

CITY OF RIO GRANDE CITY, TEXAS

AUDITED ANNUAL FINANCIAL REPORT

FOR THE YEAR ENDED SEPTEMBER 30, 2013

Reyna & Garza, P.L.L.C.

Certified Public Accountants

CITY OF RIO GRANDE CITY, TEXAS
ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED SEPTEMBER 30, 2013

TABLE OF CONTENTS

<u>Exhibit</u>	<u>Page</u>
Independent Auditors' Report	1
Management's Discussion and Analysis	3
<u>Basic Financial Statements</u>	
Government Wide Statements:	
A-1 Statement of Net Assets	9
B-1 Statement of Activities	10
Governmental Fund Financial Statements:	
C-1 Balance Sheet	12
C-2 Reconciliation for C-1	14
C-3 Statement of Revenues, Expenditures, and Changes in Fund Balance	15
C-4 Reconciliation for C-3	17
Proprietary Fund Financial Statements:	
D-1 Statement of Net Assets	18
D-2 Statement of Revenues, Expenses, and Changes in Fund Net Assets	19
D-3 Statement of Cash Flows	20
Notes to the Financial Statements	22
<u>Basic Financial Statements</u>	
E-1 Budgetary Comparison Schedule - General Fund	41
E-2 Budgetary Comparison Schedule - Economic Development Corp. Fund	42
<u>Combining and Individual Fund Schedules</u>	
Nonmajor Governmental Funds:	
F-1 Combining Balance Sheet	45
F-2 Combining Statement of Revenues, Expenditures, and Changes in Fund Balances	49
<u>Federal Section</u>	
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	
	51
Report on Compliance with Requirements that Could Have a Direct and Material Effect On Each Major Program and on Internal Control over Compliance in Accordance with OMB Circular A-133	
	53
Schedule of Findings and Questioned Costs	
	55
Schedule of Status of Prior Findings	
	57
G-1 Schedule of Expenditures of Federal Awards	58
Notes to Schedule of Expenditures of Federal Awards	59

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INDEPENDENT AUDITOR'S REPORT

To the Honorable Mayor and City Council
City of Rio Grande City, Tx

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, component units, each major fund, and the aggregate remaining fund information of the City of Rio Grande City (the City) as of and for the year ended September 30, 2013, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

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, component units, each major fund, and the aggregate remaining fund information of the City, as of September 30, 2013, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

New Accounting Principles

As discussed in the notes to the financial statements, management has implemented Governmental Accounting Standards Board (GASB) statement 63 *Financial Reporting of Deferred Outflows of Resources, deferred Inflows of Resources, and Net Positions* and had elected to implement early GASB 65 *Items Previously Reported as Assets and Liabilities*. Our opinion is not modified with respect to that matter.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and the General Fund budgetary comparison information as listed on the table of contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The combining and individual nonmajor fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining and individual nonmajor fund financial statements and the schedule of expenditures of federal awards are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 8, 2014, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.

Reyna & Garza, PLLC
Certified Public Accountants

October 8, 2014

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, 2013. 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 \$ 2.25 million as a result of this year's operations. Net assets of our business-type activities: decreased by \$.89 million, or 6.6 percent, net assets of all governmental activities: increased by \$ 3.1 million or nearly 45 percent.
- During the year, the City had expenses that were \$ 3.14 million less than the \$ 8.04 million generated in tax and other revenues for governmental programs (before special items).
- In the City's business-type activities, revenues increased from \$ 4.8 million to \$ 4.9 million (or 2 percent) while expenses also decreased from \$ 4.3 million to \$ 3.6 million (or 16.3 percent).
- Total cost of all of the City's programs decreased from \$ 11.1 million to \$ 10.83 million (or 2.43 percent).
- The General Fund ended the year with a fund balance of \$ 615 thousand.
- The resources available for appropriation were \$ 278 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 (when 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 \$ 6.9 million to \$ 8.8 million, due primarily to the transfer of completed construction in progress from the general fixed assets into the business-type activities, net of the related debt. Unrestricted net assets – the part of net assets that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation, or other legal requirements – was \$ 3.4 million at September 30, 2013.

In 2013, net assets of our business-type activities decreased by \$.89 million, or nearly 6.5 percent. This decrease is not significant in relation to the overall operations of the City and also due primarily to the transfer of completed construction in progress from the general fixed assets into the business-type activities, net of the related debt.

Table I
CITY OF RIO GRANDE CITY, TEXAS

NET ASSETS

	Governmental Activities 2013	Governmental Activities 2012	Business-type Activities 2013	Business-type Activities 2012	Total 2013	Total 2012
Current and other assets	\$ 4,956,273	\$ 7,264,685	\$ 3,704,402	\$ 4,015,361	\$ 8,660,675	\$ 11,280,046
Capital assets	11,899,802	30,117,984	31,776,824	10,926,017	43,676,626	41,044,001
Total assets	\$ 16,856,075	\$ 37,382,669	\$ 35,481,226	\$ 14,941,378	\$ 52,337,301	\$ 52,324,047
Long-term liabilities	6,753,564	29,208,729	22,249,618	770,986	29,003,182	29,979,715
Other liabilities	1,288,966	1,259,147	643,277	694,661	1,932,243	1,953,808
Total liabilities	\$ 8,042,530	\$ 30,467,876	\$ 22,892,895	\$ 1,465,647	\$ 30,935,425	\$ 31,933,523
Net Assets:						
Invested in capital assets net of related debt	\$ 5,146,238	\$ 1,464,804	\$ 9,523,206	\$ 10,155,031	\$ 14,669,444	\$ 11,619,835
Restricted	267,655	3,149,341	-	-	267,655	3,149,341
Unrestricted	3,399,652	2,300,648	3,065,125	3,320,700	6,464,777	5,621,348
Total net assets	\$ 8,813,545	\$ 6,914,793	\$ 12,588,331	\$ 13,475,731	\$ 21,401,876	\$ 20,390,524

Table II
CITY OF RIO GRANDE CITY, TEXAS

CHANGES IN NET ASSETS

	Governmental Activities 2013	Governmental Activities 2012	Business-type Activities 2013	Business-type Activities 2012	Total 2013	Total 2012
Revenues:						
Program Revenues:						
Charges for Services	\$ -	\$ 84,779	\$ 4,894,197	\$ 4,780,106	\$ 4,894,197	\$ 4,864,885
General Revenues:						
Maintenance and operations taxes	\$ 1,986,427	\$ 1,674,818	\$ -	\$ -	\$ 1,986,427	\$ 1,674,818
Debt Service taxes	790,420	743,429	-	-	790,420	743,429
Grants	1,082,927	1,356,010	-	-	1,082,927	1,356,010
Sales Taxes	2,721,018	2,595,063	-	-	2,721,018	2,595,063
Franchise Taxes	643,536	589,474	-	-	643,536	589,474
Investment Earnings	6,343	31,364	-	-	6,343	31,364
Miscellaneous	814,026	1,870,486	134,024	137,378	948,050	2,007,864
Total Revenue	\$ 8,044,697	\$ 8,945,423	\$ 5,028,221	\$ 4,917,484	\$ 13,072,918	\$ 13,862,907
Expenses:						
General Government	\$ 1,007,427	\$ 945,542	\$ -	\$ -	\$ 1,007,427	\$ 945,542
Judicial	137,784	153,516	-	-	137,784	153,516
Public Safety	3,765,661	3,034,907	-	-	3,765,661	3,034,907
Public Works	(47,368)	689,410	-	-	(47,368)	689,410
Highways and Streets	146,870	159,170	-	-	146,870	159,170
Culture and Recreation	312,808	266,175	-	-	312,808	266,175
Libraries	214,454	200,202	-	-	214,454	200,202
Conservation & Development	308,551	298,598	-	-	308,551	298,598
Economic Development	722,331	560,195	-	-	722,331	560,195
Bond Interest & Cap Outlay	614,573	562,682	-	-	614,573	562,682
Utility Fund	-	-	3,642,106	4,253,583	3,642,106	4,253,583
Total Expenses	\$ 7,183,091	\$ 6,870,397	\$ 3,642,106	\$ 4,253,583	\$ 10,825,197	\$ 11,123,980
Increase in net assets before transfers and special items	861,606	2,075,026	1,386,115	663,901	2,247,721	2,738,927
Transfers	1,551,044	-	(1,551,044)	(1,233,787)	-	(1,233,787)
Special Items – Resources	(20,622,529)	(2,152,701)	20,622,529	2,152,701	-	-
Special Items – Uses	21,345,000	-	(21,345,000)	-	-	-
Special Items-Prior Period Adjustments	(1,236,369)	(5,493,987)	-	(1,966,837)	(1,236,369)	(7,460,824)
Net assets at 10/1	\$ 6,914,793	\$ 12,486,455	\$ 13,475,731	\$ 13,859,753	\$ 20,390,524	\$ 26,346,208
Net assets at 9/30	\$ 8,813,545	\$ 6,914,793	\$ 12,588,331	\$ 13,475,731	\$ 21,401,876	\$ 20,390,524

The cost of all governmental activities this year was \$ 10.83 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 \$ 2.78 million because some of the costs were paid by those who directly benefited from the programs or by other governments and organizations that subsidized certain programs with grants and contributions.

THE CITY'S FUNDS

As the City completed the year, its governmental funds (as presented in the balance sheet on page 12) reported a combined fund balance of \$ 3.5 million, which is significantly less than last year's total of \$ 5.4 million. This is primarily due to the expenditures for the capital projects carried out this year.

Over the course of the year, the Commission had one amendment to the City's budget to reflect support of the Boys and Girls Club.

