

CITY OF
RIO GRANDE CITY, TEXAS
AUDITED ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED SEPTEMBER 30, 2011

CITY OF RIO GRANDE CITY, TEXAS
ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED SEPTEMBER 30, 2011

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Reyna & Garza, PLLC

Certified Public Accountants

2111 Jackson Creek Ave.

Edinburg, TX 78539

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

Independent Auditor's Report

Honorable Mayor and City Council
CITY OF RIO GRANDE CITY

Members of the Council:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of CITY OF RIO GRANDE CITY (the City) as of and for the year ended September 30, 2011, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's administrators. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over financial reporting. Accordingly, we express no such opinion.

An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of CITY OF RIO GRANDE CITY as of September 30, 2011, and the respective changes in financial position and cash flows, where applicable, thereof, and the respective budgetary comparisons for the General Fund and the Economic Development Corporation(EDC) Fund-a major special revenue fund with a legally adopted budget- for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

Management's discussion and analysis are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 9, 2012, on our consideration of the City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Governmental Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Our audit was performed for the purpose of forming an opinion on the financial statements that collectively comprise CITY OF RIO GRANDE CITY's basic financial statements.

The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements, and in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Although the combining fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements, they have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Reyna & Garza, PLLC
Certified Public Accountants

March 9, 2012

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, 2011. 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, 186,161 as a result of this year's operations. Net assets of our business-type activities: increased by \$ 1,362,519, or 10.9 percent, net assets of all governmental activities: increased, by \$823,642 or nearly 5.8 percent.
- During the year, the City had expenses that were \$823,642 less than the \$ 7.5 million generated in tax and other revenues for governmental programs (before special items).
- In the City's business-type activities, revenues increased from \$3.8 million to \$4.6 million (or 21 percent) while expenses also increased from \$3.1 million to \$ 3.3 million (or 6.45 percent).
- Total cost of all of the City's programs increased from \$9.5 million to \$ 9.9 million (or 14.2 percent).
- The General Fund ended the year with a fund balance of \$ 799 thousand.
- The resources available for appropriation were \$22 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 decreased from \$14.2 million to \$ 12.5 million. Unrestricted net assets – the part of net assets that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation, or other legal requirements – was \$ 956 thousand at September 30, 2011.

In 2011, net assets of our business-type activities increased by \$ 1.36 million, or nearly 10.9 percent. This increase is considered significant in relation to the overall operations of the City.

Table I
CITY OF RIO GRANDE CITY, TEXAS

NET ASSETS

	Governmental Activities 2011	Governmental Activities 2010	Business-type Activities 2011	Business-type Activities 2010	Total 2011	Total 2010
Current and other assets	\$ 12,838,148	\$ 15,620,716	\$ 4,563,487	\$ 3,397,601	\$17,401,635	\$ 19,018,317
Capital assets	28,883,934	14,947,888	10,812,957	10,772,508	39,696,891	25,720,396
Total assets	\$ 41,722,082	\$30,568,604	\$ 15,376,444	\$ 14,170,109	\$ 57,098,526	\$ 44,738,713
Long-term liabilities	25,505,231	14,518,114	974,000	1,229,000	26,479,231	15,747,114
Other liabilities	3,730,396	1,884,283	542,691	445,102	4,273,087	2,329,385
Total liabilities	\$ 29,235,627	\$ 16,402,397	\$ 1,516,691	\$ 1,674,102	\$ 30,752,318	\$ 18,076,499
Net Assets:						
Invested in capital assets net of related debt	3,945,289	1,007,417	9,838,957	9,543,508	\$ 13,784,246	\$ 10,550,925
Restricted	7,585,521	12,021,803	-	-	7,585,521	12,021,803
Unrestricted	955,645	1,136,987	4,020,796	2,952,499	4,976,441	4,089,486
Total net assets	\$ 12,486,455	\$ 14,166,207	\$ 13,859,753	\$ 12,496,007	\$ 26,346,208	\$ 26,662,214

