

CITY OF RIO GRANDE CITY, TEXAS  
ANNUAL FINANCIAL REPORT  
FOR THE YEAR ENDED SEPTEMBER 30, 2009

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# Reyna & Garza, PLLC

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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, 2009, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's administrators. Our responsibility is to express opinions on these financial statements based on our audit.

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

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

Management's discussion and analysis and other 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 March 31, 2010, on our consideration of the City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Governmental Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Our audit was performed for the purpose of forming an opinion on the financial statements that collectively comprise City of 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*

*March 31, 2010*

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, 2009. 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 \$2,632,549 as a result of this year's operations. Net assets of our business-type activities: increased by \$814,455, or 7 percent, net assets of our governmental activities: increased, by \$1,818,094 or nearly 16.3 percent.
- During the year, the City had expenses that were \$ 1,818,094 less than the \$ 7.66 million generated in tax and other revenues for governmental programs (before special items).
- In the City's business-type activities, revenues increased from \$3.4 million to \$ 3.6 million (or 5.9 percent) while expenses decreased from \$2.8 million to \$ 2.6 million (or 7 percent).
- Total cost of all of the City's programs decreased from \$9.7 million to \$ 8.5 million (or 12.4 percent).
- The General Fund ended the year with a fund balance of \$ 1.2 million.
- The resources available for appropriation were \$ 115 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 22) 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 \$11.15 million to \$12.88 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 \$ 6.3 million at September 30, 2009.

In 2009, net assets of our business-type activities increased by \$ 814 thousand, or nearly 7 percent. This increase is moderate in relation to the overall operations of the City.

Table I  
CITY OF RIO GRANDE CITY, TEXAS

NET ASSETS

	Governmental Activities 2009	Governmental Activities 2008	Business-type Activities 2009	Business-type Activities 2008	Total 2009	Total 2008
Current and other assets	\$ 7,355,652	\$ 7,716,019	\$ 3,398,697	\$ 2,764,689	\$ 10,120,341	\$ 10,480,708
Capital assets	10,623,066	8,730,520	10,821,466	10,895,129	21,444,532	19,625,649
Total assets	\$17,978,718	\$ 16,446,539	\$ 14,220,163	\$ 13,659,818	\$ 32,198,881	\$ 30,106,357
Long-term liabilities	4,790,178	4,647,593	1,472,000	1,705,000	6,262,178	6,352,593
Other liabilities	308,942	640,835	419,878	440,988	728,820	1,081,823
Total liabilities	\$ 5,099,120	\$ 5,288,428	\$ 1,891,878	\$ 2,145,988	\$ 6,990,998	\$ 7,434,416
Net Assets:						
Invested in capital assets net of related debt	6,600,125	4,082,927	9,349,466	9,190,129	\$ 15,949,591	\$ 13,273,056
Restricted	0	0	0	194,058	0	194,058
Unrestricted	6,279,473	7,075,184	2,978,819	2,129,643	9,258,292	9,204,827
Total net assets	\$ 12,879,598	\$ 11,158,111	\$ 12,328,285	\$ 11,513,830	\$ 25,207,883	\$ 22,671,941

Table II  
CITY OF RIO GRANDE CITY, TEXAS

CHANGES IN NET ASSETS

	Governmental Activities 2009	Governmental Activities 2008	Business-type Activities 2009	Business-type Activities 2008	Total 2009	Total 2008
Revenues:						
Program Revenues:						
Charges for Services	423,707	0	3,635,355	3,244,212	4,059,062	3,244,212
General Revenues:						
Maintenance and operations taxes	1,445,327	1,777,127	0	0	1,445,327	1,777,127
Grants	1,868,618	1,481,735	0	0	1,868,618	1,481,735
Sales Taxes	2,512,798	2,519,688	0	0	2,512,798	2,519,688
Franchise Taxes	551,876	527,951	0	0	551,876	527,951
Investment Earnings	23,851	74,484	0	40,256	23,851	114,740
Miscellaneous	829,721	927,309	115,049	109,881	829,721	1,037,190
Total Revenue	\$ 7,655,898	\$ 7,308,294	\$ 3,750,404	\$ 3,394,349	\$ 11,406,302	\$ 10,702,643
Expenses:						
General Government	697,203	1,112,682	0	0	697,203	1,112,682
Judicial	116,034	91,998	0	0	116,034	91,998
Public Safety	2,874,952	2,919,005	0	0	2,874,952	2,919,005
Public Works	613,340	946,020	0	0	613,340	946,020
Highways and Streets	122,500	174,339	0	0	122,500	174,339
Culture and Recreation	288,788	112,961	0	0	288,788	112,961
Libraries	161,172	139,180	0	0	161,172	139,180
Conservation & Development	278,977	200,295	0	0	278,977	200,295
Economic Development	627,094	1,174,552	0	0	627,094	1,174,552
Bond Interest & Cap Outlay	57,744	56,557	0	0	57,744	56,557
Utility I&S Fund	0	0	2,616,877	2,815,926	2,616,877	2,815,926
Total Expenses	\$ 5,837,804	\$ 6,927,589	\$ 2,616,877	\$ 2,815,926	\$ 8,454,681	\$ 9,743,515
Increase in net assets before transfers and special items	1,818,094	380,705	1,133,527	578,423	2,951,621	959,128
Transfers	0	150,000	(316,398)	(150,000)	(316,398)	0
Special Items - Resources	0	0	(2,674)	0	(2,674)	0
Special Items-Prior Period Adjustments	(96,606)	0	0	(16,446)	(96,606)	(16,446)
Net assets at 10/1	\$ 11,158,111	\$ 10,627,406	\$ 11,513,830	\$ 11,101,853	\$ 22,671,941	\$ 21,729,259
Net assets at 9/30	\$ 12,879,599	\$ 11,158,111	\$ 12,328,285	\$ 11,513,830	\$ 25,207,884	\$ 22,671,941



The cost of all governmental activities this year was \$ 8.5 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 ad-valorem property taxes was only \$ 1.45 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 \$ 6.2 million, which is above last year's total of \$ 5.9 million.

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 \$ 1.2 million reported on page 12 differs from the General Fund's budgetary fund balance of \$ 1.0 million reported in the General Fund budgetary comparison schedule on page 38. This is principally due to ongoing budget monitoring.

## CAPITAL ASSET AND DEBT ADMINISTRATION

### Capital Assets

At the end of the 2008-09 year, the City had \$ 25.3 million invested in a broad range of capital assets, including facilities, land, infrastructure, vehicles, and equipment. The most significant current year addition was approximately \$1.8 million in construction in progress.

### Debt

In the prior year, the City 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, \$4,095,000 of proceeds have been drawn down as of 2008-2009. At year-end, the City had \$ 6.26 million in bonds, capital leases, and notes outstanding versus \$6.35 million last year, a decrease of 1.4 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 2009-2010 budget and tax rates. On September 23, 2009 the City Council voted to levy a tax rate of \$.35 on a \$100 assessed valuation. This rate is an increase of about 19% from last year's rate. However, about 4.4% is due to new property added to the tax roll. This increase was considered necessary as a result of decreasing sales tax performance in the region.

The budget provided for increases to most expenditures in response to the effect of inflation on the cost of providing municipal services. The Municipal Cost Index (MCI) measures the effect of inflation on cities, and reveals an increase of 3.1% over the previous twelve months. There was very little new staff added in the 2009-2010 budget, and a \$750 across the board increase was provided to employees as a modest cost of living adjustment.

Major capital improvements, such as street paving and a new public safety building, are being considered for possible funding through Certificates of Obligation. However, such action has still not been taken as of March 31, 2010. Other capital outlay was approved in the budget for items such as a dog kennel and some heavy equipment. However, most of these outlays are to be paid for through capital lease financing.