The City's General Fund balance of \$ 615 thousand reported on page 12 differs from the General Fund's budgetary fund balance of \$ 726 million reported in the General Fund budgetary comparison schedule on page 42. This is principally due to expenditures exceeding projections across various functional categories.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At the end of the 2012-13 year, the City had \$ 43.68 million, net of accumulated depreciation invested in a broad range of capital assets, including facilities, land, infrastructure, vehicles, and equipment. The most significant current year addition was approximately \$ 3.5 million in construction in progress related to water and waste water improvements, street improvements, and the new municipal park.

Debt

In prior years, the City closed on three 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, \$ 20,040,000 of proceeds have been drawn down as of 2012-2013. At year-end, the City had \$ 30 million in bonds, capital leases, and notes outstanding versus \$ 26.5 million last year, an increase of 13.2 percent.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

This year the City saw continued growth in revenues as the economic recovery continues. Sales tax deposits ended the year up by 4.5% from the previous year. The City made significant strides in its 2010 Capital Improvement Program, that is about 80% complete. This plan to pave or

overlay 70% of the City's streets is just beginning the third and final phase. The park has opened at about 95% completion. The \$20 million water plant also opened and is in full operation. The City's elected and appointed officials considered these factors when setting the 2013-2014 budget and tax rate. In late September 2013, the City Commission voted to keep taxes virtually the same as last year by levying a total tax rate of \$.51416 on a \$100 assessed valuation. This includes a Maintenance and Operations rate of \$.384145 and an Interest and Sinking rate of \$.130015.

The budget provided for very moderate 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 no new staff added in the 2013-2014 budget, and no increases in salary.

Other than the major capital improvements for streets and parks, there are no other capital outlay expenditures in the budget.

The Enterprise Fund-Public Utilities Department implemented the next 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 2013-2014 budget provides for a moderate increase to the fund balance of the General Fund. There is a budgeted use of the fund balance of the Enterprise Fund in order to replace old water and sewer lines, as the City carries out its street paving project. The City will continue to maintain a sufficient level of municipal services to the citizens of Rio Grande City.

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 POSITION
SEPTEMBER 30, 2013

EXHIBIT A-1

	Primary Government		Total
	Governmental Activities	Business Type Activities	
ASSETS			
Cash and Cash Equivalents	\$ 1,214,178	\$ 1,665,769	\$ 2,879,947
Investments - Current	2,598,751	869,138	3,467,889
Receivables (net of allowance for uncollectibles)	1,554,084	713,202	2,267,286
Internal Balances	(440,176)	440,176	-
Inventories	-	15,293	15,293
Prepaid Items	29,286	-	29,286
Capital Assets:			
Land	1,075,865	339,036	1,414,901
Infrastructure, net	528,601	34,037,080	34,565,681
Buildings, net	2,846,529	1,583,800	4,430,329
Machinery and Equipment, net	1,768,903	525,042	2,293,945
Capital Assets, net	-	(4,708,134)	(4,708,134)
Construction in Progress	5,679,904	-	5,679,904
Other Assets	150	824	974
Total Assets	<u>16,856,075</u>	<u>35,481,226</u>	<u>52,337,301</u>
LIABILITIES			
Accounts Payable	1,049,023	304,959	1,353,982
Intergovernmental Payable	20,418	-	20,418
Accrued Interest Payable	70,035	7,917	77,952
Deferred Revenues	147,320	8,255	155,575
Other Current Liabilities	2,170	322,146	324,316
Noncurrent Liabilities			
Due Within One Year	336,216	822,251	1,158,467
Due in More Than One Year	6,417,348	21,427,367	27,844,715
Total Liabilities	<u>8,042,530</u>	<u>22,892,895</u>	<u>30,935,425</u>
NET POSITION			
Net Investment in Capital Assets	5,146,238	9,523,206	14,669,444
Restricted for	267,655	-	267,655
Unrestricted Net Position	3,399,652	3,065,125	6,464,777
Total Net Position	<u>\$ 8,813,545</u>	<u>\$ 12,588,331</u>	<u>\$ 21,401,876</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, 2013

	Expenses	Program Revenues <u>Charges for Services</u>
Primary Government:		
GOVERNMENTAL ACTIVITIES:		
General Government	\$ 1,007,427	\$ -
Judicial	137,784	-
Public Safety	3,765,661	-
Public Works	(47,368)	-
Highways and Streets	146,870	-
Culture and Recreation	312,808	-
Libraries	214,454	-
Conservation and Development	308,551	-
Economic Development and Assistance	722,331	-
Bond Interest	584,724	-
Fiscal Agent's Fees	29,849	-
Total Governmental Activities:	7,183,091	-
BUSINESS-TYPE ACTIVITIES:		
Total Business-Type Activities:	3,642,106	4,894,197
Total Business-Type Activities:	3,642,106	4,894,197
TOTAL PRIMARY GOVERNMENT:	\$ 10,825,197	\$ 4,894,197

General Revenues:

Taxes:

- Property Taxes, Levied for General Purposes
- Property Taxes, Levied for Debt Service
- Sales Taxes
- Franchise Taxes
- Other Taxes
- Penalty and Interest
- Grants and Contributions Not Restricted
- Miscellaneous Revenue
- Investment Earnings
- Special Item - resource
- Special Item (Use)
- Transfers In (Out)

Total General Revenues, Special Items, and Transfers

Change in Net Position

- Net Position - Beginning
- Prior Period Adjustment
- Net Position--Ending

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

Net (Expense) Revenue and Changes in Net Position		
Primary Government		
Governmental Activities	Business-type Activities	Total
\$ (1,007,427)	\$ -	\$ (1,007,427)
(137,784)	-	(137,784)
(3,765,661)	-	(3,765,661)
47,368	-	47,368
(146,870)	-	(146,870)
(312,808)	-	(312,808)
(214,454)	-	(214,454)
(308,551)	-	(308,551)
(722,331)	-	(722,331)
(584,724)	-	(584,724)
(29,849)	-	(29,849)
<u>(7,183,091)</u>	<u>-</u>	<u>(7,183,091)</u>
-	1,252,091	1,252,091
-	1,252,091	1,252,091
<u>(7,183,091)</u>	<u>1,252,091</u>	<u>(5,931,000)</u>
1,986,427	-	1,986,427
790,420	-	790,420
2,721,018	-	2,721,018
643,536	-	643,536
102,548	-	102,548
73,728	-	73,728
1,082,927	-	1,082,927
637,750	134,024	771,774
6,343	-	6,343
(20,622,529)	20,622,529	-
21,345,000	(21,345,000)	-
1,551,044	(1,551,044)	-
<u>10,318,212</u>	<u>(2,139,491)</u>	<u>8,178,721</u>
3,135,121	(887,400)	2,247,721
6,914,793	13,475,731	20,390,524
(1,236,369)	-	(1,236,369)
<u>\$ 8,813,545</u>	<u>\$ 12,588,331</u>	<u>\$ 21,401,876</u>

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CITY OF RIO GRANDE CITY
BALANCE SHEET
GOVERNMENTAL FUNDS
SEPTEMBER 30, 2013

	General Fund	Major Sp. Rev Economic Dev Fund	Major Cap Prj Water Improv. Fund
ASSETS			
Cash and Cash Equivalents	\$ 358,381	\$ 136,244	\$ 2,742
Investments - Current	364,600	1,481,110	-
Taxes Receivable	877,242	-	-
Allowance for Uncollectible Taxes (credit)	(732,003)	-	-
Receivables (Net)	155,990	-	-
Intergovernmental Receivables	218,174	71,994	619,398
Due from Other Funds	238,287	170,678	-
Prepaid Items	29,286	-	-
Other Assets	150	-	-
Total Assets	<u>\$ 1,510,107</u>	<u>\$ 1,860,026</u>	<u>\$ 622,140</u>
LIABILITIES			
Accounts Payable	\$ 127,875	\$ 68,479	\$ 199
Wages and Salaries Payable	109,686	4,587	-
Retainage Payable	-	-	619,398
Intergovernmental Payable	20,418	-	-
Due to Other Funds	391,468	76,592	100
Accrued Interest Payable	-	-	-
Unavailable Revenues	127,216	-	-
Other Current Liabilities	2,795	(626)	-
Total Liabilities	<u>779,458</u>	<u>149,032</u>	<u>619,697</u>
DEFERRED INFLOWS OF RESOURCES			
Unavailable Revenue - Property Taxes	115,467	-	-
Total Deferred Inflows of Resources	<u>115,467</u>	<u>-</u>	<u>-</u>
FUND BALANCES			
Other Non-Spendable Fund Balance	29,284	-	-
Federal or State Funds Grant Restriction Assigned	-	-	2,443
	-	1,710,994	-
Unassigned Fund Balance	585,898	-	-
Total Fund Balances	<u>615,182</u>	<u>1,710,994</u>	<u>2,443</u>
Total Liabilities, Deferred Inflows & Fund Balances	<u>\$ 1,510,107</u>	<u>\$ 1,860,026</u>	<u>\$ 622,140</u>