Table II
CITY OF RIO GRANDE CITY, TEXAS

CHANGES IN NET ASSETS

	Governmental Activities 2011	Governmental Activities 2010	Business-type Activities 2011	Business-type Activities 2010	Total 2011	Total 2010
Revenues:						
Program Revenues:						
Charges for Services	111,633	210,981	4,583,223	3,845,933	4,694,856	4,056,974
General Revenues:						
Maintenance and operations taxes	1,724,807	1,515,475	-	-	1,724,807	1,515,475
Debt Service taxes	729,685	-	-	-	729,685	-
Grants	862,443	1,483,732	-	-	862,443	1,483,732
Sales Taxes	2,485,306	2,368,978	-	-	2,485,306	2,368,978
Franchise Taxes	599,386	552,720	-	-	599,386	552,720
Investment Earnings	63,253	34,050	13,507	4,393	76,760	38,443
Miscellaneous	711,627	843,345	232,277	113,714	943,904	957,059
Total Revenue	\$ 7,288,140	\$ 7,009,281	\$ 4,829,007	\$ 3,964,100	\$12,117,147	\$10,973,381
Expenses:						
General Government	902,002	818,575	-	-	902,002	818,575
Judicial	141,876	142,824	-	-	141,876	142,824
Public Safety	3,379,858	2,979,185	-	-	3,379,858	2,979,185
Public Works	649,479	691,845	-	-	649,479	691,845
Highways and Streets	153,874	150,283	-	-	153,874	150,283
Culture and Recreation	189,874	500,689	-	-	189,874	500,689
Libraries	210,467	183,481	-	-	210,467	183,481
Conservation & Development	320,985	329,117	-	-	320,985	329,117
Economic Development	378,182	560,539	-	-	378,182	560,539
Bond Interest & Cap Outlay	346,270	77,508	-	-	346,270	77,508
Utility Fund	-	-	3,258,119	3,057,247	3,258,119	3,057,247
Total Expenses	\$ 6,672,867	\$ 6,434,046	\$ 3,258,119	\$ 3,057,247	\$ 9,930,986	\$ 9,491,293
Increase in net assets before transfers and special items	615,273	575,235	1,570,888	906,853	2,186,161	1,482,088
Transfers	208,369	666,122	(208,369)	(666,122)	-	-
Special Items – Resources	-	-	-	-	-	-
Special Items-Prior Period Adjustments	(2,503,394)	45,251	1,227	(73,009)	(2,502,167)	(27,758)
Net assets at 10/1	\$ 14,166,207	\$ 12,879,599	\$ 12,496,007	\$ 12,328,285	\$ 26,662,214	\$ 25,207,884
Net assets at 9/30	\$ 12,486,455	\$ 14,166,207	\$ 13,859,753	\$ 12,496,007	\$ 26,346,208	\$ 26,662,214

The cost of all governmental activities this year was \$ 9.9 million. However, as shown in the Statement of Activities on pages 10 and 11, the amount that our taxpayers ultimately financed for these activities through City ad-valorem property taxes was only \$ 2.45 million because some of the costs were paid by those who directly benefited from the programs or by other governments and organizations that subsidized certain programs with grants and contributions.

THE CITY'S FUNDS

As the City completed the year, its governmental funds (as presented in the balance sheet on page 12) reported a combined fund balance of \$ 8.4 million, which is less than last year's total of \$13.1 million.

Over the course of the year, the Council did not revise the City's budget due to careful planning and budgeting on the original budget.