The Enterprise Fund-Public Utilities Department implemented the second phase of the approved rate structure recommended in the September 2008 rate study. The same moderate increase in expenses in response to inflation was projected for the Enterprise Fund and provided for in the budget.

The 2009-2010 budget provides for moderate increases to the fund balance of the General Fund and the Enterprise Fund. It will continue to maintain a sufficient level of municipal services to the citizens of Rio Grande City, as well as provide a minimal market adjustment of wages to the employees.

#### 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, 2009

EXHIBIT A-1

	Primary Government		Total
	Governmental Activities	Business Type Activities	
<b>ASSETS</b>			
Cash and Cash Equivalents	\$ 3,572,987	\$ 744,880	\$ 4,317,867
Investments - Current	74	1,505,322	1,505,396
Receivables (net of allowance for uncollectibles)	655,776	892,062	1,547,838
Internal Balances	(219,172)	219,172	-
Inventories	-	16,376	16,376
Prepaid Items	5,955	-	5,955
Other Asset-NSF's	-	1,265	1,265
Restricted Assets:			
Temporarily Restricted:			
Temp. Restricted Asset-Investments	2,571,995	-	2,571,995
Capital Assets:			
Land	851,865	339,036	1,190,901
Infrastructure, net	5,284,055	9,842,232	15,126,287
Buildings, net	931,308	527,371	1,458,679
Machinery and Equipment, net	1,691,608	112,827	1,804,435
Construction in Progress	1,864,230	-	1,864,230
Other Assets	800	19,620	20,420
Capitalized Debt Issuance Costs	767,237	-	767,237
Total Assets	<u>17,978,718</u>	<u>14,220,163</u>	<u>32,198,881</u>
<b>LIABILITIES</b>			
Accounts Payable and other current liabilities	185,677	112,618	298,295
Intergovernmental Payable	23,253	-	23,253
Accrued Interest Payable	-	16,619	16,619
	-	8,255	8,255
Deferred Revenues	100,012	-	100,012
Notes Payable	-	10,388	10,388
Other Current Liabilities	-	271,998	271,998
Noncurrent Liabilities			
Due Within One Year	147,929	-	147,929
Due in More Than One Year	4,642,249	1,472,000	6,114,249
Total Liabilities	<u>5,099,120</u>	<u>1,891,878</u>	<u>6,990,998</u>
<b>NET ASSETS</b>			
Invested in Capital Assets, Net of Related Debt	6,600,125	9,349,466	15,949,591
Unrestricted Net Assets	6,279,473	2,978,819	9,258,292
Total Net Assets	<u>\$ 12,879,598</u>	<u>\$ 12,328,285</u>	<u>\$ 25,207,883</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, 2009

	Expenses	Program Revenues <u>Charges for Services</u>
<b>Primary Government:</b>		
GOVERNMENTAL ACTIVITIES:		
General Government	\$ 697,203	\$ 121,634
Judicial	116,034	-
Public Safety	2,874,952	271,789
Highways and Streets	122,500	-
Public Works	613,340	-
Culture and Recreation	288,788	30,284
Libraries	161,172	-
Conservation and Development	278,977	-
Economic Development and Assistance	627,094	-
Bond Interest	36,368	-
Fiscal Agent's Fees	10,329	-
Issuance Costs	11,047	-
Total Governmental Activities:	5,837,804	423,707
BUSINESS-TYPE ACTIVITIES:		
Total Business-Type Activities:	2,616,877	3,635,355
TOTAL PRIMARY GOVERNMENT:		
	\$ 8,454,681	\$ 4,059,062

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
- Special Item (Use)
- Transfers In (Out)

Total General Revenues, Special Items, 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
\$ (575,569)	\$ -	\$ (575,569)
(116,034)	-	(116,034)
(2,603,163)	-	(2,603,163)
(122,500)	-	(122,500)
(613,340)	-	(613,340)
(258,504)	-	(258,504)
(161,172)	-	(161,172)
(278,977)	-	(278,977)
(627,094)	-	(627,094)
(36,368)	-	(36,368)
(10,329)	-	(10,329)
(11,047)	-	(11,047)
<u>(5,414,097)</u>	<u>-</u>	<u>(5,414,097)</u>
-	1,018,478	1,018,478
-	1,018,478	1,018,478
<u>(5,414,097)</u>	<u>1,018,478</u>	<u>(4,395,619)</u>
1,445,327	-	1,445,327
2,512,798	-	2,512,798
551,876	-	551,876
129,998	-	129,998
33,115	-	33,115
1,868,618	-	1,868,618
666,608	115,049	781,657
23,851	-	23,851
-	(2,674)	(2,674)
-	(316,398)	(316,398)
<u>7,232,191</u>	<u>(204,023)</u>	<u>7,028,168</u>
1,818,094	814,455	2,632,549
11,158,111	11,513,830	22,671,941
(96,606)	-	(96,606)
<u>\$ 12,879,599</u>	<u>\$ 12,328,285</u>	<u>\$ 25,207,884</u>

CITY OF RIO GRANDE CITY  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
SEPTEMBER 30, 2009

	General Fund	Major Sp. Rev HIDTA Task Force Fund	Major Sp.Rev. Economic Dev. Fund
<b>ASSETS</b>			
Cash and Cash Equivalents	\$ 1,068,717	\$ 45	\$ 1,745,857
Investments - Current	-	-	-
Taxes Receivable	464,971	-	-
Allowance for Uncollectible Taxes (credit)	(343,479)	-	-
Receivables (net of allowance for uncollectibles)	87,592	-	-
Intergovernmental Receivables	178,200	142,593	58,776
Due from Other Funds	243,830	-	41,186
Prepaid Items	5,955	-	-
Restricted Assets:			
Temporarily Restricted Asset-Investments	-	-	-
Other Assets	800	-	-
<b>Total Assets</b>	<u>\$ 1,706,586</u>	<u>\$ 142,638</u>	<u>\$ 1,845,819</u>
<b>LIABILITIES AND FUND BALANCES</b>			
<b>Liabilities:</b>			
Accounts Payable	\$ 86,302	\$ -	\$ 10,880
Intergovernmental Payable	23,253	-	-
Due to Other Funds	228,685	142,638	-
Deferred Revenues	146,395	-	-
<b>Total Liabilities</b>	<u>484,635</u>	<u>142,638</u>	<u>10,880</u>
<b>Fund Balances:</b>			
<b>Unreserved and Undesignated:</b>			
Reported in the General Fund	1,221,951	-	-
Reported in the Special Revenue Fund	-	-	1,834,939
<b>Total Fund Balances</b>	<u>1,221,951</u>	<u>-</u>	<u>1,834,939</u>
<b>Total Liabilities and Fund Balances</b>	<u>\$ 1,706,586</u>	<u>\$ 142,638</u>	<u>\$ 1,845,819</u>

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

Major Sp.Rev. ORCA#727420 Fund	Major Cap.Pro Water Project Fund	Major Cap.Pro Waste Water Proj. Fund	Other Funds	Total Governmental Funds
\$ 50	\$ 106,905	\$ 83,425	\$ 567,988	\$ 3,572,987
-	74	-	-	74
-	-	-	-	464,971
-	-	-	-	(343,479)
-	-	-	6,602	94,194
4,368	-	-	56,153	440,090
-	-	-	67,428	352,444
-	-	-	-	5,955
-	-	2,571,995	-	2,571,995
-	-	-	-	800
<u>\$ 4,418</u>	<u>\$ 106,979</u>	<u>\$ 2,655,420</u>	<u>\$ 698,171</u>	<u>\$ 7,160,031</u>
\$ -	\$ 87,362	\$ -	\$ 1,133	\$ 185,677
-	-	-	-	23,253
4,418	99,100	50	96,725	571,616
-	-	-	58,231	204,626
<u>4,418</u>	<u>186,462</u>	<u>50</u>	<u>\$ 156,089</u>	<u>985,172</u>
-	-	-	123,197	1,345,148
-	(79,483)	2,655,370	418,885	4,829,711
-	(79,483)	2,655,370	\$ 542,082	6,174,859
<u>\$ 4,418</u>	<u>\$ 106,979</u>	<u>\$ 2,655,420</u>	<u>\$ 698,171</u>	<u>\$ 7,160,031</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, 2009