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

Debt Service Fund	Capital Projects	Other Funds	Total Governmental Funds
\$ 235,010	\$ 30,406	\$ 451,395	\$ 1,214,178
-	704,050	48,991	2,598,751
194,327	-	-	1,071,569
(137,418)	-	-	(869,421)
-	-	7,769	163,759
-	-	278,611	1,188,177
17,388	40,000	71,234	537,587
-	-	-	29,286
-	-	-	150
<u>\$ 309,307</u>	<u>\$ 774,456</u>	<u>\$ 858,000</u>	<u>\$ 5,934,036</u>
\$ -	\$ 34,554	\$ 84,245	\$ 315,352
-	-	-	114,273
-	-	-	619,398
-	-	-	20,418
213,460	50	296,093	977,763
70,035	-	-	70,035
-	-	20,104	147,320
-	-	1	2,170
<u>283,495</u>	<u>34,604</u>	<u>400,443</u>	<u>2,266,729</u>
54,937	-	-	170,404
<u>54,937</u>	<u>-</u>	<u>-</u>	<u>170,404</u>
-	-	-	29,284
-	-	265,212	267,655
-	-	205,828	1,916,822
(29,125)	739,852	(13,483)	1,283,142
<u>(29,125)</u>	<u>739,852</u>	<u>457,557</u>	<u>3,496,903</u>
<u>\$ 309,307</u>	<u>\$ 774,456</u>	<u>\$ 858,000</u>	<u>\$ 5,934,036</u>

CITY OF RIO GRANDE CITY
 RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE
 STATEMENT OF NET POSITION
 SEPTEMBER 30, 2013

Total Fund Balances - Governmental Funds	\$	3,496,903
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 \$37,736,643 and the accumulated depreciation was \$7,618,658. In addition, long-term liabilities, including bonds payable, unamortized bond issuance costs, 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 position.		909,256
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 2013 capital outlays and debt principal payments is to increase (decrease) net position.		4,554,633
The 2013 depreciation expense increases accumulated depreciation. The net effect of the current year's depreciation is to decrease net position.		(359,301)
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 position.		170,404
Transfer of general fixed assets from governmental fund type to proprietary fund type property plant and equipment.		(21,303,350)
Transfer of long term debt from government fund type to proprietary fund type		21,345,000
Net Position of Governmental Activities	\$	8,813,545

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, 2013

	General Fund	Major Sp. Rev Economic Dev Fund	Major Cap Prj Water Improv. Fund
REVENUES:			
Taxes:			
Property Taxes	\$ 2,206,543	\$ -	\$ -
General Sales and Use Taxes	1,814,012	907,006	-
Franchise Tax	628,614	-	-
Other Taxes	-	-	-
Penalty and Interest on Taxes	59,286	-	-
Licenses and Permits	84,526	-	-
Intergovernmental Revenue and Grants	2,587	-	-
Charges for Services	104,744	-	-
Fines	140,724	-	-
Forfeits	-	-	-
Investment Earnings	1,162	2,247	10
Rents and Royalties	35,187	-	-
Other Revenue	82,036	13,471	-
Total Revenues	<u>5,159,421</u>	<u>922,724</u>	<u>10</u>
EXPENDITURES:			
Current:			
General Government	953,647	-	-
Judicial	131,055	-	-
Public Safety	2,937,081	-	-
Public Works	658,895	-	8,652
Highways and Streets	146,870	-	-
Culture and Recreation	297,531	-	-
Libraries	201,698	-	-
Conservation and Development	293,482	-	-
Economic Development and Assistance	-	687,054	-
Debt Service:			
Bond Principal	122,347	-	-
Bond Interest	20,915	-	-
Fiscal Agent's Fees	-	-	-
Capital Outlay:			
Capital Outlay	82,837	1,898	-
Total Expenditures	<u>5,846,358</u>	<u>688,952</u>	<u>8,652</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>(686,937)</u>	<u>233,772</u>	<u>(8,642)</u>
OTHER FINANCING SOURCES (USES):			
Sale of Real and Personal Property	1,983	-	-
Transfers In	578,546	35,000	91,636
Transfers Out (Use)	(5,402)	(231,720)	-
Total Other Financing Sources (Uses)	<u>575,127</u>	<u>(196,720)</u>	<u>91,636</u>
Net Change in Fund Balances	(111,810)	37,052	82,994
Fund Balance - October 1 (Beginning)	<u>726,992</u>	<u>1,673,942</u>	<u>(80,551)</u>
Fund Balance - September 30 (Ending)	<u>\$ 615,182</u>	<u>\$ 1,710,994</u>	<u>\$ 2,443</u>

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

Debt Service Fund	Capital Projects	Other Funds	Total Governmental Funds
\$ 428,189	\$ -	\$ -	\$ 2,634,732
-	-	-	2,721,018
-	-	14,922	643,536
-	-	102,548	102,548
14,442	-	-	73,728
-	-	-	84,526
-	40,000	1,042,146	1,084,733
-	-	-	104,744
-	-	-	140,724
-	-	173,272	173,272
334	2,113	477	6,343
-	-	-	35,187
-	-	-	95,507
<u>442,965</u>	<u>42,113</u>	<u>1,333,365</u>	<u>7,900,598</u>
-	-	21,527	975,174
-	-	-	131,055
-	-	639,784	3,576,865
-	-	20,469	688,016
-	-	-	146,870
-	-	-	297,531
-	-	-	201,698
-	-	-	293,482
-	-	-	687,054
970,000	-	-	1,092,347
563,809	-	-	584,724
29,849	-	-	29,849
-	1,752,097	836,925	2,673,757
<u>1,563,658</u>	<u>1,752,097</u>	<u>1,518,705</u>	<u>11,378,422</u>
<u>(1,120,693)</u>	<u>(1,709,984)</u>	<u>(185,340)</u>	<u>(3,477,824)</u>
-	-	-	1,983
1,139,592	-	72,464	1,917,238
-	(47,245)	(81,826)	(366,193)
<u>1,139,592</u>	<u>(47,245)</u>	<u>(9,362)</u>	<u>1,553,028</u>
18,899	(1,757,229)	(194,702)	(1,924,796)
<u>(48,024)</u>	<u>2,497,081</u>	<u>652,259</u>	<u>5,421,699</u>
<u>\$ (29,125)</u>	<u>\$ 739,852</u>	<u>\$ 457,557</u>	<u>\$ 3,496,903</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, 2013

Total Net Change in Fund Balances - Governmental Funds	\$	(1,924,796)
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 2013 capital outlays and debt principal payments is to increase (decrease) the change in net position.		4,554,632
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 the change in net position.		(359,301)
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) the change in net position.		142,115
Transfer of general fixed assets from governmental fund type to proprietary fund type property, plant, and equipment		(21,303,350)
Transfer of long term debt from government fund type to proprietary fund type		21,345,000
Prior period adjustment related to general fixed assets transferred in current year to proprietary fund type property, plant, and equipment assets		680,821
Change in Net Position of Governmental Activities	\$	3,135,121

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

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CITY OF RIO GRANDE CITY
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
SEPTEMBER 30, 2013

	Business Type Activities
	Major Enterprise Fund
ASSETS	
Current Assets:	
Cash and Cash Equivalents	\$ 1,665,769
Investments - Current	869,138
Taxes Receivable	8,255
Accounts Receivable-Net of Uncollectible Allowance	704,947
Due from Other Funds	440,176
Inventories	15,293
Total Current Assets	<u>3,703,578</u>
Noncurrent Assets:	
Capital Assets:	
Land Purchase and Improvements	339,036
Infrastructure	34,037,080
Buildings	1,583,800
Machinery and Equipment	525,042
Accumulated Depreciation - Capital Assets	(4,708,134)
Other Asset	824
Total Noncurrent Assets	<u>31,777,648</u>
Total Assets	<u>35,481,226</u>
LIABILITIES	
Current Liabilities:	
Accounts Payable	272,661
Wages and Salaries Payable	32,298
Accrued Interest Payable	7,917
Deferred Revenue	8,255
Bonds Payable - Current:	
Revenue Bonds Payable	759,000
Capital Leases Payable - Current	63,251
Other Current Liabilities	322,146
Total Current Liabilities	<u>1,465,528</u>
NonCurrent Liabilities:	
Bonds Payable - Non-Current:	
Revenue Bonds Payable	21,261,000
Capital Leases Payable - Noncurrent	166,367
Total Noncurrent Liabilities	<u>21,427,367</u>
Total Liabilities	<u>22,892,895</u>
NET POSITION	
Net Investment in Capital Assets	9,523,206
Unrestricted Net Position	3,065,125
Total Net Position	<u>\$ 12,588,331</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 POSITION
PROPRIETARY FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2013

EXHIBIT D-2

	Business Type Activities
	Major Enterprise Fund
OPERATING REVENUES:	
Charges for Services	\$ 21,075
Charges for Water Services	3,322,302
Charges for Sewage Service	1,508,246
Charges for Sanitation Service	42,574
Investment Earnings	2,701
Other Revenue	131,323
Total Operating Revenues	5,028,221
OPERATING EXPENSES:	
Personnel Services - Salaries and Wages	791,667
Personnel Services - Employee Benefits	263,652
Purchased Professional & Technical Services	221,616
Purchased Property Services	286,292
Other Operating Expenses	217,671
Supplies	1,194,336
Depreciation	625,390
Interest Expense	41,482
Total Operating Expenses	3,642,106
Income Before Transfers, Gains or Losses	1,386,115
Transfers Out	(1,551,044)
Special Item - resource	20,622,529
Special Item (Use)	(21,345,000)
Change in Net Position	(887,400)
Total Net Position -October 1 (Beginning)	13,475,731
 Total Net Position September 30 (Ending)	 \$ 12,588,331

