,077,847
Investments - Current	848,552
Interest Receivable - Investments	651
Taxes Receivable	8,255
Accounts Receivable-Net of Uncollectible Allowance	736,853
Due from Other Funds	47,166
Inventories	16,795
Deferred Charges	21,144
Total Current Assets	<u>2,757,263</u>
Noncurrent Assets:	
Capital Assets:	
Land Purchase and Improvements	339,036
Infrastructure	11,717,840
Buildings	599,223
Machinery and Equipment	243,964
Accumulated Depreciation - Capital Assets	(2,004,934)
Other Asset	7,426
Total Noncurrent Assets	<u>10,902,555</u>
Total Assets	<u>13,659,818</u>
LIABILITIES	
Current Liabilities:	
Accounts Payable	152,951
Accrued Interest Payable	19,063
Deferred Revenue	8,255
Notes Payable - Current	20,133
Other Current Liabilities	240,586
Total Current Liabilities	<u>440,988</u>
NonCurrent Liabilities:	
Bonds Payable - Noncurrent	1,705,000
Total Noncurrent Liabilities	<u>1,705,000</u>
Total Liabilities	<u>2,145,988</u>
NET ASSETS	
Investments in Capital Assets, Net of Debt	9,190,129
Restricted for Debt Service	194,058
Unrestricted Net Assets	2,129,643
Total Net Assets	<u>\$ 11,513,830</u>

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

CITY OF RIO GRANDE CITY
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2008

EXHIBIT D-2 (Cont'd)

	Business Type Activities
	Enterprise Fund
OPERATING REVENUES:	
Charges for Water Services	\$ 2,128,197
Charges for Sewerage Service	1,071,860
Charges for Sanitation Service	44,155
Investment Earnings	40,256
Other Revenue	109,881
Total Operating Revenues	3,394,349
OPERATING EXPENSES:	
Proprietary Fund Function - Water	
Personal Services - Salaries and Wages	353,278
Personal Services - Employee Benefits	127,312
Purchased Professional & Technical Services	43,949
Purchased Property Services	306,351
Other Operating Expenses	19,374
Supplies	652,732
Total Proprietary Fund Function - Water	1,502,996
Proprietary Fund Function - Sewerage	
Personal Services - Salaries and Wages	117,611
Personal Services - Employee Benefits	33,194
Purchased Professional & Technical Services	61,843
Purchased Property Services	157,591
Other Operating Expenses	4,571
Supplies	325,985
Total Proprietary Fund Function - Sewerage	700,795
Proprietary Fund Function - Administration & Coll.	
Personal Services - Salaries and Wages	200,969
Personal Services - Employee Benefits	61,458
Purchased Professional & Technical Services	14,853
Purchased Property Services	8,139
Other Operating Expenses	105,069
Supplies	43,396
Total Proprietary Fund Function - Admin. & Coll.	433,884
Proprietary Fund Function - Debt Issuance Costs	
Purchased Professional & Technical Services	5,840
Other Operating Expenses	1,524
Total Proprietary Fund Function - Debt Issuance Costs	7,364
Depreciation	77,199
Interest Expense	93,688
Total Operating Expenses	2,815,926
Income Before Transfers	578,423
Transfers Out	(150,000)

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

CITY OF RIO GRANDE CITY
 STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS
 PROPRIETARY FUNDS
 FOR THE YEAR ENDED SEPTEMBER 30, 2008

	Business Type Activities
	Enterprise Fund
Change in Net Assets	428,423
Total Net Assets - October 1 (Beginning)	11,101,853
Prior Period Adjustment	(16,446)
Total Net Assets - September 30 (Ending)	\$ 11,513,830

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

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CITY OF RIO GRANDE CITY
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2008

	Business Type Activities
	Enterprise Fund
<u>Cash Flows from Operating Activities:</u>	
Cash Received from User Charges	\$ 3,118,214
Cash Received from Other Revenues	569,968
Cash Payments to Employees for Services	(893,822)
Cash Payments for Services	(126,485)
Cash Payments for Suppliers	(1,022,113)
Cash Payments for Other Operating Expenses	(628,877)
Net Cash Provided by Operating Activities	<u>1,016,885</u>
<u>Cash Flows from Non-Capital Financing Activities:</u>	
Increase(decrease) in Short-term Loans	20,133
Operating Transfer Out/In	(92,648)
Prior Period Adjustment	16,446
Net Cash Provided by (Used for) Non-Capital Financing Activities	<u>(56,069)</u>
<u>Cash Flows from Capital & Related Financing Activities:</u>	
Acquisition of Capital Assets	(17,766)
Payment of Bonds	(226,000)
Net Cash Provided by (Used for) Capital & Related Financing Activities	<u>(243,766)</u>
<u>Cash Flows from Investing Activities:</u>	
Purchase of Investment Securities	(848,552)
Net Increase(Decrease) in Cash and Cash Equivalents	(131,502)
Cash and Cash Equivalents at Beginning of the Year:	<u>1,209,349</u>
Cash and Cash Equivalents at the End of the Year:	<u>\$ 1,077,847</u>
<u>Reconciliation of Operating Income to Net Cash Provided By Operating Activities:</u>	
Operating Income:	\$ 578,423
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:	
Depreciation	77,199
Effect of Increases and Decreases in Current Assets and Liabilities:	
Decrease (increase) in Receivables	(68,502)
Decrease (increase) in Interfund Accounts	(97,752)
Decrease (increase) in Inventories	21,874
(Increase)decrease in Other Assets	(4,692)
(Increase) decrease in Restricted Assets	460,087
Increase (decrease) in Accounts Payable	25,736
Increase (decrease) in Accrued Interest Payable	(2,319)