<b>Total Fund Balances - Governmental Funds</b>	\$	6,174,859
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 \$10,377,951 and the accumulated depreciation was \$(1,647,431). 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.		4,861,214
Current year capital outlays and long-term debt principal payments are expenditures in the fund financial statements, but they should be shown as increases in capital assets and reductions in long-term debt in the government-wide financial statements. The net effect of including the 2009 capital outlays and debt principal payments is to increase (decrease) net assets.		2,495,952
The 2009 depreciation expense increases accumulated depreciation. The net effect of the current year's depreciation is to decrease net assets.		(281,200)
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.		(371,227)
<b>Net Assets of Governmental Activities</b>	<u>\$</u>	<u>12,879,598</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, 2009

	General Fund	Major Sp. Rev HIDTA Task Force Fund	Major Sp.Rev. Economic Dev. Fund
<b>REVENUES:</b>			
Taxes:			
Property Taxes	\$ 1,739,966	\$ -	\$ -
General Sales and Use Taxes	1,675,199	-	837,599
Franchise Tax	551,876	-	-
Other Taxes	6,951	-	-
Penalty and Interest on Taxes	33,115	-	-
Licenses and Permits	70,372	-	-
Intergovernmental Revenue and Grants	6,875	311,805	-
Charges for Services	307,289	-	-
Fines	271,789	-	-
Forfeits	-	-	-
Investment Earnings	7,544	-	4,844
Rents and Royalties	7,200	-	-
Other Revenue	49,194	-	6,522
Total Revenues	4,727,370	311,805	848,965
<b>EXPENDITURES:</b>			
Current:			
General Government	784,569	-	-
Judicial	126,369	-	-
Public Safety	2,275,773	311,805	-
Public Works	579,596	-	-
Highways and Streets	122,500	-	-
Culture and Recreation	117,876	-	-
Libraries	161,172	-	-
Conservation and Development	236,797	-	-
Economic Development and Assistance	-	-	622,481
Debt Service:			
Bond Principal	147,796	-	-
Bond Interest	43,309	-	-
Fiscal Agent's Fees	-	-	-
Capital Outlay:			
Capital Outlay	33,784	-	153,722
Total Expenditures	4,629,541	311,805	776,203
Excess (Deficiency) of Revenues Over (Under) Expenditures	97,829	-	72,762
<b>OTHER FINANCING SOURCES (USES):</b>			
Capital-related Debt Issued (Regular Bonds)	-	-	-
Proceeds from Capital Leases	10,334	-	-
Transfers In	330,000	-	30,000
Transfers Out (Use)	(224,893)	-	(100,000)
Total Other Financing Sources (Uses)	115,441	-	(70,000)
Net Change in Fund Balances	213,270	-	2,762
Fund Balance - October 1 (Beginning)	1,008,681	-	1,832,177
Fund Balance - September 30 (Ending)	\$ 1,221,951	\$ -	\$ 1,834,939

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

Major Sp.Rev. ORCA#727420 Fund	Major Cap.Pro Water Project Fund	Major Cap.Pro Waste Water Proj. Fund	Other Funds	Total Governmental Funds
\$ -	\$ -	\$ -	\$ -	\$ 1,739,966
-	-	-	-	2,512,798
-	-	-	-	551,876
-	-	-	129,998	136,949
-	-	-	-	33,115
-	-	-	-	70,372
768,500	-	-	787,188	1,874,368
-	-	-	-	307,289
-	-	-	-	271,789
-	-	-	66,042	66,042
-	144	10,049	1,270	23,851
-	-	-	-	7,200
-	-	-	-	55,716
<u>768,500</u>	<u>144</u>	<u>10,049</u>	<u>984,498</u>	<u>7,651,331</u>
-	-	-	-	784,569
-	-	-	-	126,369
-	-	-	286,045	2,873,623
-	-	-	-	579,596
-	-	-	-	122,500
-	-	-	151,228	269,104
-	-	-	-	161,172
-	-	-	-	236,797
-	-	-	4,613	627,094
-	-	-	-	147,796
-	-	-	13,010	56,319
-	-	-	10,329	10,329
<u>768,500</u>	<u>298,711</u>	<u>91,625</u>	<u>717,092</u>	<u>2,063,434</u>
<u>768,500</u>	<u>298,711</u>	<u>91,625</u>	<u>1,182,317</u>	<u>8,058,702</u>
<u>-</u>	<u>(298,567)</u>	<u>(81,576)</u>	<u>(197,819)</u>	<u>(407,371)</u>
-	300,000	-	-	300,000
-	-	-	-	10,334
-	-	-	371,291	731,291
-	-	-	(90,000)	(414,893)
-	<u>300,000</u>	<u>-</u>	<u>281,291</u>	<u>626,732</u>
-	1,433	(81,576)	83,472	219,361
-	(80,916)	2,736,946	458,610	5,955,498
<u>\$ -</u>	<u>\$ (79,483)</u>	<u>\$ 2,655,370</u>	<u>\$ 542,082</u>	<u>\$ 6,174,859</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, 2009

<b>Total Net Change in Fund Balances - Governmental Funds</b>	\$	219,361
Current year capital outlays and long-term debt principal payments are expenditures in the fund financial statements, but they should be shown as increases in capital assets and reductions in long-term debt in the government-wide financial statements. The net effect of removing the 2009 capital outlays and debt principal payments is to increase (decrease) net assets.		2,495,952
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.		(281,200)
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.		(616,019)
<b>Change in Net Assets of Governmental Activities</b>	<u>\$</u>	<u>1,818,094</u>

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, 2009

	Business Type Activities
	Enterprise Fund
<b>ASSETS</b>	
<b>Current Assets:</b>	
Cash and Cash Equivalents	\$ 744,880
Investments - Current	1,505,322
Taxes Receivable	8,255
Accounts Receivable-Net of Uncollectible Allowance	883,807
Due from Other Funds	219,172
Inventories	16,376
Other Asset-NSF's	1,265
Total Current Assets	<u>3,379,077</u>
<b>Noncurrent Assets:</b>	
Capital Assets:	
Land Purchase and Improvements	339,036
Infrastructure	11,717,840
Accumulated Depreciation - Infrastructure	(1,875,608)
Buildings	599,223
Accumulated Depreciation - Buildings	(71,852)
Machinery and Equipment	246,393
Accumulated Depreciation - Machinery & Equipment	(133,566)
Other Asset - Deferred Charges	19,620
Total Noncurrent Assets	<u>10,841,086</u>
Total Assets	<u>14,220,163</u>
<b>LIABILITIES</b>	
<b>Current Liabilities:</b>	
Accounts Payable	112,618
Accrued Interest Payable	16,619
Deferred Revenue	8,255
Notes Payable - Current	10,388
Other Current Liabilities	271,998
Total Current Liabilities	<u>419,878</u>
<b>NonCurrent Liabilities:</b>	
Bonds Payable - Noncurrent	1,472,000
Total Noncurrent Liabilities	<u>1,472,000</u>
Total Liabilities	<u>1,891,878</u>
<b>NET ASSETS</b>	
Investments in Capital Assets, Net of Debt	9,349,466
Unrestricted Net Assets	2,978,819
Total Net Assets	<u>\$ 12,328,285</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, 2009