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, 2013

	Business Type Activities
	Major Enterprise Fund
<u>Cash Flows from Operating Activities:</u>	
Cash Received from User Charges	\$ 5,028,221
Cash Payments to Employees for Services	(1,055,319)
Cash Payments for Services	(507,908)
Cash Payments for Suppliers	(1,339,296)
Cash Payments for Other Operating Expenses	(217,671)
Net Cash Provided by Operating Activities	1,908,027
<u>Cash Flows from Non-Capital Financing Activities:</u>	
Operating Transfer Out	(1,551,044)
<u>Cash Flows from Capital & Related Financing Activities:</u>	
Acquisition of Capital Assets	(21,476,195)
Bonds and capital leases	21,477,195
Contributions from other funds	(721,383)
Net Cash Provided by (Used for) Capital & Related Financing Activities	(720,383)
<u>Cash Flows from Investing Activities:</u>	
Proceeds from Sale & Maturities of Securities	1,916,562
Net Increase in Cash and Cash Equivalents	1,553,162
Cash and Cash Equivalents at Beginning of the Year:	112,607
Cash and Cash Equivalents at the End of the Year:	\$ 1,665,769

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, 2013

	Business Type Activities
	Major Enterprise Fund
<hr/>	
<u>Reconciliation of Operating Income to Net Cash</u>	
<u>Provided By Operating Activities:</u>	\$ 1,386,115
Operating Income:	
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:	
Depreciation	625,390
Effect of Increases and Decreases in Current Assets and Liabilities:	
Decrease (increase) in Receivables	159,552
Decrease (increase) in Inventories	(196)
Decrease (increase) in Interfund Receivable	(173,030)
Increase (decrease) in Accounts Payable	(38,942)
Increase (decrease) in Interfund Payable	(38,420)
Increase (decrease) in Accrued Interest Payable	(303)
Increase (decrease) in other current liabilities	(12,139)
Net Cash Provided by Operating Activities	<u>\$ 1,908,027</u>

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

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CITY OF RIO GRANDE CITY
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED SEPTEMBER 30, 2013

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 setting 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.

On October 1, 2012, the District adopted GASB Statement No. 63 *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position* and early implemented GASB Statement No. 65 *Items Previously Reported As Assets and Liabilities* as encouraged by GASB. As a result of the adoption of these new accounting standards, a restatement of beginning net position at the government-wide level financial statements was required.

GASB Statement No. 63 provides financial guidance for reporting deferred outflows, deferred inflows of resources, and net position in a statement of financial position and related disclosures. Deferred outflows of resources are defined as a consumption of net assets by a government that is applicable to a future reporting period and deferred inflows of resources are defined as an acquisition of net assets by a government that is applicable to a future reporting period. Net position is defined as the residual of all other elements presented in a statement of financial position, being measured as the difference between (a) assets and deferred resources and (b) liabilities and deferred inflows of resources.

GASB Statement No. 65 establishes accounting and financial reporting that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities. This statement also provides other financial reporting guidance related to the impact of the financial statement elements deferred outflows of resources and deferred inflows of resources, such as changes in the determination of the major fund calculations and limiting the use of the term "deferred" in financial statement presentations.

D. FUND ACCOUNTING

The City reports the following major governmental funds:

1. **The General Fund** – The general fund is the City's primary operating fund. It accounts for all financial resources except those required to be accounted for in another fund.
2. **The Economic Development Corporation Fund** – This fund is a special revenue fund to account for the ½ cent sales and use tax for economic and industrial development. Since the sales and use tax is approved specifically for such expenditures, the EDC fund is considered a Special Revenue Fund .
3. **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.
4. **Capital 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.
5. **Debt Service Funds** – The City accounts for resources accumulated and payments made for principal and interest on long-term general obligation debt of governmental funds in a debt service fund.

The City 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. **Permanent Funds** – The City accounts for donations for which the donor has stipulated that the principal may not be expended and where the income may only be used for purposes that support the City's programs. The City has no Permanent Funds.

Proprietary Funds:

4. **Enterprise Funds** – The City's activities for which outside users are charged a fee roughly equal to the cost of providing the goods or services of those activities are accounted for in an enterprise fund. The City's only Enterprise Fund(s) is the Public Utilities Department.
5. **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:

6. **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.
7. **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.
8. Encumbrances-The City of Rio Grande City, Texas, employs encumbrance accounting; under which purchase order, contracts, and other commitments for the expenditure of monies are recorded in order to reserve that portion of the applicable appropriation.
9. The City adopted GASB 54 as part of its 2010-11 fiscal year reporting. Implementation of GASB 54 is required for all cities for their fiscal year ending 2012. The intention of GASB 54 is to provide a more structured classification of fund balance and to improve the usefulness of fund balance reporting to the users of the City's financial statements. The reporting standard establishes a hierarchy for fund balance classifications and the constraints imposed on the uses of those resources. GASB 54 provides for two major types of fund balances, which are nonspendable and spendable.

Nonspendable fund balances are balances that cannot be spent because they are not expected to be converted to cash or they are legally or contractually required to remain intact. Examples of these classifications are prepaid items and inventories.

In addition to the nonspendable fund balance, GASB 54 has provided a hierarchy of spendable fund balances, based on hierarchy of spending constraints.

- Restricted: fund balances that are constrained by external parties, constitutional provisions, or enabling legislation.
- Committed: fund balances that contain self-imposed constraints of the government from its highest level of decision making authority. The responsibility to commit funds rests with the City Commissioners. Committed amounts cannot be used for any other purpose unless the governing board removes those constraints by taking the same type of formal action.
- Assigned: fund balances that contain self-imposed constraints of the government to be used for a particular purpose.
- Unassigned: fund balance of the general fund that is not constrained for any particular purpose.

When the City incurs an expense for which it may use either restricted or unrestricted assets, it used 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	\$ 1,075,865	\$ -	\$ 1,075,865	
Buildings	3,427,861	(558,972)	2,868,889	
Furniture & Equipment	3,708,225	(1,775,631)	1,932,594	
Infrastructure	5,284,055	(5,284,055)	-	
Construction in Progress	<u>24,240,637</u>	<u>-</u>	<u>24,240,636</u>	
Change in Net Assets				<u>\$ 30,117,985</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			\$ 245,446	
Notes Payable			273,885	
Bonds Payable			<u>28,689,398</u>	
Change in Net Assets				<u>\$ (29,208,729)</u>
Net Adjustment to Net Assets				<u>\$ 909,256</u>

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

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

	<u>Amount</u>	<u>Adjustments to</u> <u>Changes in Net</u> <u>Assets</u>	<u>Adjustments to</u> <u>Net Assets</u>
<u>Current Year Capital Outlay</u>			
Various Categories	\$ 3,444,467	\$ 3,444,467	\$ 3,444,467
Total Capital Outlay	<u>\$ 3,444,467</u>	<u>\$ 3,444,467</u>	<u>\$ 3,444,467</u>
<u>Debt Principal Payments</u>			
Bonds Principal	\$ 970,000	\$ 970,000	\$ 970,000

Capital Lease Principal	100,135	100,135	100,135
Loan Principal	<u>40,030</u>	<u>40,030</u>	<u>40,030</u>
Total Principal	<u>\$ 1,110,165</u>	<u>\$ 1,110,165</u>	<u>\$ 1,110,165</u>
Payments			
Total Adjustment to Net Assets		<u>\$4,554,633</u>	<u>\$4,554,633</u>

III. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

A. BUDGETARY DATA

The City Council adopts an "appropriated budget" for the General Fund and the Economic Development Corporation(EDC) Special Revenue Fund. In accordance with Government Accounting Standards Board (GASB) Statement#34, a City is required to present the adopted and final amended budgeted revenues and expenditures for the General Fund. The City compares the final amended budget to actual revenues and expenditures. Budget information appears in Exhibits E-1 and E-2.

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. No budget amendments occurred in 2012.
4. Budgeted amounts are as amended by the Council. All budget appropriations lapse at year end.

B. EXCESS OF EXPENDITURES OVER APPROPRIATIONS

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

<u>Functional Category</u>	<u>Amount</u>
General Government	\$ 59,848
Public Safety	\$ 248,952
Public Works	\$ 19,018
Culture and Recreation	\$ 6,477
Debt Service	\$ 2,697
Capital Outlay	\$ 81,037

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, 2013, the carrying amount of the City's deposits (cash and interest-bearing savings accounts included in temporary investments) was \$ 2,879,947 and the bank balance was \$ 2,600,786. The City's cash deposits at September 30, 2013 and during the year ended September 30, 2013 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, 2013, the City had the following investments;

<u>Investment Type</u>	<u>Investment Maturities (in years)</u>				
	<u>Fair Value</u>	<u>Less than 1</u>	<u>1-5</u>	<u>6-10</u>	<u>More Than 10</u>
<u>General Fund:</u>					
Tex-Pool	\$ 65	\$ 65			
Logic Money Market	<u>364,535</u>	<u>364,535</u>			
Total-General Fund	<u>\$ 364,600</u>	<u>\$ 364,600</u>			
<u>Special Revenues Funds:</u>					
Logic Money Market	<u>\$ 1,530,101</u>	<u>\$ 1,530,101</u>			
Total-Special Revenue Fund	<u>\$ 1,530,101</u>	<u>\$ 1,530,101</u>			
<u>Capital Projects Funds:</u>					
LogicMoney Market	<u>\$ 704,050</u>	<u>\$ 704,050</u>			
Total-Capital Projects Funds	<u>\$ 704,050</u>	<u>\$ 704,050</u>			
Subtotal-Governmental Type	<u>\$ 2,598,751</u>	<u>\$ 2,598,751</u>			
<u>Enterprise Fund:</u>					
Texpool Money Market	\$ 759	\$ 759			
Bank of New York Money Market	348,593	348,593			
Logic Money Market	<u>519,786</u>	<u>519,786</u>			
Total-Enterprise Fund	<u>\$ 869,138</u>	<u>\$ 869,138</u>			
Subtotal-Proprietary Type	<u>\$ 869,138</u>	<u>\$ 869,138</u>			
Total-All Fund Types	<u>\$ 3,467,889</u>	<u>\$ 3,467,889</u>			