The City's General Fund balance of \$ 798 thousand reported on page 12 differs from the General Fund's budgetary fund balance of \$ 1.03 million reported in the General Fund budgetary comparison schedule on page 39. This is principally due to expenditures exceeding projections across various functional categories.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At the end of the 2010-11 year, the City had \$ 39.7 million invested in a broad range of capital assets, including facilities, land, infrastructure, vehicles, and equipment. The most significant current year addition was approximately \$16.78 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, \$11,784,398 of proceeds have been drawn down as of 2010-2011. At year-end, the City had \$ 26.5 million in bonds, capital leases, and notes outstanding versus \$ 15.7 million last year, an increase of 69 percent.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The City continues to make progress after feeling the effects of last year's economic recession. Sales tax deposits ended the year up by 4.59% from the previous year. After the 2010 Certificates of Obligation issuance, the City began working on a capital improvement plan that is about 50% complete. This plan will see about 70% of the City's streets repaved or overlaid. The same issuance has provided for construction of a \$ 2 million park, including an injection of \$800,000 from a Texas Parks and Wildlife grant. Work on both projects is expected to see completion mid-year into 2012.

The City's elected and appointed officials considered these factors when setting the 2011-2012 budget and tax rate. On September 29th, the City Commission voted to keep taxes virtually the same as last year by levying a total tax rate of \$.507 on a \$100 assessed valuation. This includes a Maintenance and Operations rate of \$.372 and an Interest and Sinking rate of \$.135.

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 2011-2012 budget, and a \$500 across the board increase was provided to employees as a modest cost of living adjustment.

Other than the major capital improvements for streets and parks, there are no other capital outlay expenditures in the budget. The Wastewater Plant Improvements are nearly complete, and the new Water Treatment Plant is scheduled for completion in May 2012.

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 2011-2012 budget provides for moderate increases to the fund balance of the General Fund and the Enterprise Fund. It will continue to maintain a sufficient level of municipal services to the citizens of Rio Grande City, as well as provide a minimal market adjustment of wages to the employees.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the City's administration office, at City of Rio Grande City, Texas, 101 S. Washington, Rio Grande City, Texas.

CITY OF RIO GRANDE CITY
STATEMENT OF NET ASSETS
SEPTEMBER 30, 2011

EXHIBIT A-1

	Primary Government		Total
	Governmental Activities	Business Type Activities	
ASSETS			
Cash and Cash Equivalents	\$ 9,544,964	\$ 3,024,369	\$ 12,569,333
Investments - Current	250,816	511,682	762,498
Receivables (net of allowance for uncollectibles)	2,681,257	789,687	3,470,944
Internal Balances	(206,299)	206,299	-
Inventories	-	14,427	14,427
Deferred Charges	-	16,573	16,573
Capitalized Debt Issuance Costs	566,596	-	566,596
Capital Assets:			
Land	1,075,810	339,036	1,414,846
Infrastructure, net	5,284,055	9,830,958	15,115,013
Buildings, net	935,690	519,761	1,455,451
Machinery and Equipment, net	1,416,444	123,202	1,539,646
Construction in Progress	20,171,925	-	20,171,925
Other Assets	824	450	1,274
Total Assets	<u>41,722,082</u>	<u>15,376,444</u>	<u>57,098,526</u>
LIABILITIES			
Accounts Payable	3,645,159	210,179	3,855,338
Intergovernmental Payable	17,477	-	17,477
Accrued Interest Payable	36,478	11,136	47,614
Deferred Revenues	30,704	8,255	38,959
	578	313,121	313,699
Noncurrent Liabilities			
Due Within One Year	832,320	271,000	1,103,320
Due in More Than One Year	24,672,911	703,000	25,375,911
Total Liabilities	<u>29,235,627</u>	<u>1,516,691</u>	<u>30,752,318</u>
NET ASSETS			
Invested in Capital Assets, Net of Related Debt	3,945,289	9,838,957	13,784,246
Restricted for:			
Restricted for Debt Service	59,294	-	59,294
Restricted for Special Revenues	2,900,753	-	2,900,753
Restricted for Capital Projects	4,625,474	-	4,625,474
Unrestricted Net Assets	955,645	4,020,796	4,976,441
Total Net Assets	<u>\$ 12,486,455</u>	<u>\$ 13,859,753</u>	<u>\$ 26,346,208</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, 2011