EXHIBIT D-2 (Cont'd)

	Business Type Activities
	Enterprise Fund
<b>OPERATING REVENUES:</b>	
Charges for Water Services	\$ 2,448,405
Charges for Sewerage Service	1,140,964
Charges for Sanitation Service	45,986
Investment Earnings	8,238
Other Revenue	106,811
Total Operating Revenues	3,750,404
<b>OPERATING EXPENSES:</b>	
Proprietary Fund Function - Water	
Personal Services - Salaries and Wages	338,766
Personal Services - Employee Benefits	135,503
Purchased Professional & Technical Services	42,921
Purchased Property Services	149,083
Other Operating Expenses	16,419
Supplies	638,020
Total Proprietary Fund Function - Water	1,320,712
Proprietary Fund Function - Sewage	
Personal Services - Salaries and Wages	154,868
Personal Services - Employee Benefits	40,081
Purchased Professional & Technical Services	53,833
Purchased Property Services	77,641
Other Operating Expenses	2,953
Supplies	315,864
Total Proprietary Fund Function - Sewage	645,240
Proprietary Fund Function - Admin. & Coll.	
Personal Services - Salaries and Wages	176,832
Personal Services - Employee Benefits	60,685
Purchased Professional & Technical Services	9,725
Purchased Property Services	7,025
Other Operating Expenses	188,301
Supplies	42,674
Total Proprietary Fund Function - Admin. & Coll.	485,242
Proprietary Fund Function - Debt Issuance Costs	
Purchased Professional & Technical Services	3,720
Other Operating Expenses	1,524
Total Proprietary Fund Function - Debt Issuance Costs	5,244
Depreciation	76,252
Interest Expense	84,187
Total Operating Expenses	2,616,877
Income Before Transfers, Gains or Losses	1,133,527
Transfers Out	(316,398)
Special Item (Use)	(2,674)

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, 2009

	Business Type Activities
	Enterprise Fund
Change in Net Assets	814,455
Total Net Assets - October 1 (Beginning)	11,513,830
Total Net Assets - September 30 (Ending)	\$ 12,328,285

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, 2009

	Business Type Activities
	Enterprise Fund
<u>Cash Flows from Non-Capital Financing Activities:</u>	
Increase(decrease) in Bonds Payable	(233,000)
Operating Transfer Out	316,398
Increase(decrease) in Notes Payable	(9,745)
Net Cash Provided by Non-Capital Financing Activities	<u>73,653</u>
<u>Cash Flows from Capital &amp; Related Financing Activities:</u>	
Acquisition of Capital Assets	<u>(2,429)</u>
<u>Cash Flows from Investing Activities:</u>	
Purchase of Investment Securities	<u>(656,770)</u>
Net Increase in Cash and Cash Equivalents	286,106
Cash and Cash Equivalents at Beginning of the Year:	<u>1,077,847</u>
Cash and Cash Equivalents at the End of the Year:	<u>\$ 1,363,953</u>
<u>Reconciliation of Operating Income to Net Cash Provided By Operating Activities:</u>	
Operating Income:	\$ 1,133,527
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:	
Depreciation	76,252
Effect of Increases and Decreases in Current Assets and Liabilities:	
Decrease (increase) in Receivables	(146,954)
Decrease (increase) in Inventories	418
Increase (decrease) in Accounts Payable	(40,333)
(Increase) decrease in Other Assets	1,524
(Increase) decrease in Interfund Receivable	(172,005)
Increase (decrease) in Other Current Laibilities	21,667
Increase (decrease) in Accrued Interest Payable	(2,444)
Net Cash Provided by Operating Activities	<u>\$ 871,652</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, 2009

**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 HIDTA Task Force Fund** –This fund is a special revenue fund. This fund is a special revenue fund used to account for the activity related to the H.I.D.T.A. Task Force grant.
3. **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 .
4. **The ORCA#727420 Fund** –This fund is a special revenue fund This fund is a special revenue fund used to account for the activity related to the O.R.C.A.. #727420 grant.

5. **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.
6. **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.
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	3,055,325	(1,467,268)	1,588,057	
Infrastructure	<u>5,284,055</u>	<u>0</u>	<u>5,284,055</u>	
Change in Net Assets				<u>\$ 8,730,520</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			\$ 447,094	
Loans Payable			405,496	
Bonds Payable			<u>3,795,000</u>	
Change in Net Assets				\$ (4,647,590)
Capitalized Bond Costs				<u>\$ 778,284</u>
Net Adjustment to Net Assets				<u>\$ 4,861,214</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 Changes in Net Assets</u>	<u>Adjustments to Net Assets</u>
<u>Current Year Capital Outlay</u>			
Various Categories	\$ 2,328,206	\$ 2,328,206	\$ 2,328,206
Total Capital Outlay	<u>\$ 2,328,206</u>	<u>\$ 2,328,206</u>	<u>\$ 2,328,206</u>
<u>Debt Principal Payments</u>			
Capital Lease Principal	\$ 137,828	\$ 137,828	\$ 137,828
Loan Principal	<u>29,918</u>	<u>29,918</u>	<u>29,918</u>
Total Principal Payments	<u>\$ 167,746</u>	<u>\$ 167,746</u>	<u>\$ 167,746</u>
Total Adjustment to Net Assets		<u>\$ 2,495,952</u>	<u>\$ 2,495,952</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	\$ 87,510	\$ (87,510)	\$ 0
Uncollected taxes (assumed collectible) from Current Year Levy	\$ 44,835	\$ 44,835	\$ 44,835
Uncollected Taxes from prior year deemed collectible	\$ 59,779	\$ 0	\$ 59,779
Other	\$ 263,010	\$ (263,010)	\$ (11,047)
<u>Reclassify Proceeds of Bonds, Loans &amp; Capital Leases</u>			
Retirement of Capital Assets	\$ 57,854	\$ 0	\$ (57,854)
Other Adjustment to Capital Assets	\$ 99,606	\$ 0	\$ (96,606)
Capital Leases	\$ 10,334	\$ (10,334)	\$ (10,334)
Bond Proceeds	\$ 300,000	<u>\$ (300,000)</u>	<u>\$ (300,000)</u>
Total		<u>\$ (616,019)</u>	<u>\$ (371,227)</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 G-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>
Judicial	\$ 11,683
Highways & Streets	\$ 2,500
Culture and Recreation	\$ 4,916
Libraries	\$ 232
Capital Outlay	\$ 6,236

**IV. DETAILED NOTES ON ALL FUNDS AND ACCOUNT GROUPS**

**A. DEPOSITS AND INVESTMENTS**

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

At September 30, 2009, the carrying amount of the City's deposits (cash and interest-bearing savings accounts included in temporary investments) was \$ 4,317,867 and the bank balance was \$4,316,644. The City's cash deposits at September 30, 2009 and during the year ended September 30, 2009 were entirely covered by FDIC insurance or by pledged collateral held by the City's agent bank in the City's name.

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



practices as provided by the Act. The City is in substantial compliance with the requirements of the Act and with local policies.

As of September 30, 2009, the City had the following investments, some of which are reflected under cash & cash equivalents.