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

CITY OF RIO GRANDE CITY
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2008

	Business Type Activities
	Enterprise Fund
Increase (decrease) in Current Liabilities	26,831
Net Cash Provided by Operating Activities	<u>\$ 1,016,885</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, 2008

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 .
- 3. The TCDP#726090 Fund** –This fund is a special revenue fund used to account for the activity related to the C.D.B.G. grant.
- 4. The FEMA Fund** –This fund is a special revenue fund This fund is a special revenue fund used to account for the activity related to the F.E.M.A. grant.

- 5. Waste Water Projects Fund** – This fund is a capital projects fund. It is used to account for the proceeds from long-term debt financing and revenues and expenditures related to authorized construction and other capital asset acquisitions.

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.
- 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	\$ 0	\$ 851,810	
Buildings	1,186,761	(180,163)	1,006,598	
Furniture & Equipment	2,492,764	(1,225,372)	1,267,392	
Infrastructure	<u>5,284,055</u>	<u>0</u>	<u>5,284,055</u>	
Change in Net Assets				<u>\$ 8,409,855</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			\$ 503,836	
Loans Payable			<u>336,736</u>	
Change in Net Assets				<u>\$ 840,572</u>
Net Adjustment to Net Assets				<u>\$ 7,569,283</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	\$ 562,561	\$ 562,561
Total Capital Outlay	<u>\$ 562,561</u>	<u>\$ 562,561</u>

<u>Debt Principal Payments</u>			
Capital Lease Principal	\$ 114,305	\$ 114,305	\$ 114,305
Loan Principal	<u>98,340</u>	<u>98,340</u>	<u>98,340</u>
Total Principal Payments	<u>\$ 212,645</u>	<u>\$ 212,645</u>	<u>\$ 212,645</u>
Total Adjustment to Net Assets		<u>\$ 775,206</u>	<u>\$ 775,206</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	\$ 67,152	\$ (67,152)	\$ (67,152)
Uncollected taxes (assumed collectible) from Current Year Levy	\$ 138,093	\$ 138,093	\$ 138,093
Other	\$ 1,048,744	\$ 831,877	\$ 1,048,744
<u>Reclassify Proceeds of Bonds, Loans & Capital Leases</u>			
Capital Leases	\$ 224,666	\$ (224,666)	\$ (224,666)
Bond Proceeds	\$ 3,795,000	<u>\$ (3,795,000)</u>	<u>\$ (3,795,000)</u>
Total		<u>\$ (3,116,848)</u>	<u>\$ (2,899,981)</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>
Public Works	\$ 31,406
Highways & Streets	\$ 2,800
Debt Service –Principal	\$ 9,809
Capital Outlay	\$ 56,583
Transfers Out	\$ 1,275

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, 2008, the carrying amount of the City's deposits (cash and interest-bearing savings accounts included in temporary investments) was \$5,473,07 and the bank balance was \$5,287,444. The City's cash deposits at September 30, 2008 and during the year ended September 30, 2008 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, 2008, the City had the following investments.

<u>Investment Type</u>	<u>Investment Maturities (in years)</u>				
	<u>Fair Value</u>	<u>Less than 1</u>	<u>1-5</u>	<u>6-10</u>	<u>More Than 10</u>
Texpool Money Market	\$ 403,032	\$ 403,032			
JP Morgan U.S. Money Market	356,740	356,740			
Logic Money Market	505,173	505,173			
JP Morgan U.S. Money Market	<u>88,780</u>	<u>88,780</u>			
Subtotal	\$ 1,353,725	\$ 1,353,725			
Temporarily Restricted					
Compass Bank	\$ <u>2,561,946</u>	\$ <u>2,561,946</u>			
Subtotal	\$ <u>2,561,946</u>	\$ <u>2,561,946</u>			
Grand Total	\$ 3,915,671	\$ 3,915,671			

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, 2008 consisted of the following:

Due From Fund	Due To Fund	Amount	Purpose
FEMA	General Fund	\$ 20,395	Short-term loans
Water Project	General Fund	100	Short-term loans
Border Security	General Fund	58,761	Short-term loans
Stonegarden	General Fund	50	Short-term loans
HIDTA Task Force	General Fund	148,651	Short-term loans
Parks & Wildlife	General Fund	7,350	Short-term loans
ORCA Contract #727420	General Fund	50	Short-term loans
TCDP Contract #726090	General Fund	18,021	Short-term loans
Enterprise Fund	General Fund	60,791	Short-term loans
Economic Develop. Fund	General Fund	3,187	Short-term loans
Wastewater Project	Public Utilities Dept.	50	Short-term loans
General Fund	Hotel Occupancy	67,428	Short-term loans
General Fund	Economic Development	33,161	Short-term loans
General Fund	Public Utilities Dept.	107,907	Short-term loans
	Total	<u>\$ 525,902</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, 2008 consisted of the following:

Transfers From	Transfers To	Amount	Reason
General Fund	Economic Development	\$ 13,707	Supplemental other funds sources
General Fund	TCF Contract #723242	5,604	Supplemental other funds sources
General Fund	Texas Parks & Wildlife	3,012	Supplemental other funds sources
General Fund	Airport	5,600	Supplemental other funds sources
Public Utilities Dept.	General Fund	150,000	Supplemental other funds sources
Economic Development	General Fund	72,000	Supplemental other funds sources
Hotel Occupancy	Economic Development Fund	30,000	Supplemental other funds sources
	Total	<u>\$ 279,923</u>	

E. CAPITAL ASSET ACTIVITY

Capital asset activity for the City for the year ended September 30, 2008, 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	2,492,764	649,258	(86,697)	3,055,325
Infrastructure	<u>5,284,055</u>	<u>0</u>	<u>(0)</u>	<u>5,284,055</u>
Totals at Historic Cost	<u>\$ 9,815,390</u>	<u>649,258</u>	<u>\$(86,697)</u>	<u>\$ 10,377,951</u>
Less Accumulated Depreciation:				
Total Accumulated Depreciation	<u>(1,405,535)</u>	<u>(241,896)</u>	<u>36,857</u>	<u>(1,610,574)</u>
Governmental Activities Capital Assets, Net	<u>\$ 8,409,855</u>	<u>407,362</u>	<u>\$(49,840)</u>	<u>\$ 8,767,377</u>
Business-type Activities:				
Land	\$ 339,035	\$ 0	\$ (0)	\$ 339,035
Buildings and Improvements	599,223	0	(0)	599,223
Furniture and Equipment	226,198	28,930	(11,165)	243,963
Infrastructure	<u>11,717,840</u>	<u>0</u>	<u>(0)</u>	<u>11,717,840</u>
Totals at Historic Cost	<u>\$ 12,882,296</u>	<u>\$ 28,930</u>	<u>\$(11,165)</u>	<u>\$ 12,900,061</u>
Less Accumulated Depreciation				
Total Accumulated Depreciation	<u>(1,898,284)</u>	<u>(117,816)</u>	<u>11,165</u>	<u>(2,004,935)</u>
Business-type Activities Capital Assets, Net	<u>\$ 10,984,012</u>	<u>\$(88,886)</u>	<u>\$ (0)</u>	<u>\$ 10,895,126</u>

Depreciation expense was charged to governmental functions as follows:

General Government	\$207,083
Public Safety	12,712
Public Works	18,321
Culture & Recreation	<u>3,780</u>
Total Depreciation Expense	\$241,896

F. BONDS AND LONG-TERM NOTES PAYABLE

At September 30, 2008, long-term debt consisted of the following:

General Long Term Debt:

Renewal note payable to Lone Star National Bank dated February 4, 2008, payable in 36 monthly installments of \$2,190, including interest at 6%, with remaining unpaid balance due at maturity, secured by real estate. Renewed February 4, 2008. \$ 147,159

Renewal note payable to Lone Star National Bank dated February 4, 2008, payable in 36 monthly installments of \$2,276, including interest at 6%, with remaining unpaid balance due at maturity, secured by real estate. Renewed February 4, 2008. 258,337

Capital leases payable out of the General Fund.	<u>447,094</u>
Capital Project Bonds Payable:	
\$2,885,000 Series 2007 A Combination Tax and Revenue Certificates of Obligation due in annual installments of \$140,000 through \$145,000 to February 15, 2030; interest rate at 0% to 5.25%	2,885,000
\$12,200,000 Series 2007 B Combination Tax and Revenue Certificates of Obligation due in annual installments of \$100,000 through \$430,000 to February 15, 2040; interest rate at 0% to 5.25%	520,000
\$8,700,000 Series 2007 C Combination Tax and Revenue Certificates of Obligation due in annual installments of \$145,000 through \$545,000 to February 15, 2040; interest rate at 0% to 5.25%	<u>390,000</u>
	<u>\$ 3,795,000</u>
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%	225,000
\$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%	625,000
\$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%	55,000
\$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%	96,000
\$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>704,000</u>
Total Revenue Bonds Payable	<u>\$ 1,705,000</u>
Total Long-Term Debt	<u>\$ 6,352,590</u>