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, 2013, 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, 2013 consisted of the following:

Due From Fund	Due To Fund	Amount	Purpose
General Fund	Special Revenue Funds	\$ 184,336	Short-term loans
General Fund	Debt Service Fund	17,388	Short-term loans
General Fund	Capital Projects Fund	40,000	Short-term loans
General Fund	Public Utilities Fund	149,744	Short-term loans
Special Revenue Funds	General Fund	238,028	Short-term loans
Special Revenue Funds	Special Revenue Funds	57,576	Short-term loans
Special Revenue Funds	Public Utility Fund	77,181	
Debt Service Fund	General Fund	209	Short-term loans
Debt Service Fund	Public Utility Fund	213,251	Short-term loans
Capital Projects Fund	General Fund	50	Short-term loans
	Total	<u>\$977,763</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, 2013 consisted of the following:

Transfers From	Transfers To	Amount	Reason
General Fund	Public Utility Fund	\$ 300,000	Supplemental other funds sources
General Fund	Special Revenues Funds	278,547	Supplemental other funds sources
Special Revenue Funds	General Fund	5,402	Supplemental other funds sources
Special Revenue Funds	Capital Projects Fund	47,245	Supplemental other funds sources
Special Revenue Funds	Special Revenues Funds	35,000	Supplemental other funds sources
Special Revenue Funds	Public Utility Fund	19,817	Supplemental other funds sources
Debt Service Fund	Public Utility Fund	1,139,592	Supplemental other funds sources
Capital Projects Fund	Special Revenues Funds	91,635	Supplemental other funds sources
	Total	<u>\$1,917,238</u>	

In addition, in the government-wide financial statements, the amount \$ 1,551,044, is reflected as a non-operating transfer in/out of construction in progress previously carried in the general fixed assets account group which was completed in 2013 and transferred to the proprietary fund type .

E. CAPITAL ASSET ACTIVITY

Capital asset activity for the City for the year ended September 30, 2013, was as follows:

	Primary Government			
	<u>Beginning Balance</u>	<u>Additions</u>	<u>Retirements & Adjustments</u>	<u>Ending Balance</u>
Governmental Activities:				
Land	\$ 1,075,865	\$ -	\$ -	\$ 1,075,865
Buildings	3,427,861	-	-	3,427,861
Furniture and Equipment	3,708,225	325,470	(152,220)	3,881,475
Infrastructure	5,284,055	528,601	-	5,812,656
Construction in Progress	<u>24,240,637</u>	<u>2,590,397</u>	<u>(21,151,130)</u>	<u>5,679,904</u>
Totals at Historic Cost	<u>\$ 37,736,643</u>	<u>\$ 3,444,467</u>	<u>\$(21,303,350)</u>	<u>\$ 19,877,761</u>
Less Accumulated Depreciation:				
Total Accumulated Depreciation	<u>(7,618,658)</u>	<u>(359,301)</u>	<u>-</u>	<u>(7,977,958)</u>
Governmental Activities Capital Assets, Net	<u>\$ 30,117,985</u>	<u>\$ 3,085,166</u>	<u>\$(21,303,350)</u>	<u>\$ 11,899,803</u>
Business-type Activities:				
Land	\$ 339,035	\$ -	\$ -	\$ 339,035
Buildings and Improvements	599,223	984,577	-	1,583,800
Furniture and Equipment	376,488	225,080	(76,527)	525,041
Infrastructure	<u>13,990,541</u>	<u>20,266,539</u>	<u>(220,000)</u>	<u>34,037,080</u>
Totals at Historic Cost	<u>\$ 15,305,287</u>	<u>\$ 21,476,195</u>	<u>\$(296,527)</u>	<u>\$ 36,484,955</u>
Less Accumulated Depreciation				
Total Accumulated Depreciation	<u>(4,379,270)</u>	<u>(625,390)</u>	<u>(296,526)</u>	<u>(4,708,134)</u>
Business-type Activities Capital Assets, Net	<u>\$ 10,926,017</u>	<u>\$20,850,805</u>	<u>\$ 1</u>	<u>\$ 31,776,821</u>

Depreciation expense was charged to governmental functions as follows:

General Government	\$ 50,071
Judicial	6,729
Public Safety	188,796
Public Works	35,326
Economic Development	35,277
Conservation & Development	15,069
Culture & Recreation	15,277
Libraries	<u>12,756</u>
Total Depreciation Expense	<u>\$ 359,301</u>

F. BONDS AND OTHER LONG-TERM PAYABLES

At September 30, 2013, long-term debt consisted of the following:

General Long Term Debt:

Capital Project Bonds Payable:

\$6,500,000 Combination Tax & Limited Pledge Revenue Certificates of Obligation due in annual installments ranging from \$190,000 to \$510,000 from 03-15-11 through 2030; interest estimated at 5.34%	5,755,000
\$8,700,000 2007C Combination Tax and Revenue Certificates of Obligation due in annual installments ranging from \$145,000 to \$545,000 from 02-15-11 through 2040; interest 2.5% to 5.25% (accrual)	<u>619,398</u>
Subtotal- Bonds Payable	<u>\$ 6,374,398</u>

Capital lease obligations payable at September 30, 2013 are as follows:

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	11,572
Capital lease payable to Kansas State Bank dated 07-10-12, payable in 7 annual installments of \$29,284 including interest at 3.098%, secured by (1) TYMCO Street Sweeper	<u>133,739</u>
Subtotal-Capital Lease Payable	<u>\$ 145,311</u>

Notes Payable:

Note payable to Lone Star National Bank dated 2/04/08, payable in 35 monthly payments of \$2,190 including interest of 6.00%, with remaining balance due at maturity, secured by real estate	46,439
Note payable to Lone Star National Bank dated 2/04/08, payable in 35 monthly payments of \$2,276 including interest of 6.00%, with remaining balance due at maturity, secured by real estate	<u>187,516</u>
Subtotal-Notes Payable	<u>\$ 233,955</u>

Total General Long Term Debt \$ 6,753,664

Enterprise Long Term Debt:

Revenue Bonds Payable:

\$2,885,000 2007A Combination Tax and Revenue Certificates of Obligation
due in annual installments ranging from \$140,000
to \$145,000 from 02-15-11 through 2030; interest at 0.0% \$ 2,465,000

\$12,200,000 2007B Combination Tax and Revenue Certificates of Obligation
due in annual installments ranging from \$100,000
to \$430,000 from 02-15-11 through 2040; interest at 0.0% 11,470,000

\$8,700,000 2007C Combination Tax and Revenue Certificates of Obligation
due in annual installments ranging from \$145,000
to \$545,000 from 02-15-11 through 2040; interest 2.5% to 5.25% 7,410,000

\$173,000 1996 Waterworks and Sewer System Revenue Serial Bonds
due in annual installments ranging from \$5,000 to
\$15,000 from 07-10-02 through 2016; interest at 5.69% to 6.74% 42,000

\$811,000 1996A Waterworks and Sewer System Revenue Serial Bonds
due in annual installments ranging from \$8,000 to
\$46,000 from 07-10-02 through 2035; interest at 5.125% 633,000

Subtotal- Revenue Bonds Payable \$ 22,020,000

Capital Leases:

Capital lease payable to Diversified Lenders dated 10-01-12,
Payable in 3 annual installments of \$36,758 including interest
At 4.711% , secured by hardware/software \$ 33,889

Capital lease payable to Schertz Bank dated 04-03-13,
payable in 84 monthly installments of \$2,738.71 including interest
at 2.69%, secured by a sewer cleaning truck 195,729

Subtotal- Capital Leases Payable \$ 229,618

Total Enterprise Long Term Debt \$ 22,249,618

Total Long-Term Debt \$ 29,003,282

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, 2013.

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						
2014	70,602	5,667	39,503	14,089	1,019,000	590,423
2015	28,659	3,364	41,911	11,681	1,036,000	478,115
2016	29,462	2,561	18,411	8,901	1,048,000	563,646
2017	30,290	1,734	19,547	7,765	1,049,000	547,028
2018	31,143	1,734	19,547	7,765	1,060,000	536,522
2019-2023	184,773	8,810	95,036	19,185	5,605,000	2,360,508
2024-2028	-	-	-	-	6,258,000	1,712,096
2029-2033	-	-	-	-	5,200,000	954,343
2034-2038	-	-	-	-	4,430,000	366,785
2039-20438	-	-	-	-	<u>1,689,128</u>	<u>5,906</u>
Total	<u>\$ 374,929</u>	<u>\$ 23,870</u>	<u>\$ 233,955</u>	<u>\$ 77,975</u>	<u>\$28,394,398</u>	<u>\$8,215,371</u>

H. CHANGES IN LONG-TERM LIABILITIES

Long-term activity for the year ended September 30, 2013, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental Activities:					
Bonds and Other Payable:					
Capital Leases	\$ 245,446	\$ -	\$ (100,135)	\$ 145,311	\$ 36,713
Bonds Payable	28,689,398	-	(22,315,000)	6,374,398	260,000
Notes Payable	273,985	-	(40,030)	233,955	39,503
Total Bonds and Other Payables	<u>\$ 29,208,829</u>	<u>\$ -</u>	<u>\$ (22,455,165)</u>	<u>\$ 6,753,664</u>	<u>\$ 336,216</u>
Total Governmental Activities Long-term Liabilities	<u>\$ 29,208,829</u>	<u>\$ -</u>	<u>\$ (22,455,165)</u>	<u>\$ 6,753,664</u>	
Business-type Activities:					
Bonds and Other Payable:					
Capital Leases	\$ 69,423	\$ 209,883	\$ (49,688)	\$ 229,618	\$ 63,251
Revenue Bonds Payable	703,000	21,345,000	(28,000)	22,020,000	759,000
Total Bonds and Other Payable	<u>\$ 772,423</u>	<u>\$ 21,554,883</u>	<u>\$ (77,688)</u>	<u>\$ 22,249,618</u>	<u>\$ 822,251</u>

During the year, there was \$21,345,000 of long term debt transferred from the government fund type to the proprietary fund type associated with the transfer of the related fixed assets that were also transferred; water & waste water facilities.