<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>
<u>General Fund:</u>					
Logic Money Market	\$ 711,535	\$ 711,535			
Total-General Fund	\$ 711,535	\$ 711,535			
<u>Special Revenues Fund:</u>					
Logic Money Market	\$ 74	\$ 74			
Total-Special Revenue Fund	\$ 74	\$ 74			
<u>Enterprise Fund:</u>					
Texpool Money Market	\$ 1,056,702	\$ 1,056,702			
Bank of New York Money Market	448,620	448,620			
Subtotal	\$ 1,505,322	\$ 1,505,322			
<u>Temporarily Restricted</u>					
Compass Bank	\$ 2,571,995	\$ 2,571,995			
Total-Temp.Restricted Assets	\$ 2,571,995	\$ 2,571,995			

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

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

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

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

**B. PROPERTY TAXES**

Property taxes are levied by October 1 on the assessed value listed as of the prior January 1 for all real and business personal property located in the City in conformity with Subtitle E, Texas Property Tax Code. Taxes are due on receipt of the tax bill and are delinquent if not paid before February 1 of the year following the year in which imposed. On January 31 of each year, a tax lien attaches to property to secure the payment of all taxes, penalties, and interest ultimately imposed. Property tax revenues are considered available (1) when they become due or past due and receivable within the current period and (2) when they are expected to be collected during a 60-day period after the close of the 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, 2009 consisted of the following:

Due From Fund	Due To Fund	Amount	Purpose
FEMA	General Fund	\$4,776	Short-term loans
CJD-Border TF	General Fund	10,688	
Treasury Forfeiture	General Fund	400	Short-term loans
Water Plant Project	General Fund	100	
Border Security	General Fund	55,246	Short-term loans
Stonegarden	General Fund	25,465	Short-term loans
HIDTA Task Force	General Fund	142,638	Short-term loans
ORCA Contract #727420	General Fund	4,418	Short-term loans
TCDP Contract #726090	General Fund	50	Short-term loans
TCDP Contract #728477	General Fund	50	Short-term loans
General Fund	Hotel Fund	67,428	
General Fund	Economic Development	41,186	Short-term loans
General Fund	Public Utility Fund	120,071	Short-term loans
Water Plant Project	Public Utility Fund	99,000	Short-term loans
Wastewater Project Fund	Public Utility Fund	50	Short-term loans
Debt Service Fund	Public Utility Fund	50	Short-term loans
	Total	<u>\$571,616</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, 2009 consisted of the following:

Transfers From	Transfers To	Amount	Reason
Hotel Fund	Economic Development	\$30,000	Supplemental other funds sources
General Fund	Border Security	264	Supplemental other funds sources
General Fund	Texas Parks & Wildlife	220,016	Supplemental other funds sources
Public Utility Fund	Debt Service Fund	146,398	Supplemental other funds sources
Public Utilities Dept.	General Fund	170,000	Supplemental other funds sources
Economic Development	General Fund	100,000	Supplemental other funds sources
PD Forfeiture Fund	General Fund	60,000	Supplemental other funds sources
General Fund	Airport	4,613	
	Total	<u>\$731,291</u>	

#### E. CAPITAL ASSET ACTIVITY

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

	Primary Government			
	<u>Beginning Balance</u>	<u>Additions</u>	<u>Retirements &amp; Adjustments</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	3,055,325	463,976	(289,921)	3,229,380
Infrastructure	5,284,055	0	(0)	5,284,055
Construction in Progress	<u>0</u>	<u>1,864,230</u>	<u>(0)</u>	<u>1,864,230</u>
Totals at Historic Cost	<u>\$ 10,377,951</u>	<u>\$ 2,328,206</u>	<u>\$ (289,921)</u>	<u>\$ 12,416,236</u>
Less Accumulated Depreciation:				
Total Accumulated Depreciation	<u>(1,610,574)</u>	<u>(281,200)</u>	<u>98,604</u>	<u>(1,793,170)</u>
Governmental Activities Capital Assets, Net	<u>\$ 8,767,377</u>	<u>\$ 2,047,006</u>	<u>\$ (191,317)</u>	<u>\$ 10,623,066</u>
Business-type Activities:				
Land	\$ 339,035	\$ 0	\$ (0)	\$ 339,035
Buildings and Improvements	599,223	0	(0)	599,223
Furniture and Equipment	243,963	5,213	(2,783)	246,393
Infrastructure	<u>11,717,840</u>	<u>0</u>	<u>(0)</u>	<u>11,717,840</u>
Totals at Historic Cost	<u>\$ 12,900,061</u>	<u>\$ 5,213</u>	<u>\$ (2,783)</u>	<u>\$ 12,902,491</u>
Less Accumulated Depreciation				
Total Accumulated Depreciation	<u>(2,004,935)</u>	<u>(76,252)</u>	<u>161</u>	<u>(2,081,026)</u>
Business-type Activities Capital Assets, Net	<u>\$ 10,895,126</u>	<u>\$(71,039)</u>	<u>\$ (2,622)</u>	<u>\$ 10,821,465</u>

Depreciation expense was charged to governmental functions as follows:

General Government	\$ 44,992
Public Safety	140,600
Public Works	33,744
Conservation & Development	42,180
Culture & Recreation	<u>19,684</u>
Total Depreciation Expense	<u>\$ 281,200</u>

## F. BONDS AND LONG-TERM NOTES PAYABLE

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

General Long Term Debt:

### Notes Payable:

Renewal note payable to Lone Star National Bank dated February 4, 2008, payable in 35 monthly installments of \$2,190, including interest at 6%, with remaining unpaid balance due at maturity, secured by real estate. Renewed February 4, 2009.	\$ 129,282
Renewal note payable to Lone Star National Bank dated February 4, 2008, payable in 35 monthly installments of \$2,276, including interest at 6%, with remaining unpaid balance due at maturity, secured by real estate. Renewed February 4, 2008.	<u>246,296</u>
Subtotal-Notes Payable	\$ 375,578

### Capital Leases:

Capital lease payable to Southside Bank dated 04-15-03, payable in 120 monthly installments of \$3,887.68 including interest at 4.711%, secured by (1) pumper truck and (1) tanker truck	200,739
Capital lease payable to Kansas State Bank dated 12-22-06, payable in 48 monthly installments of \$1,555.50 including interest at 5.28%, secured by (3) police vehicles	21,075
Capital lease payable to Kansas State Bank dated 12-07-07, payable in 3 annual installments of \$14,837.52 including interest at 6.69%, secured by (1) vehicle and (1) tractor	13,999
Capital lease payable to Kansas State Bank dated 04-14-08, payable in 36 monthly installments of \$1,803.10 including interest at 6.69%, secured by (2) police vehicles	30,474
Capital lease payable to Citizens National Bank dated 05-15-08, payable in 4 annual installments of \$24,775.56 including interest at 4.68%, secured by (1) brush truck and radios	46,099
Capital lease payable to First Texas Bank dated 11-19-08, payable in 36 monthly installments of \$317 including interest at 8.99%, secured by computer hardware and software	7,214
Subtotal- Capital Leases Payable	\$ 319,600

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%	820,000
\$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>
Subtotal-Bonds Payable	\$ <u>4,095,000</u>
Total General Long Term Debt	\$ <u>4,790,178</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%	175,000
\$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%	475,000
\$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%	45,000
\$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%	86,000
\$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>691,000</u>
Total Revenue Bonds Payable	\$ <u>1,472,000</u>
Total Long-Term Debt	\$ <u>6,262,178</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, 2009

## 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						
2010	\$ 116,919	\$ 13,453	\$ 31,010	\$ 20,773	\$ 0	\$10,453
2011	81,896	7,264	344,568	8,498	385,000	8,640
2012	42,887	3,765	0	0	485,000	4,696
2013	44,952	1,700	0	0	655,000	1,283
2014	32,946	91	0	0	830,000	0
2015-2019	0	0	0	0	725,000	0
2020-2024	0	0	0	0	725,000	0
2025-2029	0	0	0	0	290,000	0
2030-2034	0	0	0	0	0	0
2035-2039	0	0	0	0	0	0
Total	\$ 319,600	\$ 26,273	\$ 375,578	\$ 29,271	\$4,095,000	\$25,072