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, 2008

G. DEBT SERVICE REQUIREMENTS

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

Year Ending	Capital Leases		Note Payable		Bonds Payable	
	Principal	Interest	Principal	Interest	Principal	Interest
September 30						
2009	\$ 118,522	\$ 18,757	\$ 405,496	\$ 6,496	\$233,000	\$624,336
2010	124,233	13,046	0	0	243,000	485,360
2011	83,556	7,157	0	0	640,000	471,760
2012	42,887	3,765	0	0	756,000	58,614
2013	44,952	1,700	0	0	487,000	39,453
2014-2018	32,944	91	0	0	857,000	159,284
2019-2023	0	0	0	0	840,000	127,869
2024-2028	0	0	0	0	873,000	95,274
2029-2033	0	0	0	0	480,000	53,300
2034-2038	0	0	0	0	91,000	6,970
Total	\$ 447,094	\$ 44,516	\$ 405,496	\$ 6,496	\$5,500,000	\$2,122,220

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, 2008, 2007, and 2006 were \$169,094, \$91,931, and \$88,805, 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, 2007 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, 2007	
Actuarial Value of Assets	\$1,074,398
Actuarial Accrued Liability	\$1,819,641
Percentage Funded	59%
Unfunded (over-funded) Actuarial Accrued Liability (UAAL)	\$745,243
Annual covered payroll	\$2,953,540
UAAL as a Percentage of Covered Payroll	25.2%
Net Pension Obligation as of beginning of Period	\$0
Annual Pension Cost:	\$0
Annual Required Contribution (ARC)	\$169,094
Less: Contributions Made	\$169,094
NPO at the end of the period	\$0

I. CHANGES IN LONG-TERM LIABILITIES

Long-term activity for the year ended September 30, 2008, 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	\$ 336,733	\$ 224,666	\$ (114,305)	\$ 447,094	\$ 118,522
Bonds Payable	0	3,795,000	0	3,795,000	0
Notes Payable	<u>503,836</u>	<u>0</u>	<u>(98,340)</u>	<u>405,496</u>	<u>405,496</u>
Total Bonds and Notes Payable	<u>\$ 840,569</u>	<u>\$ 4,019,666</u>	<u>\$(212,645)</u>	<u>\$ 4,647,590</u>	<u>\$ 524,018</u>
Total Governmental Activities Long-term Liabilities	<u>\$ 840,569</u>	<u>\$ 4,019,666</u>	<u>\$(212,645)</u>	<u>\$ 4,647,590</u>	<u>\$ 524,018</u>
Business-type Activities:					
Bonds and Notes Payable:					
Revenue Bonds Payable	<u>\$ 1,931,000</u>	<u>\$ 0</u>	<u>\$(226,000)</u>	<u>\$ 1,705,000</u>	<u>\$ 233,000</u>
Total Bonds and Notes Payable	<u>\$ 1,931,000</u>	<u>\$ 0</u>	<u>\$(226,000)</u>	<u>\$ 1,705,000</u>	<u>\$ 233,000</u>
Total Business-type Activities Long-term Liabilities	<u>\$ 1,931,000</u>	<u>\$ 0</u>	<u>\$(226,000)</u>	<u>\$ 1,705,000</u>	<u>\$ 233,000</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, 2008 as follows:

Year Ending September 30	
2009	\$ 137,279
2010	137,279
2011	90,713
2012	46,652
2013	46,652
2014-2018	<u>33,037</u>
	491,612
Less: amount representing interest	(44,518)
Present value of minimum lease payments	\$ 447,094

J. DEFERRED REVENUE

Deferred revenue at year-end consisted of the following:

	<u>Governmental</u> <u>Funds</u>	<u>Enterprise</u> <u>Fund</u>	<u>Total</u>
Deferred Revenue	\$574,338	\$8,255	\$582,593
Total Deferred Revenue	<u>\$574,338</u>	<u>\$8,255</u>	<u>\$582,593</u>

Net uncollected tax receivables in the general fund and FEMA grant proceeds received in advance represent 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 2008, 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 \$736,853. Utility customer deposits held at year end totaled \$240,586.

N. HEALTH CARE COVERAGE

During the year ended September 30, 2008, 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, 2008 and have been filed with the Texas Board of Insurance in Austin, Texas, and are public records.

CITY OF RIO GRANDE CITY
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL - GENERAL FUND
FOR THE YEAR ENDED SEPTEMBER 30, 2008