I. DEFERRED REVENUE (UNAVAILABLE REVENUE)

Deferred revenue at year-end represents amounts not available in the current reporting period. Items include uncollected property taxes, and other funds set aside for future years.

J. 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.

K. 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.

L. CONCENTRATIONS OF CREDIT RISK

Proprietary fund accounts receivable are concentrated within the geographic service area of the utility system, which is within the City. Those receivables are not concentrated within any individually significant customers. The City requires a deposit from each utility customer prior to establishing service. The net amount of proprietary fund accounts receivable at year end after deducting the allowance for doubtful accounts and after including estimated amounts for service provided but not yet billed at year end was \$704,947. Utility customer deposits held at year end totaled \$ 321,298.

M. HEALTH CARE COVERAGE

During the year ended September 30, 2013, employees of the City were covered by a health insurance plan (the "Plan"). The City paid premiums of \$280.86 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, 2014, 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, 2013 and have been filed with the Texas Board of Insurance in Austin, Texas, and are public records.

N. DEFINED BENEFIT PENSION PLAN

Plan Description

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

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

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

	Plan Year 2011	Plan Year 2012
Employee Deposit rate	6%	6%
Matching ratio (city to employee)	1.5 to 1	1.5 to 1
Years required for vesting	5	5
Service retirement eligibility (expressed as age / years of service)	60/5, 0/20	60/5, 0/20
Updated Service Credit	100% Repeating Transfers	100% Repeating Transfers
Annuity Increase (to retirees)	70% of CPI Repeating	70% of CPI Repeating

Contributions

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

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

The annual pension cost and net pension obligation/(asset) are as follows:

1. Annual Required Contribution (ARC)	\$ 369,157
2. Interest on Net Pension Obligation	-
3. Adjustment to the ARC	-
4. Annual Pension Cost (APC)	369,157
5. Contributions Made	(325,993)
6. Increase (decrease) in net pension obligation	43,164
7. Net Pension Obligation/(Asset), beginning of year	-
8. Net Pension Obligation/(Asset), end of year	\$ 43,164

Three Year Trend Information

Fiscal Year Funding September 30,	Actual Contribution Made	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
2010	209,013	\$ 209,013	100%	\$ -
2011	333,598	33,598	100%	-
2012	322,069	322,069	100%	-

The required contribution rates for fiscal year 2012 were determined as part of the December 31, 2009 and 2010 actuarial valuations. Additional information as of the latest actuarial valuation, December 31, 2012, also follows:

Valuation Date	12/31/2010	12/31/11	12/31/12
Actuarial Cost Method	Projected Unit Credit	Projected Unit Credit	Projected Unit Credit
Amortization Method	Level Percent of Payroll	Level Percent of Payroll	Level Percent of Payroll
GASB 25 Equivalent Single Amortization Period	27.2 years; Closed Period	26.3 years; Closed Period	25.2 years; Closed Period
Amortization Period for new Gains/Losses	30 years	30 years	30 years
Asset Valuation Method	10-year smoothed market	10-year smoothed market	10-year smoothed market
Actuarial Assumptions: Investment Rate of Return	7.0%	7.0%	7.0%
Projected Salary Increases	Varies by age and service	Varies by age and service	Varies by age and service
Includes inflation at	3.00%	3.00%	3.00%
Cost of Living Adjustments	2.1%	2.1%	2.1%

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Funded Ratio	Unfunded AAL (UAAL)	Covered Payroll	UAAL as a Percentage of Covered Payroll
(1)	(2)	(3)	(4)	(5)	(6)	

			(1)/(2)	(2)-(1)		(4)/(5)
12/31/12	\$4,146,433	\$5,754,747	72.1%	\$ 1,608,314	\$4,147,522	38.8%

Actual valuations involve estimates of the value of reported amounts and assumptions about the probability of events far into the future. Actuarially determined amounts are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future.

Actuarial calculations are based on the benefits provided under the terms of the substantive plan in effect at the time of each valuation, and reflect a long-term perspective. Consistent with that perspective, actuarial methods and assumptions used include techniques that are designed to reduce short – term volatility in actuarial accrued liabilities and the actuarial value of assets. The schedule of funding progress, presented as Required Supplementary Information following the notes to the financial statements, presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability of benefits.

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Funded Ratio	Unfunded AAL (UAAL)	Covered Payroll	UAAL as a Percentage of Covered Payroll
	(1)	(2)	(3)	(4)	(5)	(6)
			(1)/(2)	(2)-(1)		(4)/(5)
12/31/10	2,716,219	4,444,952	61.1%	1,728,733	3,922,101	44.1%
12/31/11	3,431,264	5,132,327	66.9	1,701,063	3,932,136	43.3
12/31/12	4,416,433	5,754,747	72.1	1,608,314	4,147,522	38.8

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

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

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

Your city offers supplemental death to:

	Plan Year 2012	Plan Year 2013
Active employees (yes or no)	Yes	Yes
Retirees (yes or no)	Yes	Yes

The city contributes to the SDBF at a contractually required rate as determined by an annual actuarial valuation. The rate is equal to the cost of providing one-year term life insurance. The funding policy for the SDBF program is to assure that adequate resources are available to meet all death benefit payments for the upcoming year; the intent is not to pre-fund retiree term life insurance during employees’ entire careers.

The city’s contributions to the TMRS SDBF for the years ended 2012, 2011 and 2010 were \$2,015, \$2,045 and \$2,456, respectively, which equaled the required contributions each year.

P. CONSTRUCTION COMMITMENTS

	Contract Amount	Costs to Date	Remaining Commitment
New 6.0 MGD Water Treatment Plant			
CDM Constructors Inc (CCI) - CM Construction	\$ 16,870,262	\$ 16,026,749	\$ 843,513
CDM - Design Engineering (Executed 11/01/2007)	\$ 2,951,588	\$ 2,951,588	\$ -
Half Associates - Additional Time & Materials	\$ 80,000	\$ 50,304	\$ 29,696
Terracon - Materials Testing	\$ 170,000	\$ 138,458	\$ 31,542
TDA Street Improvement Project #711399			
JF Utility Trenching	\$ 495,171	\$ 459,212	\$ 35,959
Rio Delta Engineering	\$ 51,446	\$ 38,045	\$ 13,401
2010 Capital Projects			
<i>- RGC Municipal Park</i>			
Negrete & Kolar Architects	\$ 137,300	\$ 141,007	\$ (3,707)
Rio Irrigation & Landscaping	\$ 173,425	\$ 173,425	\$ -
Rio Delta Engineering	\$ 38,280	\$ 11,484	\$ 26,796
JF Utility Trenching - Concrete/Trails	\$ 250,642	\$ 256,323	\$ (5,681)
<i>- Street Paving</i>			
S & B Infrastructure	\$ 454,400	\$ 361,629	\$ 92,771
Terracon - San Benito St Extension	\$ 6,012	\$ 6,262	\$ (250)
Rio Delta Engineering - San Benito St Extension	\$ 19,713	\$ 24,042	\$ (4,329)
JF Utility Trenching - Section 2	\$ 2,911,244	\$ 2,409,823	\$ 501,421
JF Utility Trenching - Section 3	\$ 1,135,392	\$ 336,141	\$ 799,252
5 Star Clarke Construction LLC-San Benito St Ext	\$ 235,816	\$ 243,790	\$ (7,974)
Totals	\$ 25,980,691	\$ 23,628,281	\$ 2,352,410

Q. PRIOR PERIOD ADJUSTMENT

Government-Wide Financial Statements:

The City's net assets in the governmental fund type decreased by \$1,236,369 relating to fixed assets that had been transferred to the proprietary fund type previously.

R. SUBSEQUENT EVENTS

The City considered items and events through September 1, 2014.