## 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.tMrs.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, 2009, 2008, and 2007 were \$ 208,032, \$169,094, and \$91,931, 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, 2008 valuations are contained in the 2006 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, 2008	
Actuarial Value of Assets	\$1,529,962
Actuarial Accrued Liability	\$2,713,824
Percentage Funded	56.4%
Unfunded (over-funded) Actuarial Accrued Liability (UAAL)	\$1,183,862
Annual covered payroll	\$3,301,838
UAAL as a Percentage of Covered Payroll	34.8%
Net Pension Obligation as of beginning of Period	\$0
Annual Pension Cost:	\$0
Annual Required Contribution (ARC)	\$208,002
Less: Contributions Made	\$208,002
NPO at the end of the period	\$0

#### I. CHANGES IN LONG-TERM LIABILITIES

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

	<u>Beginning</u> <u>Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending</u> <u>Balance</u>	<u>Due Within</u> <u>One Year</u>
<b>Governmental Activities:</b>					
Bonds and Notes Payable:					
Capital Leases	\$ 447,094	\$ 10,334	\$ (137,828)	\$ 319,600	\$ 116,919
Bonds Payable	3,795,000	300,000	0	4,095,000	0
Notes Payable	405,496	0	(29,918)	375,578	31,010
Total Bonds and Notes Payable	<u>\$ 4,647,590</u>	<u>\$ 310,334</u>	<u>\$ (167,746)</u>	<u>\$ 4,790,178</u>	<u>\$ 147,929</u>
Total Governmental Activities Long-term Liabilities	<u>\$ 4,647,590</u>	<u>\$ 310,334</u>	<u>\$ (167,746)</u>	<u>\$ 4,790,178</u>	<u>\$ 147,929</u>
<b>Business-type Activities:</b>					
Bonds and Notes Payable:					
Revenue Bonds Payable	\$ 1,705,000	\$ 0	\$ (233,000)	\$ 1,472,000	\$ 0
Total Bonds and Notes Payable	<u>\$ 1,705,000</u>	<u>\$ 0</u>	<u>\$ (233,000)</u>	<u>\$ 1,472,000</u>	<u>\$ 0</u>
Total Business-type Activities Long-term Liabilities	<u>\$ 1,705,000</u>	<u>\$ 0</u>	<u>\$ (233,000)</u>	<u>\$ 1,472,000</u>	<u>\$ 0</u>

**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	\$204,626	\$8,255	\$212,881
Total Deferred Revenue	<u>\$204,626</u>	<u>\$8,255</u>	<u>\$212,881</u>

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

**K. COMMITMENTS AND CONTINGENCIES**

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

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

**L. RISK MANAGEMENT**

The City is exposed to various risks of loss related to torts, theft, damage, or destruction of assets, errors and omissions, injuries to employees, and natural disasters. During fiscal year 2009, 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. Thos 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 \$ 271,998.



**N. HEALTH CARE COVERAGE**

During the year ended September 30, 2009, 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, 2009, and terms of coverage and premium costs are included in the contractual provisions.

Latest financial statements for the insurer (Texas Municipal League Employee Benefits Pool) are available for the year ended December 31, 2009 and have been filed with the Texas Board of Insurance in Austin, Texas, and are public records.

**O. PRIOR PERIOD ADJUSTMENT**

The City's net assets were decreased by \$96,606 in the governmental funds due to restatement of capital assets as a result of a comprehensive physical inventory conducted for the year.

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, 2009

EXHIBIT G-1

	Budgeted Amounts		Actual Amounts (GAAP BASIS)	Variance With Final Budget Positive or (Negative)
	Original	Final		
<b>REVENUES:</b>				
Taxes:				
Property Taxes	\$ 1,668,012	\$ 1,798,968	\$ 1,739,966	\$ (59,002)
General Sales and Use Taxes	1,609,740	1,803,736	1,675,199	(128,537)
Franchise Tax	545,871	532,045	551,876	19,831
Other Taxes	-	-	6,951	6,951
Penalty and Interest on Taxes	27,251	37,060	33,115	(3,945)
Licenses and Permits	115,986	76,955	70,372	(6,583)
Intergovernmental Revenue and Grants	4,000	4,350	6,875	2,525
Charges for Services	263,643	372,200	307,289	(64,911)
Fines	135,976	249,000	271,789	22,789
Investment Earnings	21,337	8,900	7,544	(1,356)
Rents and Royalties	8,100	7,200	7,200	-
Other Revenue	205,081	68,135	49,194	(18,941)
Total Revenues	<u>4,604,997</u>	<u>4,958,549</u>	<u>4,727,370</u>	<u>(231,179)</u>
<b>EXPENDITURES:</b>				
Current:				
General Government	838,209	826,632	784,569	42,063
Judicial	124,335	114,686	126,369	(11,683)
Public Safety	2,525,837	2,331,045	2,275,773	55,272
Public Works	596,089	591,240	579,596	11,644
Highways and Streets	128,500	120,000	122,500	(2,500)
Culture and Recreation	113,105	112,960	117,876	(4,916)
Libraries	157,778	160,940	161,172	(232)
Conservation and Development	246,307	249,744	236,797	12,947
Debt Service:				
Bond Principal	149,015	150,888	147,796	3,092
Bond Interest	48,762	43,789	43,309	480
Capital Outlay:				
Capital Outlay	1,000	27,548	33,784	(6,236)
Total Expenditures	<u>4,928,937</u>	<u>4,729,472</u>	<u>4,629,541</u>	<u>99,931</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>(323,940)</u>	<u>229,077</u>	<u>97,829</u>	<u>(131,248)</u>
<b>OTHER FINANCING SOURCES (USES):</b>				
Proceeds from Capital Leases	-	-	10,334	10,334
Transfers In	350,000	330,000	330,000	-
Transfers Out (Use)	(24,300)	(234,300)	(224,893)	9,407
Total Other Financing Sources (Uses)	<u>325,700</u>	<u>95,700</u>	<u>115,441</u>	<u>19,741</u>
Net Change in Fund Balances	1,760	324,777	213,270	(111,507)
Fund Balance - October 1 (Beginning)	<u>1,008,681</u>	<u>1,008,681</u>	<u>1,008,681</u>	<u>-</u>
Fund Balance - September 30 (Ending)	<u>\$ 1,010,441</u>	<u>\$ 1,333,458</u>	<u>\$ 1,221,951</u>	<u>\$ (111,507)</u>

CITY OF RIO GRANDE CITY  
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE  
BUDGET AND ACTUAL - EDC  
FOR THE YEAR ENDED SEPTEMBER 30, 2009

EXHIBIT E-2

	Budgeted Amounts		Actual	Variance With
	Original	Final	GAAP BASIS (See Note)	Final Budget Positive or (Negative)
<b>REVENUES:</b>				
Taxes:				
General Sales and Use Taxes	\$ 804,870	\$ 901,868	\$ 837,599	\$ (64,269)
Investment Earnings	35,000	5,600	4,844	(756)
Other Revenue	15,000	5,000	6,522	1,522
<b>Total Revenues</b>	<b>854,870</b>	<b>912,468</b>	<b>848,965</b>	<b>(63,503)</b>
<b>EXPENDITURES:</b>				
Current:				
Conservation and Development:				
Economic Development and Assistance	1,661,631	1,655,052	622,481	1,032,571
Capital Outlay:				
Capital Outlay	152,000	151,314	153,722	(2,408)
<b>Total Expenditures</b>	<b>1,813,631</b>	<b>1,806,366</b>	<b>776,203</b>	<b>1,030,163</b>
Excess (Deficiency) of Revenues Over (Under) Expenditures	(958,761)	(893,898)	72,762	966,660
<b>OTHER FINANCING SOURCES (USES):</b>				
Transfers In	30,000	30,000	30,000	-
Transfers Out (Use)	(100,000)	(100,000)	(100,000)	-
<b>Total Other Financing Sources (Uses)</b>	<b>(70,000)</b>	<b>(70,000)</b>	<b>(70,000)</b>	<b>-</b>
Change in Fund Balance	(1,028,761)	(963,898)	2,762	966,660
Fund Balance - October 1 (Beginning)	1,832,177	1,832,177	1,832,177	-
Fund Balance - September 30 (Ending)	<b>\$ 803,416</b>	<b>\$ 868,279</b>	<b>\$ 1,834,939</b>	<b>\$ 966,660</b>

The accompanying notes are an integral part of this statement.