EXHIBIT E-1

	Budgeted Amounts		Actual Amounts (GAAP BASIS)	Variance With Final Budget Positive or (Negative)
	Original	Final		
REVENUES:				
Taxes:				
Property Taxes	\$ 1,606,871	\$ 1,594,871	\$ 1,652,595	\$ 57,724
General Sales and Use Taxes	1,693,740	1,609,740	1,679,792	70,052
Franchise Tax	516,576	541,576	527,951	(13,625)
Penalty and Interest on Taxes	17,026	20,026	33,242	13,216
Licenses and Permits	111,853	111,333	104,727	(6,606)
Intergovernmental Revenue and Grants	1,386	122,500	150,677	28,177
Charges for Services	174,660	217,587	172,030	(45,557)
Fines	75,309	119,309	139,874	20,565
Investment Earnings	40,772	20,772	20,126	(646)
Rents and Royalties	10,250	7,750	7,800	50
Contributions & Donations from Private Sources	-	3,195	5,695	2,500
Other Revenue	205,518	154,268	72,796	(81,472)
Total Revenues	<u>4,453,961</u>	<u>4,522,927</u>	<u>4,567,305</u>	<u>44,378</u>
EXPENDITURES:				
Current:				
General Government	741,949	922,557	905,599	16,958
Judicial	109,406	108,406	91,998	16,408
Public Safety	2,180,128	2,380,740	2,338,282	42,458
Public Works	514,975	525,087	556,493	(31,406)
Highways and Streets	150,000	128,500	131,300	(2,800)
Culture and Recreation	65,123	101,510	98,819	2,691
Libraries	141,868	148,438	139,180	9,258
Conservation and Development	187,079	208,229	200,295	7,934
Debt Service:				
Principal	95,601	130,451	140,260	(9,809)
Interest	61,686	53,186	45,561	7,625
Capital Outlay:				
Capital Outlay	351,480	312,463	369,046	(56,583)
Total Expenditures	<u>4,599,295</u>	<u>5,019,567</u>	<u>5,016,833</u>	<u>2,734</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>(145,334)</u>	<u>(496,640)</u>	<u>(449,528)</u>	<u>47,112</u>
OTHER FINANCING SOURCES (USES):				
Proceeds from Capital Leases	301,288	301,288	224,666	(76,622)
Transfers In	210,000	222,000	222,000	-
Transfers Out (Use)	(22,031)	(26,648)	(27,923)	(1,275)
Total Other Financing Sources (Uses)	<u>489,257</u>	<u>496,640</u>	<u>418,743</u>	<u>(77,897)</u>
Net Change in Fund Balances	343,923	-	(30,785)	(30,785)
Fund Balance - October 1 (Beginning)	1,039,467	1,039,467	1,039,467	-
Fund Balance - September 30 (Ending)	<u>\$ 1,383,390</u>	<u>\$ 1,039,467</u>	<u>\$ 1,008,682</u>	<u>\$ (30,785)</u>

CITY OF RIO GRANDE CITY
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL - ECONOMIC DEVELOPMENT FUND
FOR THE YEAR ENDED SEPTEMBER 30, 2008

EXHIBIT E-2

	Budgeted Amounts		Actual	Variance With
	Original	Final	GAAP BASIS (See Note)	Final Budget Positive or (Negative)
REVENUES:				
Taxes:				
General Sales and Use Taxes	\$ 834,260	\$ 804,870	\$ 839,896	\$ 35,026
Investment Earnings	40,000	40,000	28,409	(11,591)
Other Revenue	20,000	20,000	9,664	(10,336)
Total Revenues	<u>894,260</u>	<u>864,870</u>	<u>877,969</u>	<u>13,099</u>
EXPENDITURES:				
Current:				
Conservation and Development:				
Economic Development and Assistance	1,559,290	1,499,400	386,694	1,112,706
Capital Outlay:				
Capital Outlay	50,000	87,000	3,310	83,690
Total Expenditures	<u>1,609,290</u>	<u>1,586,400</u>	<u>390,004</u>	<u>1,196,396</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>(715,030)</u>	<u>(721,530)</u>	<u>487,965</u>	<u>1,209,495</u>
OTHER FINANCING SOURCES (USES):				
Transfers In	42,231	43,731	43,707	(24)
Transfers Out (Use)	(60,000)	(72,000)	(72,000)	-
Total Other Financing Sources (Uses)	<u>(17,769)</u>	<u>(28,269)</u>	<u>(28,293)</u>	<u>(24)</u>
Change in Fund Balance	(732,799)	(749,799)	459,672	1,209,471
Fund Balance - October 1 (Beginning)	<u>1,372,505</u>	<u>1,372,505</u>	<u>1,372,505</u>	<u>-</u>
Fund Balance - September 30 (Ending)	<u>\$ 639,706</u>	<u>\$ 622,706</u>	<u>\$ 1,832,177</u>	<u>\$ 1,209,471</u>

The accompanying notes are an integral part of this statement.

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CITY OF RIO GRANDE CITY
 COMBINING BALANCE SHEET
 NONMAJOR GOVERNMENTAL FUNDS
 SEPTEMBER 30, 2008

	Hotel Occupancy Tax Fund	Forfeiture Fund	HIDTA Task Force Fund	Treasury Forfeiture Fund
ASSETS				
Cash and Cash Equivalents	\$ 178,065	\$ 145,540	\$ 50	\$ 54,863
Investments - Current	-	-	-	-
Receivables (net of allowance for uncollectibles)	17,461	-	-	-
Intergovernmental Receivables	-	-	148,601	-
Due from Other Funds	67,428	-	-	-
Total Assets	<u>\$ 262,954</u>	<u>\$ 145,540</u>	<u>\$ 148,651</u>	<u>\$ 54,863</u>
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts Payable	\$ -	\$ 6,420	\$ -	\$ -
Due to Other Funds	-	-	148,651	-
Total Liabilities	<u>-</u>	<u>6,420</u>	<u>148,651</u>	<u>-</u>
Fund Balances:				
Unreserved and Undesignated:				
Reported in the Special Revenue Fund	262,954	139,120	-	54,863
Reported in the Capital Projects Fund	-	-	-	-
Total Fund Balances	<u>262,954</u>	<u>139,120</u>	<u>-</u>	<u>54,863</u>
Total Liabilities and Fund Balances	<u>\$ 262,954</u>	<u>\$ 145,540</u>	<u>\$ 148,651</u>	<u>\$ 54,863</u>