CITY OF RIO GRANDE CITY
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL - GENERAL FUND
FOR THE YEAR ENDED SEPTEMBER 30, 2013

EXHIBIT E-1

	Budgeted Amounts		Actual Amounts (GAAP BASIS)	Variance With Final Budget Positive or (Negative)
	Original	Final		
REVENUES:				
Taxes:				
Property Taxes	\$ 2,102,634	\$ 2,102,634	\$ 2,206,543	\$ 103,909
General Sales and Use Taxes	1,741,158	1,741,158	1,814,012	72,854
Franchise Tax	528,500	528,500	628,614	100,114
Penalty and Interest on Taxes	58,000	58,000	59,286	1,286
Licenses and Permits	89,600	89,600	84,526	(5,074)
Intergovernmental Revenue and Grants	2,500	2,500	2,587	87
Charges for Services	148,500	148,500	104,744	(43,756)
Fines	181,286	181,286	140,724	(40,562)
Investment Earnings	5,500	5,500	1,162	(4,338)
Rents and Royalties	16,500	16,500	35,187	18,687
Other Revenue	7,250	7,250	82,036	74,786
Total Revenues	4,881,428	4,881,428	5,159,421	277,993
EXPENDITURES:				
Current:				
General Government	893,799	893,799	953,647	(59,848)
Judicial	142,295	142,295	131,055	11,240
Public Safety	2,608,884	2,688,129	2,937,081	(248,952)
Public Works	639,877	639,877	658,895	(19,018)
Highways and Streets	155,500	155,500	146,870	8,630
Culture and Recreation	291,054	291,054	297,531	(6,477)
Libraries	204,282	204,282	201,698	2,584
Conservation and Development	297,577	297,577	293,482	4,095
Debt Service:				
Bond Principal	119,650	119,650	122,347	(2,697)
Bond Interest	26,210	26,210	20,915	5,295
Capital Outlay:				
Capital Outlay	1,800	1,800	82,837	(81,037)
Total Expenditures	5,380,928	5,460,173	5,846,358	(386,185)
Excess (Deficiency) of Revenues Over (Under) Expenditures	(499,500)	(578,745)	(686,937)	(108,192)
OTHER FINANCING SOURCES (USES):				
Sale of Real and Personal Property	-	-	1,983	1,983
Transfers In	530,750	577,576	578,546	970
Transfers Out (Use)	-	-	(5,402)	(5,402)
Total Other Financing Sources (Uses)	530,750	577,576	575,127	(2,449)
Net Change in Fund Balances	31,250	(1,169)	(111,810)	(110,641)
Fund Balance - October 1 (Beginning)	726,992	726,992	726,992	-
Fund Balance - September 30 (Ending)	\$ 758,242	\$ 725,823	\$ 615,182	\$ (110,641)

CITY OF RIO GRANDE CITY
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL - 4B EDC
FOR THE YEAR ENDED SEPTEMBER 30, 2013

EXHIBIT E-2

	Budgeted Amounts		Actual	Variance With
	Original	Final	GAAP BASIS (See Note)	Final Budget Positive or (Negative)
REVENUES:				
Taxes:				
General Sales and Use Taxes	\$ 870,859	\$ 870,859	\$ 907,006	\$ 36,147
Investment Earnings	12,000	12,000	2,247	(9,753)
Other Revenue	23,500	23,500	13,471	(10,029)
Total Revenues	906,359	906,359	922,724	16,365
EXPENDITURES:				
Current:				
Conservation and Development:				
Economic Development and Assistance	1,362,845	1,362,845	687,054	675,791
Capital Outlay:				
Capital Outlay	5,000	5,000	1,898	3,102
Total Expenditures	1,367,845	1,367,845	688,952	678,893
Excess (Deficiency) of Revenues Over (Under) Expenditures	(461,486)	(461,486)	233,772	695,258
OTHER FINANCING SOURCES (USES):				
Transfers In	35,000	35,000	35,000	-
Transfers Out (Use)	(250,000)	(250,000)	(231,720)	18,280
Total Other Financing Sources (Uses)	(215,000)	(215,000)	(196,720)	18,280
Change in Fund Balance	(676,486)	(676,486)	37,052	713,538
Fund Balance - October 1 (Beginning)	1,673,942	1,673,942	1,673,942	-
Fund Balance - September 30 (Ending)	\$ 997,456	\$ 997,456	\$ 1,710,994	\$ 713,538

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

CITY OF RIO GRANDE CITY
 COMBINING BALANCE SHEET
 NONMAJOR GOVERNMENTAL FUNDS
 SEPTEMBER 30, 2013

	Hotel Occupancy Tax Fund	Forfeiture Fund	HIDTA Task Force Fund	Treasury Forfeiture Fund
ASSETS				
Cash and Cash Equivalents	\$ 131,489	\$ 19,717	\$ 45	\$ 2,824
Investments - Current	-	-	-	-
Receivables (Net)	7,769	-	-	-
Intergovernmental Receivables	-	-	59,321	-
Due from Other Funds	67,428	-	-	-
Total Assets	<u>\$ 206,686</u>	<u>\$ 19,717</u>	<u>\$ 59,366</u>	<u>\$ 2,824</u>
LIABILITIES				
Accounts Payable	\$ 858	\$ 18,279	\$ 3,713	\$ -
Due to Other Funds	-	14,920	54,452	433
Unavailable Revenues	-	-	-	-
Other Current Liabilities	-	-	-	-
Total Liabilities	<u>858</u>	<u>33,199</u>	<u>58,165</u>	<u>433</u>
FUND BALANCES				
Federal or State Funds Grant Restriction	-	-	1,201	2,391
Assigned	205,828	-	-	-
Unassigned Fund Balance	-	(13,482)	-	-
Total Fund Balances	<u>205,828</u>	<u>(13,482)</u>	<u>1,201</u>	<u>2,391</u>
Total Liabilities and Fund Balances	<u>\$ 206,686</u>	<u>\$ 19,717</u>	<u>\$ 59,366</u>	<u>\$ 2,824</u>

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

RGC Police Department Fund	CJD Taskforce Fund	Airport Fund	PEG Fee Revenue	Border Security Fund	Stonegarden Fund	TDRA #711399 Grant Fund	Waste Water Project
\$ 150	\$ -	\$ -	\$ 12,695	\$ 6,305	\$ -	\$ 7,280	\$ 250,196
-	-	-	-	-	-	-	48,991
-	-	-	-	-	-	-	-
-	15,733	-	-	78,675	67,306	-	-
-	-	-	3,806	-	-	-	-
<u>\$ 150</u>	<u>\$ 15,733</u>	<u>\$ -</u>	<u>\$ 16,501</u>	<u>\$ 84,980</u>	<u>\$ 67,306</u>	<u>\$ 7,280</u>	<u>\$ 299,187</u>
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 7,222	\$ 54,173
1	15,733	-	-	84,973	67,306	58	50
-	-	-	-	-	-	-	-
-	-	-	-	1	-	-	-
<u>1</u>	<u>15,733</u>	<u>-</u>	<u>-</u>	<u>84,974</u>	<u>67,306</u>	<u>7,280</u>	<u>54,223</u>
149	-	-	16,501	6	-	-	244,964
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
<u>149</u>	<u>-</u>	<u>-</u>	<u>16,501</u>	<u>6</u>	<u>-</u>	<u>-</u>	<u>244,964</u>
<u>\$ 150</u>	<u>\$ 15,733</u>	<u>\$ -</u>	<u>\$ 16,501</u>	<u>\$ 84,980</u>	<u>\$ 67,306</u>	<u>\$ 7,280</u>	<u>\$ 299,187</u>

CITY OF RIO GRANDE CITY
 COMBINING BALANCE SHEET
 NONMAJOR GOVERNMENTAL FUNDS
 SEPTEMBER 30, 2013

	FEMA Fund	CJD-ARRA Byrne Fund	SECO Fund	BEDD WW Fund
ASSETS				
Cash and Cash Equivalents	\$ 20,105	\$ -	\$ 50	\$ 539
Investments - Current	-	-	-	-
Receivables (Net)	-	-	-	-
Intergovernmental Receivables	-	-	57,576	-
Due from Other Funds	-	-	-	-
Total Assets	<u>\$ 20,105</u>	<u>\$ -</u>	<u>\$ 57,626</u>	<u>\$ 539</u>
LIABILITIES				
Accounts Payable	\$ -	\$ -	\$ -	\$ -
Due to Other Funds	1	-	57,627	539
Unavailable Revenues	20,104	-	-	-
Other Current Liabilities	-	-	-	-
Total Liabilities	<u>20,105</u>	<u>-</u>	<u>57,627</u>	<u>539</u>
FUND BALANCES				
Federal or State Funds Grant Restriction	-	-	-	-
Assigned	-	-	-	-
Unassigned Fund Balance	-	-	(1)	-
Total Fund Balances	<u>-</u>	<u>-</u>	<u>(1)</u>	<u>-</u>
Total Liabilities and Fund Balances	<u>\$ 20,105</u>	<u>\$ -</u>	<u>\$ 57,626</u>	<u>\$ 539</u>

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

Total Nonmajor Special Revenue Funds	Total Nonmajor Governmental Funds
\$ 451,395	\$ 451,395
48,991	48,991
7,769	7,769
278,611	278,611
71,234	71,234
\$ 858,000	\$ 858,000
\$ 84,245	\$ 84,245
296,093	296,093
20,104	20,104
1	1
400,443	400,443
265,212	265,212
205,828	205,828
(13,483)	(13,483)
457,557	457,557
\$ 858,000	\$ 858,000

CITY OF RIO GRANDE CITY
 COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
 FUND BALANCES - NONMAJOR GOVERNMENTAL FUNDS
 FOR THE YEAR ENDED SEPTEMBER 30, 2013

	Hotel Occupancy Tax Fund	Forfeiture Fund	HIDTA Task Force Fund	Treasury Forfeiture Fund
REVENUES:				
Taxes:				
Franchise Tax	\$ -	\$ -	\$ -	\$ -
Other Taxes	102,548	-	-	-
Intergovernmental Revenue and Grants	-	-	250,159	-
Forfeits	-	173,272	-	-
Investment Earnings	122	97	-	3
Total Revenues	<u>102,670</u>	<u>173,369</u>	<u>250,159</u>	<u>3</u>
EXPENDITURES:				
Current:				
General Government	21,527	-	-	-
Public Safety	-	177,647	248,958	511
Public Works	-	-	-	-
Capital Outlay:				
Capital Outlay	-	50,174	-	-
Total Expenditures	<u>21,527</u>	<u>227,821</u>	<u>248,958</u>	<u>511</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>81,143</u>	<u>(54,452)</u>	<u>1,201</u>	<u>(508)</u>
OTHER FINANCING SOURCES (USES):				
Transfers In	-	-	-	-
Transfers Out (Use)	<u>(35,000)</u>	<u>(46,826)</u>	<u>-</u>	<u>-</u>
Total Other Financing Sources (Uses)	<u>(35,000)</u>	<u>(46,826)</u>	<u>-</u>	<u>-</u>
Net Change in Fund Balance	46,143	(101,278)	1,201	(508)
Fund Balance - October 1 (Beginning)	<u>159,685</u>	<u>87,796</u>	<u>-</u>	<u>2,899</u>
Fund Balance - September 30 (Ending)	<u>\$ 205,828</u>	<u>\$ (13,482)</u>	<u>\$ 1,201</u>	<u>\$ 2,391</u>