CITY OF RIO GRANDE CITY  
 COMBINING BALANCE SHEET  
 NONMAJOR GOVERNMENTAL FUNDS  
 SEPTEMBER 30, 2009

	Hotel Occupancy Tax Fund	Forfeiture Fund	Treasury Forfeiture Fund	RGC Police Department Fund
<b>ASSETS</b>				
Cash and Cash Equivalents	\$ 289,539	\$ 19,318	\$ 36,165	\$ 1,322
Receivables (net of allowance for uncollectibles)	6,602	-	-	-
Intergovernmental Receivables	-	-	-	-
Due from Other Funds	67,428	-	-	-
Total Assets	<u>\$ 363,569</u>	<u>\$ 19,318</u>	<u>\$ 36,165</u>	<u>\$ 1,322</u>
<b>LIABILITIES AND FUND BALANCES</b>				
<b>Liabilities:</b>				
Accounts Payable	\$ -	\$ 1,119	\$ -	\$ -
Due to Other Funds	-	-	400	-
Deferred Revenues	-	-	-	-
Total Liabilities	<u>-</u>	<u>1,119</u>	<u>400</u>	<u>-</u>
<b>Fund Balances:</b>				
<b>Unreserved and Undesignated:</b>				
Reported in the General Fund	-	-	-	-
Reported in the Special Revenue Fund	363,569	18,199	35,765	1,322
Total Fund Balances	<u>363,569</u>	<u>18,199</u>	<u>35,765</u>	<u>1,322</u>
Total Liabilities and Fund Balances	<u>\$ 363,569</u>	<u>\$ 19,318</u>	<u>\$ 36,165</u>	<u>\$ 1,322</u>

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

CJD Task Force Grant Fund	Airport Fund	TCDP#726090 Grant Fund	ORCA #728477 Grant Fund	Border Security Fund	TPWD Fund	Stonegarden Fund	FEMA Fund
\$ -	\$ -	\$ 50	\$ 50	\$ 35,261	\$ -	\$ -	\$ 44,493
-	-	-	-	-	-	-	-
10,688	-	-	-	20,000	-	25,465	-
-	-	-	-	-	-	-	-
<u>\$ 10,688</u>	<u>\$ -</u>	<u>\$ 50</u>	<u>\$ 50</u>	<u>\$ 55,261</u>	<u>\$ -</u>	<u>\$ 25,465</u>	<u>\$ 44,493</u>
\$ -	\$ -	\$ -	\$ -	\$ 14	\$ -	\$ -	\$ -
10,688	-	50	50	55,246	-	25,465	4,776
-	-	-	-	-	-	-	39,717
<u>10,688</u>	<u>-</u>	<u>50</u>	<u>50</u>	<u>55,260</u>	<u>-</u>	<u>25,465</u>	<u>44,493</u>
-	-	-	-	-	-	-	-
-	-	-	-	1	-	-	-
-	-	-	-	1	-	-	-
<u>\$ 10,688</u>	<u>\$ -</u>	<u>\$ 50</u>	<u>\$ 50</u>	<u>\$ 55,261</u>	<u>\$ -</u>	<u>\$ 25,465</u>	<u>\$ 44,493</u>

CITY OF RIO GRANDE CITY  
 COMBINING BALANCE SHEET  
 NONMAJOR GOVERNMENTAL FUNDS  
 SEPTEMBER 30, 2009

	Buchalters Addition Escrow	Total Nonmajor Special Revenue Funds	Debt Service Fund	Total Nonmajor Governmental Funds
<b>ASSETS</b>				
Cash and Cash Equivalents	\$ 18,543	\$ 444,741	\$ 123,247	\$ 567,988
Receivables (net of allowance for uncollectibles)	-	6,602	-	6,602
Intergovernmental Receivables	-	56,153	-	56,153
Due from Other Funds	-	67,428	-	67,428
Total Assets	<u>\$ 18,543</u>	<u>\$ 574,924</u>	<u>\$ 123,247</u>	<u>\$ 698,171</u>
<b>LIABILITIES AND FUND BALANCES</b>				
Liabilities:				
Accounts Payable	\$ -	\$ 1,133	\$ -	\$ 1,133
Due to Other Funds	-	96,675	50	96,725
Deferred Revenues	18,514	58,231	-	58,231
Total Liabilities	<u>18,514</u>	<u>156,039</u>	<u>50</u>	<u>156,089</u>
Fund Balances:				
Unreserved and Undesignated:				
Reported in the General Fund	-	-	123,197	123,197
Reported in the Special Revenue Fund	29	418,885	-	418,885
Total Fund Balances	<u>29</u>	<u>418,885</u>	<u>123,197</u>	<u>542,082</u>
Total Liabilities and Fund Balances	<u>\$ 18,543</u>	<u>\$ 574,924</u>	<u>\$ 123,247</u>	<u>\$ 698,171</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, 2009

	Hotel Occupancy Tax Fund	Forfeiture Fund	Treasury Forfeiture Fund	RGC Police Department Fund
<b>REVENUES:</b>				
Taxes:				
Other Taxes	\$ 129,998	\$ -	\$ -	\$ -
Intergovernmental Revenue and Grants	-	-	-	2,339
Forfeits	-	66,042	-	-
Investment Earnings	617	339	141	6
Total Revenues	<u>130,615</u>	<u>66,381</u>	<u>141</u>	<u>2,345</u>
<b>EXPENDITURES:</b>				
Current:				
Public Safety	-	120,133	14,710	2,696
Culture and Recreation	-	-	-	-
Conservation and Development:				
Economic Development and Assistance	-	-	-	-
Debt Service:				
Bond Interest	-	-	-	-
Fiscal Agent's Fees	-	-	-	-
Capital Outlay:				
Capital Outlay	-	7,169	4,529	-
Total Expenditures	<u>-</u>	<u>127,302</u>	<u>19,239</u>	<u>2,696</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>130,615</u>	<u>(60,921)</u>	<u>(19,098)</u>	<u>(351)</u>
<b>OTHER FINANCING SOURCES (USES):</b>				
Transfers In	-	-	-	-
Transfers Out (Use)	(30,000)	(60,000)	-	-
Total Other Financing Sources (Uses)	<u>(30,000)</u>	<u>(60,000)</u>	<u>-</u>	<u>-</u>
Net Change in Fund Balance	100,615	(120,921)	(19,098)	(351)
Fund Balance - October 1 (Beginning)	<u>262,954</u>	<u>139,120</u>	<u>54,863</u>	<u>1,673</u>
Fund Balance - September 30 (Ending)	<u>\$ 363,569</u>	<u>\$ 18,199</u>	<u>\$ 35,765</u>	<u>\$ 1,322</u>