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

RGC Police Department Fund	CJD Task Force Grant Fund	Airport Fund	ORCA #724659 Fund	TCF #723242 Fund	Border Security Fund	TPWD Fund	Stonegarden Fund
\$ 1,673	\$ -	\$ -	\$ -	\$ -	\$ 37,283	\$ -	\$ 50
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	21,639	7,350	-
-	-	-	-	-	-	-	-
<u>\$ 1,673</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 58,922</u>	<u>\$ 7,350</u>	<u>\$ 50</u>
\$ -	\$ -	\$ -	\$ -	\$ -	\$ 161	\$ -	\$ -
-	-	-	-	-	58,761	7,350	50
-	-	-	-	-	58,922	7,350	50
1,673	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
<u>1,673</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<u>\$ 1,673</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 58,922</u>	<u>\$ 7,350</u>	<u>\$ 50</u>

CITY OF RIO GRANDE CITY
 COMBINING BALANCE SHEET
 NONMAJOR GOVERNMENTAL FUNDS
 SEPTEMBER 30, 2008

	ORCA #727420 Fund	Total Nonmajor Special Revenue Funds	Water Projects Fund	Total Nonmajor Governmental Funds
ASSETS				
Cash and Cash Equivalents	\$ 50	\$ 417,574	\$ 7,762	\$ 425,336
Investments - Current	-	-	73	73
Receivables (net of allowance for uncollectibles)	-	17,461	-	17,461
Intergovernmental Receivables	-	177,590	-	177,590
Due from Other Funds	-	67,428	-	67,428
Total Assets	<u>\$ 50</u>	<u>\$ 680,053</u>	<u>\$ 7,835</u>	<u>\$ 687,888</u>
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts Payable	\$ -	\$ 6,581	\$ 88,651	\$ 95,232
Due to Other Funds	50	214,862	100	214,962
Total Liabilities	<u>50</u>	<u>221,443</u>	<u>88,751</u>	<u>310,194</u>
Fund Balances:				
Unreserved and Undesignated:				
Reported in the Special Revenue Fund	-	458,610	-	458,610
Reported in the Capital Projects Fund	-	-	(80,916)	(80,916)
Total Fund Balances	<u>-</u>	<u>458,610</u>	<u>(80,916)</u>	<u>377,694</u>
Total Liabilities and Fund Balances	<u>\$ 50</u>	<u>\$ 680,053</u>	<u>\$ 7,835</u>	<u>\$ 687,888</u>

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

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CITY OF RIO GRANDE CITY
 COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
 FUND BALANCES - NONMAJOR GOVERNMENTAL FUNDS
 FOR THE YEAR ENDED SEPTEMBER 30, 2008

	Hotel Occupancy Tax Fund	Forfeiture Fund	HIDTA Task Force Fund	Treasury Forfeiture Fund
REVENUES:				
Taxes:				
Other Taxes	\$ 129,249	\$ -	\$ -	\$ -
Intergovernmental Revenue and Grants	-	-	278,450	-
Forfeits	-	249,595	-	-
Investment Earnings	3,601	2,883	-	1,068
Total Revenues	<u>132,850</u>	<u>252,478</u>	<u>278,450</u>	<u>1,068</u>
EXPENDITURES:				
Current:				
Public Safety	-	107,732	261,650	4,725
Public Works	-	-	-	-
Culture and Recreation	-	-	-	-
Conservation and Development:				
Economic Development and Assistance	-	-	-	-
Debt Service:				
Principal	65,569	6,630	-	-
Interest	-	135	-	-
Capital Outlay:				
Capital Outlay	-	142,505	16,800	1,083
Total Expenditures	<u>65,569</u>	<u>257,002</u>	<u>278,450</u>	<u>5,808</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>67,281</u>	<u>(4,524)</u>	<u>-</u>	<u>(4,740)</u>
OTHER FINANCING SOURCES (USES):				
Capital-related Debt Issued (Regular Bonds)	-	-	-	-
Transfers In	-	-	-	-
Transfers Out (Use)	(30,000)	-	-	-
Other (Uses)	-	-	-	-
Total Other Financing Sources (Uses)	<u>(30,000)</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net Change in Fund Balance	37,281	(4,524)	-	(4,740)
Fund Balance - October 1 (Beginning)	<u>225,673</u>	<u>143,645</u>	<u>-</u>	<u>59,602</u>
Fund Balance - September 30 (Ending)	<u>\$ 262,954</u>	<u>\$ 139,121</u>	<u>\$ -</u>	<u>\$ 54,862</u>