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

RGC Police Department Fund	CJD Taskforce Fund	Airport Fund	PEG Fee Revenue	Border Security Fund	Stonegarden Fund	TDRA #711399 Grant Fund	Waste Water Project
\$ -	\$ -	\$ -	\$ 14,922	\$ -	\$ -	\$ -	\$ -
-	-	-	-	-	-	-	-
-	38,970	-	-	85,372	83,414	376,852	-
-	-	-	-	-	-	-	-
-	-	-	9	4	-	-	242
-	38,970	-	14,931	85,376	83,414	376,852	242
-	-	-	-	-	-	-	-
-	38,970	4,912	-	85,372	83,414	-	-
-	-	-	-	-	-	14,895	5,574
-	-	-	4,861	-	-	429,509	145,002
-	38,970	4,912	4,861	85,372	83,414	444,404	150,576
-	-	(4,912)	10,070	4	-	(67,552)	(150,334)
-	-	4,912	-	-	-	67,552	-
-	-	-	-	-	-	-	-
-	-	4,912	-	-	-	67,552	-
-	-	-	10,070	4	-	-	(150,334)
149	-	-	6,431	2	-	-	395,298
<u>\$ 149</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 16,501</u>	<u>\$ 6</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 244,964</u>

CITY OF RIO GRANDE CITY
 COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
 FUND BALANCES - NON MAJOR GOVERNMENTAL FUNDS
 FOR THE YEAR ENDED SEPTEMBER 30, 2013

	FEMA Fund	CJD-ARRA Byrne Fund	SECO Fund	BEDD WW Fund
REVENUES:				
Taxes:				
Franchise Tax	\$ -	\$ -	\$ -	\$ -
Other Taxes	-	-	-	-
Intergovernmental Revenue and Grants	-	-	-	207,379
Forfeits	-	-	-	-
Investment Earnings	-	-	-	-
Total Revenues	<u>-</u>	<u>-</u>	<u>-</u>	<u>207,379</u>
EXPENDITURES:				
Current:				
General Government	-	-	-	-
Public Safety	-	-	-	-
Public Works	-	-	-	-
Capital Outlay:				
Capital Outlay	-	-	-	207,379
Total Expenditures	<u>-</u>	<u>-</u>	<u>-</u>	<u>207,379</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
OTHER FINANCING SOURCES (USES):				
Transfers In	-	-	-	-
Transfers Out (Use)	-	-	-	-
Total Other Financing Sources (Uses)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net Change in Fund Balance	-	-	-	-
Fund Balance - October 1 (Beginning)	<u>-</u>	<u>-</u>	<u>(1)</u>	<u>-</u>
Fund Balance - September 30 (Ending)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (1)</u>	<u>\$ -</u>

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

Total Nonmajor Special Revenue Funds	Total Nonmajor Governmental Funds
\$ 14,922	\$ 14,922
102,548	102,548
1,042,146	1,042,146
173,272	173,272
477	477
1,333,365	1,333,365
21,527	21,527
639,784	639,784
20,469	20,469
836,925	836,925
1,518,705	1,518,705
(185,340)	(185,340)
72,464	72,464
(81,826)	(81,826)
(9,362)	(9,362)
(194,702)	(194,702)
652,259	652,259
\$ 457,557	\$ 457,557

Reyna & Garza, PLLC

Certified Public Accountants

2111 Jackson Creek Ave.

Edinburg, TX 78539

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

Independent Auditor's Report

To the Honorable Mayor and City Council
City of Rio Grande City, Tx

We have audited, in accordance with the 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, the financial statements of the governmental activities, the business-type activities, component units, each major fund, and the aggregate remaining fund information of the City of Rio Grande City, as of and for the year ended September 30, 2013, and the related notes to the financial statements, which collectively comprise the City of Rio Grande City's basic financial statements, and have issued our report thereon dated September 1, 2014.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered City of Rio Grande City's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of City of Rio Grande City's internal control. Accordingly, we do not express an opinion on the effectiveness of City of Rio Grande City's internal control.

A *deficiency in internal control* 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 and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify a certain deficiency in internal control, described in the accompanying schedule of findings and questioned costs that we consider to be a significant deficiency as item #2013-1.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether City of Rio Grande City's financial statements are free from 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*.

Response to Findings

City of Rio Grande City's response to the finding identified in our audit is described in the accompanying schedule of findings and questioned costs. City of Rio Grande City's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Reyna & Garza, PLLC
Certified Public Accountants

October 8, 2014

Reyna & Garza, PLLC

Certified Public Accountants

2111 Jackson Creek Ave.

Edinburg, TX 78539

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM
AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133

Honorable Mayor and City Council
City of Rio Grande City, Tx

Report on Compliance for Each Major Federal Program

We have audited City of Rio Grande City's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of City of Rio Grande City's major federal programs for the year ended September 30, 2013. City of Rio Grande City's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of City of Rio Grande City's major federal programs based on our audit of the types of compliance requirements referred to above. 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'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 on compliance for each major federal program. However, our audit does not provide a legal determination of City of Rio Grande City's compliance.

Opinion on Each Major Federal Program

In our opinion, City of Rio Grande City, complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended September 30, 2013.

Report on Internal Control Over Compliance

Management of City of Rio Grande City, is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered City of Rio Grande City's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, 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's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Reyna & Garza, PLLC
Certified Public Accountants

October 8, 2014

CITY OF RIO GRANDE CITY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Fiscal Year Ending September 30, 2013

1) **SUMMARY OF AUDIT RESULTS**

Financial Statement Audit:

- a) The auditor's report expresses an unqualified opinion on General Purpose Financial Statements.
- b) One significant deficiency disclosed during the audit of the general purpose financial statements. Item is listed as #2013-1. This finding was not considered a material weakness.
- c) No instance(s) 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*, was disclosed during the audit.

Federal Major Programs Audit:

- d) The report on compliance for the major Federal award programs for City of Rio Grande City expresses an unqualified opinion on all major Federal programs.
- e) No significant deficiencies or material weaknesses disclosed during the audit of the major federal programs.
- f) No findings under Section 510(a) of OMB Circular A-133 disclosed during the audit of the major federal programs.
- g) The programs tested as major Federal programs included: 1) Community Development Block Grant (CFDA#14.228)
- h) The threshold used for distinguishing between Type A and B programs was \$300,000.
- i) City of Rio Grande City qualified as a low-risk auditee within the context of OMB Circular A-133.

2) **FINDINGS – FINANCIAL STATEMENT AUDIT**

2013-01: Closing of Financial Statements

Criteria:

Controls relative to timely close-out of financial statements at year-end should be in place, in order to provide management and other third-party stakeholders with the necessary financial information to make appropriate decisions, and to ensure compliance with federal, state, and local reporting deadlines.

Condition:

A significant amount of time lapsed(six months) after year-end, before the financial statements were properly closed-out.

Effect:

Timely financial statements in accordance with GAAP were not available during the year, and at year-end. As such, monitoring of budget versus actual activity in the expenditures incurred and revenues realized may have been impacted, as well as other key decision-making processed based on financial statements.

Recommendation:

The City should review its internal controls relating to financial statement accounting and reporting to ensure that timely financial statements in accordance with GAAP are prepared and available for management use, as well as for audit purposes.

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

None

CITY OF RIO GRANDE CITY
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
Fiscal Year Ending September 30, 2013

There were no findings reported in the prior year.

CITY OF RIO GRANDE CITY, TEXAS
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED SEPTEMBER 30, 2013

	Federal CFDA No.	Pass-through ID. No.	Federal Expenditures
OFFICE OF NATIONAL DRUG CONTROL POLICY			
High Intensity Drug Trafficking Area Task Force	95.001	G12SS0006A	\$ 151,053
High Intensity Drug Trafficking Area Task Force	95.001	G13SS0006A	\$ 99,106
Total ONDCP			<u>\$ 250,159</u>
U.S. DEPARTMENT OF HOUSING & URBAN DEVELOPMENT			
Passed through Texas Department of Agriculture	14.228	711399	\$ 376,852
Total Department of Housing & Urban Development			<u>\$ 376,852</u>
U.S. DEPARTMENT OF JUSTICE			
Edward Byrne Memorial Justice Assistance Grant			
Passed through Office of the Governor-Criminal Justice Division	16.738	DJ-09-A10-22819-03	\$ 38,970
Total Department of Justice			<u>\$ 38,970</u>
U.S. DEPARTMENT OF HOMELAND SECURITY			
Passed through Texas Department of Homeland Security			
State Homeland Security Program	97.067	2010-SS-T0-0008	\$ 93,960
Total Passed though Texas Department of Homeland Security			<u>\$ 93,960</u>
Total Department of Homeland Security			<u>\$ 93,960</u>
TOTAL FEDERAL AWARDS			<u>\$ 759,941</u>

CITY OF RIO GRANDE CITY
NOTES ON ACCOUNTING POLICIES FOR FEDERAL AWARDS
YEAR ENDED SEPTEMBER 30, 2013

- 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.