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



CJD Task Force Grant Fund	Airport Fund	TCDP#726090 Grant Fund	ORCA #728477 Grant Fund	Border Security Fund	TPWD Fund	Stonegarden Fund	FEMA Fund
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
37,848	-	-	161,409	110,395	42,650	151,228	281,319
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
<u>37,848</u>	<u>-</u>	<u>-</u>	<u>161,409</u>	<u>110,395</u>	<u>42,650</u>	<u>151,228</u>	<u>281,319</u>
37,848	-	-	-	110,658	-	-	-
-	-	-	-	-	-	151,228	-
-	4,613	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	161,409	-	262,666	-	281,319
<u>37,848</u>	<u>4,613</u>	<u>-</u>	<u>161,409</u>	<u>110,658</u>	<u>262,666</u>	<u>151,228</u>	<u>281,319</u>
-	(4,613)	-	-	(263)	(220,016)	-	-
-	4,613	-	-	264	220,016	-	-
-	-	-	-	-	-	-	-
-	4,613	-	-	264	220,016	-	-
-	-	-	-	1	-	-	-
-	-	-	-	-	-	-	-
<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

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

	Buchalters Addition Escrow	Nonmajor Special Revenue Funds	Debt Service Fund	Total Nonmajor Governmental Funds
<b>REVENUES:</b>				
Taxes:				
Other Taxes	\$ -	\$ 129,998	\$ -	\$ 129,998
Intergovernmental Revenue and Grants	-	787,188	-	787,188
Forfeits	-	66,042	-	66,042
Investment Earnings	29	1,132	138	1,270
Total Revenues	<u>29</u>	<u>984,360</u>	<u>138</u>	<u>984,498</u>
<b>EXPENDITURES:</b>				
Current:				
Public Safety	-	286,045	-	286,045
Culture and Recreation	-	151,228	-	151,228
Conservation and Development:				
Economic Development and Assistance	-	4,613	-	4,613
Debt Service:				
Bond Interest	-	-	13,010	13,010
Fiscal Agent's Fees	-	-	10,329	10,329
Capital Outlay:				
Capital Outlay	-	717,092	-	717,092
Total Expenditures	<u>-</u>	<u>1,158,978</u>	<u>23,339</u>	<u>1,182,317</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>29</u>	<u>(174,618)</u>	<u>(23,201)</u>	<u>(197,819)</u>
<b>OTHER FINANCING SOURCES (USES):</b>				
Transfers In	-	224,893	146,398	371,291
Transfers Out (Use)	-	(90,000)	-	(90,000)
Total Other Financing Sources (Uses)	<u>-</u>	<u>134,893</u>	<u>146,398</u>	<u>281,291</u>
Net Change in Fund Balance	29	(39,725)	123,197	83,472
Fund Balance - October 1 (Beginning)	<u>-</u>	<u>458,610</u>	<u>-</u>	<u>458,610</u>
Fund Balance - September 30 (Ending)	<u>\$ 29</u>	<u>\$ 418,885</u>	<u>\$ 123,197</u>	<u>\$ 542,082</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, 2009, which collectively comprise the City of Rio Grande City, Texas's basic financial statements and have issued our report thereon dated March 31, 2010. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

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.

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.

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 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 internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

#### 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

March 31, 2010

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# **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, 2009. 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, 2009.

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*

*March 31, 2010*

CITY OF RIO GRANDE CITY  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
Fiscal Year Ending September 30, 2009

**1) SUMMARY OF AUDIT RESULTS**

- a) The auditor's report expresses an unqualified opinion on General Purpose Financial Statements.
- b) No significant deficiencies or material weaknesses disclosed during the audit of the general purpose financial statements.
- 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)
  - 2) HIDTATF (CFDA# 7.616)
- f) The threshold used for distinguishing between Type A and B programs was \$300,000.
- g) City of Rio Grande City did not qualify as a low-risk auditee within the context of OMB Circular A-133.

**2) FINDINGS – FINANCIAL STATEMENT AUDIT**

None

**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, 2009

**UTILITY BILLING REPORTING SYSTEM**

**Finding:**

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.

**Current Status:**

The above-noted reports were properly reconciled to the general ledger on a monthly basis in the current year.



CITY OF RIO GRANDE CITY  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
YEAR ENDED SEPTEMBER 30, 2009

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	768,500
Community Development Block Grants	14.228	727420	161,409
Subtotal-Passed through Office of Rural Community Affairs			<u>929,909</u>
TOTAL U S. DEPARTMENT OF HOUSING & URBAN DEVELOPMENT			<u>929,909</u>
<u>OFFICE OF NATIONAL DRUG CONTROL POLICY</u>			
High Intensity Drug Trafficking Area Task Force	7.616	I5PSSP616	13,407
High Intensity Drug Trafficking Area Task Force	7.616	I6PSSP616	574
High Intensity Drug Trafficking Area Task Force	7.616	I7PSSP616	55,408
High Intensity Drug Trafficking Area Task Force	7.616	I8PSSP616	67,493
High Intensity Drug Trafficking Area Task Force	7.616	G09SS0006A	174,923
TOTAL OFFICE OF NATIONAL DRUG CONTROL POLICY			<u>311,805</u>
<u>U.S. DEPARTMENT OF HOMELAND SECURITY</u>			
Passed through Governor's Division of Emergency Management			
Homeland Security Grant	97.036	FEMA 1709-DR	281,319
Homeland Security Grant	97.067	2008-SG-T8-0009	125,764
Passed through Governor's Division of Emergency Management			<u>407,083</u>
<u>U.S. DEPARTMENT OF HOMELAND SECURITY</u>			<u>407,083</u>
<u>U.S. DEPARTMENT OF JUSTICE</u>			
Passed thorough Office of the Governor-CJD			
JAG Program	16.738	DB-03-A10-13888-05	36,881
Total Passed through Office of the Governor-CJD			<u>36,881</u>
TOTAL U.S. DEPARTMENT OF JUSTICE			<u>36,881</u>
<u>U.S. ENVIRONMENTAL PROTECTION AGENCY</u>			
Passed through Texas Water Development Board			
Drinking Water State Revolving Fund- Disadvantaged Loan	66.468	L070017	298,711
Total Passed through Texas Water Development Board			<u>298,711</u>
TOTAL U.S. ENVIRONMENTAL PROTECTION AGENCY			<u>298,711</u>
TOTAL FEDERAL AWARDS			<u><u>1,984,389</u></u>

CITY OF RIO GRANDE CITY  
NOTES ON ACCOUNTING POLICIES FOR FEDERAL AWARDS  
YEAR ENDED SEPTEMBER 30, 2009

- The City uses the fund types specified by the Governmental Accounting Standards Board. Special revenue funds are used to account for resources restricted to, or designated for, specific purposes. Federal and state financial assistance generally is accounted for in a Special Revenue Fund because it is restricted for specific purposes.
- The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. The Governmental Fund types are accounted for using a current financial resources measurement focus called the modified accrual basis of accounting. Nearly all Federal grant funds were accounted for in a Special Revenue Fund which is a Governmental Fund type. With this measurement focus, only current assets and current liabilities and the fund balance are included on the balance sheet. Operating statements of these funds present increases and decreases in net current assets.

The modified accrual basis of accounting recognizes revenues in the accounting period in which they become susceptible to accrual, i.e., both measurable and available, and expenditures in the accounting period in which the fund liability is incurred, if measurable, except for unmatured interest on General Long-Term Debt, which is recognized when due, and certain compensated absences and claims and judgments, which are recognized when the obligations are expected to be liquidated with expendable available financial resources.

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

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