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

RGC Police Department Fund	CJD Task Force Grant Fund	Airport Fund	ORCA #724659 Fund	TCF #723242 Fund	Border Security Fund	TPWD Fund	Stonegarden Fund
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
2,253	24,456	-	-	-	149,519	7,350	-
-	-	-	-	-	-	-	-
16	-	-	-	-	-	-	-
<u>2,269</u>	<u>24,456</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>149,519</u>	<u>7,350</u>	<u>-</u>
959	24,456	-	-	-	149,519	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	10,362	-
-	-	5,600	-	5,604	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
<u>959</u>	<u>24,456</u>	<u>5,600</u>	<u>-</u>	<u>5,604</u>	<u>149,519</u>	<u>10,362</u>	<u>-</u>
<u>1,310</u>	<u>-</u>	<u>(5,600)</u>	<u>-</u>	<u>(5,604)</u>	<u>-</u>	<u>(3,012)</u>	<u>-</u>
-	-	-	-	-	-	-	-
-	-	5,600	-	5,604	-	3,012	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
<u>-</u>	<u>-</u>	<u>5,600</u>	<u>-</u>	<u>5,604</u>	<u>-</u>	<u>3,012</u>	<u>-</u>
1,310	-	-	-	-	-	-	-
362	-	-	-	-	-	-	-
<u>\$ 1,672</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

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CITY OF RIO GRANDE CITY
 COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
 FUND BALANCES - NONMAJOR GOVERNMENTAL FUNDS
 FOR THE YEAR ENDED SEPTEMBER 30, 2008

	ORCA #727420 Fund	Nonmajor Special Revenue Funds	Water Projects Fund	Total Nonmajor Governmental Funds
REVENUES:				
Taxes:				
Other Taxes	\$ -	\$ 129,249	\$ -	\$ 129,249
Intergovernmental Revenue and Grants	31,500	493,528	-	493,528
Forfeits	-	249,595	-	249,595
Investment Earnings	-	7,568	344	7,912
Total Revenues	<u>31,500</u>	<u>879,940</u>	<u>344</u>	<u>880,284</u>
EXPENDITURES:				
Current:				
Public Safety	-	549,041	-	549,041
Public Works	-	-	321,206	321,206
Culture and Recreation	-	10,362	-	10,362
Conservation and Development:				
Economic Development and Assistance	31,500	42,704	-	42,704
Debt Service:				
Bond Principal	-	72,199	-	72,199
Bond Interest	-	135	-	135
Capital Outlay:				
Capital Outlay	-	160,388	-	160,388
Total Expenditures	<u>31,500</u>	<u>834,829</u>	<u>321,206</u>	<u>1,156,035</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>-</u>	<u>45,111</u>	<u>(320,862)</u>	<u>(275,751)</u>
OTHER FINANCING SOURCES (USES):				
Capital-related Debt Issued (Regular Bonds)	-	-	910,000	910,000
Transfers In	-	14,216	-	14,216
Transfers Out (Use)	-	(30,000)	-	(30,000)
Other (Uses)	-	-	(670,055)	(670,055)
Total Other Financing Sources (Uses)	<u>-</u>	<u>(15,784)</u>	<u>239,945</u>	<u>224,161</u>
Net Change in Fund Balance	-	29,327	(80,917)	(51,590)
Fund Balance - October 1 (Beginning)	<u>-</u>	<u>429,282</u>	<u>-</u>	<u>429,282</u>
Fund Balance - September 30 (Ending)	<u>\$ -</u>	<u>\$ 458,609</u>	<u>\$ (80,917)</u>	<u>\$ 377,692</u>

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

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Reyna & Garza, PLLC

Certified Public Accountants

2111 Jackson Creek Ave.

Edinburg, TX 78539

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

Independent Auditor's Report

Honorable Mayor & City Council
CITY OF RIO GRANDE CITY
RIO GRANDE CITY, Texas

Members of the City Council:

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of City of Rio Grande City, Texas, as of and for the year ended September 30, 2008, which collectively comprise the City of Rio Grande City, Texas's basic financial statements and have issued our report thereon dated February 16, 2009. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered City of Rio Grande City, Texas's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City of Rio Grande City, Texas's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City of Rio Grande City, Texas'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 certain 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 City of Rio Grande City, Texas'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 City of Rio Grande City, Texas's financial statements that is more than inconsequential will not be prevented or detected by the City of Rio Grande City, Texas's internal control. We consider the deficiency described in the accompanying schedule of findings and questioned costs as item #2008-01 to be a significant deficiency in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the City of Rio Grande City, Texas's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that none of the significant deficiencies described above is a material weakness.

Compliance and Other Matters

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 grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion.

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

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

Reyna & Garza, PLLC
Certified Public Accountants

February 16, 2009

Reyna & Garza, PLLC

Certified Public Accountants

2111 Jackson Creek Avenue

Edinburg, TX 78539

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

Independent Auditor's Report

Honorable Mayor and City Council
City of Rio Grande City, Texas
101 S. Washington
Rio Grande City, Texas 78582

Members of the Council:

Compliance

We have audited the compliance of City of Rio Grande City, Texas, with the types of compliance requirements described in the U. S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended September 30, 2008. City of Rio Grande City, Texas's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of City of Rio Grande City, Texas's management. Our responsibility is to express an opinion on City of Rio Grande City, Texas's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about City of Rio Grande City, Texas's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of City of Rio Grande City, Texas's compliance with those requirements.

In our opinion, City of Rio Grande City, Texas, complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended September 30, 2008.

Internal Control Over Compliance

The management of City of Rio Grande City, Texas, is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered City of Rio Grande City, Texas's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness

of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of City of Rio Grande City, Texas's internal control over compliance.

A control deficiency in an entity's internal control over compliance 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 noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

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

City of Rio Grande City, Texas's response to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit City of Rio Grande City, Texas's response and, accordingly, we express no opinion on it.

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

Reyna & Garza, PLLC
Certified Public Accountants

February 16, 2009

CITY OF RIO GRANDE CITY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Fiscal Year Ending September 30, 2008

1) **SUMMARY OF AUDIT RESULTS**

- a) The auditor's report expresses an unqualified opinion on General Purpose Financial Statements.
- b) Significant deficiencies not considered material weaknesses disclosed during the audit of the general purpose financial statements are reported in the section below FINDINGS – FINANCIAL STATEMENTS AUDIT.
- c) No instances of noncompliance material to the general-purpose financial statements of City of Rio Grande City, which would be required to be reported in accordance with *Government Auditing Standards*, were disclosed during the audit.
- d) The report on compliance for the major federal award program for City of Rio Grande City expresses an unqualified opinion on all major federal programs.
- e) The programs tested as major programs included: 1) C.D.B.G.(CFDA#14.228)
- f) The threshold used for distinguishing between Type A and B programs was \$300,000.
- g) City of Rio Grande City qualified as a low-risk auditee within the context of OMB Circular A-133.

2) **FINDINGS – FINANCIAL STATEMENT AUDIT**

2008-01: UTILITY BILLING REPORTING SYSTEM

Criteria:

Controls relative to verification of subsidiary reports should be in place in order to ensure general ledger balances are accurate during the year and at year-end.

Condition:

Audit adjustments were necessary in the area of utility service revenues and receivables due to erroneous subsidiary reports. The primary issue in question related to inconsistent cutoff of monthly billing reports.

Effect:

The general ledger balances for service revenues and receivables were misstated periodically due to reliance on the erroneous reports.

Recommendation:

The City should review its internal controls relating to verification of the accuracy of subsidiary reports to ensure proper posting of transactions to the general ledger.

Management Response

The City has done a comprehensive review of the utility department subsidiary reporting system and has implemented additional controls to ensure the integrity of the data used for posting to the general ledger. The contact person is Mary Barrera, CPA, Director of Finance.

3) **FINDING AND QUESTIONED COSTS – MAJOR FEDERAL AWARDS AUDIT.**

- a) Our audit did not disclose any audit findings or questioned costs for federal awards as defined in OMB Circular A-133.

CITY OF RIO GRANDE CITY
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
Fiscal Year Ending September 30, 2008

None reported in the prior year.

CITY OF RIO GRANDE CITY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED SEPTEMBER 30, 2008

G-1

DESCRIPTION	FEDERAL CFDA NUMBER	GRANTOR NUMBER	EXPENDITURES/ DISBURSEMENTS
<u>U S DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT</u>			
Passed through Office of Rural Community Affairs			
Community Development Block Grants	14.228	726090	745,154
	14.228	727420	31,500
Subtotal-Passed through Office of Rural Community Affairs			776,654
TOTAL U S. DEPARTMENT OF HOUSING & URBAN DEVELOPMENT			776,654
<u>EXECUTIVE OFFICE OF THE PRESIDENT</u>			
High Intensity Drug Trafficking Area Task Force	7.616	I5SSP616	26,866
High Intensity Drug Trafficking Area Task Force	7.616	I6SSP616	32,280
High Intensity Drug Trafficking Area Task Force	7.616	I7SSP616	98,673
High Intensity Drug Trafficking Area Task Force	7.616	I8PSSP616	120,631
TOTAL EXECUTIVE OFFICE OF THE PRESIDENT			278,450
<u>U.S. DEPARTMENT OF HOMELAND SECURITY</u>			
Passed through Governor's Division of Emergency Management			
Homeland Security Grant	97.036	PA-06-TX-1780	91,826
Homeland Security Grant	97.073	2006 SHSP	29,625
Homeland Security Grant	97.074	2006 LETPP	23,286
Passed through Governor's Division of Emergency Management			144,737
TOTAL U.S. DEPARTMENT OF HOMELAND SECURITY			144,737
<u>U.S. DEPARTMENT OF JUSTICE</u>			
Passed Texas Department of Public Safety			
JAG Program	16.738	BSOC-OP-BS-035	92,286
JAG Program	16.738	LBSP-08-008	149,519
JAG Program	16.738	DJ-05-A10-18428-01	24,456
Total Passed Texas Department of Public Safety			266,261
TOTAL U.S. DEPARTMENT OF JUSTICE			266,261
TOTAL FEDERAL AWARDS			1,466,102

CITY OF RIO GRANDE CITY
NOTES ON ACCOUNTING POLICIES FOR FEDERAL AWARDS
YEAR ENDED SEPTEMBER 30, 2008

- 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.