	Expenses	Program Revenues <u>Charges for Services</u>
Primary Government:		
GOVERNMENTAL ACTIVITIES:		
General Government	\$ 902,002	\$ -
Judicial	141,876	-
Public Safety	3,379,858	-
Public Works	649,479	111,633
Highways and Streets	153,874	-
Culture and Recreation	189,874	-
Libraries	210,467	-
Conservation and Development	320,985	-
Economic Development and Assistance	378,182	-
Bond Interest	305,959	-
Fiscal Agent's Fees	29,264	-
Issuance Costs	11,047	-
Total Governmental Activities:	6,672,867	111,633
BUSINESS-TYPE ACTIVITIES:		
Major- Enterprise Fund	3,258,119	4,583,223
Total Business-Type Activities:	3,258,119	4,583,223
TOTAL PRIMARY GOVERNMENT:	\$ 9,930,986	\$ 4,694,856

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

Transfers In (Out)

Total General Revenues and Transfers

Change in Net Assets

Net Assets--Beginning

Prior Period Adjustment

Net Assets--Ending

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

Net (Expense) Revenue and Changes in Net Assets		
Primary Government		
Governmental Activities	Business-type Activities	Total
\$ (902,002)	\$ -	\$ (902,002)
(141,876)	-	(141,876)
(3,379,858)	-	(3,379,858)
(537,846)	-	(537,846)
(153,874)	-	(153,874)
(189,874)	-	(189,874)
(210,467)	-	(210,467)
(320,985)	-	(320,985)
(378,182)	-	(378,182)
(305,959)	-	(305,959)
(29,264)	-	(29,264)
(11,047)	-	(11,047)
<u>(6,561,234)</u>	<u>-</u>	<u>(6,561,234)</u>
-	1,325,104	1,325,104
-	1,325,104	1,325,104
<u>(6,561,234)</u>	<u>1,325,104</u>	<u>(5,236,130)</u>
1,724,807	-	1,724,807
729,685	-	729,685
2,485,306	-	2,485,306
599,386	-	599,386
93,960	-	93,960
61,501	-	61,501
862,443	-	862,443
556,166	232,277	788,443
63,253	13,507	76,760
208,369	(208,369)	-
<u>7,384,876</u>	<u>37,415</u>	<u>7,422,291</u>
823,642	1,362,519	2,186,161
14,166,207	12,496,007	26,662,214
(2,503,394)	1,227	(2,502,167)
<u>\$ 12,486,455</u>	<u>\$ 13,859,753</u>	<u>\$ 26,346,208</u>

CITY OF RIO GRANDE CITY
BALANCE SHEET
GOVERNMENTAL FUNDS
SEPTEMBER 30, 2011

	General Fund	Major Sp. Rev Economic Dev Fund	Major Cap.Prj Water Plant Improv. Fund
ASSETS			
Cash and Cash Equivalents	\$ 777,909	\$ 2,118,239	\$ 1,327,853
Investments - Current	13,682	2,409	-
Interest Receivable - investments	-	-	-
Taxes Receivable	112,327	-	-
Allowance for Uncollectible Taxes (credit)	-	-	-
Receivables (Net)	78,721	-	-
Intergovernmental Receivables	212,696	70,217	1,944,398
Due from Other Funds	182,442	97,797	-
Other Assets	824	-	-
Total Assets	<u>\$ 1,378,601</u>	<u>\$ 2,288,662</u>	<u>\$ 3,272,251</u>
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts Payable	\$ 116,202	\$ 6,128	\$ 2,550,591
Wages and Salaries Payable	92,884	4,366	-
Retainage Payable	-	-	619,398
Intergovernmental Payable	17,477	-	-
Due to Other Funds	227,720	-	109,100
Accrued Interest Payable	-	-	-
Deferred Revenues	125,725	-	-
Other Current Liabilities	-	574	-
Total Liabilities	<u>580,008</u>	<u>11,068</u>	<u>3,279,089</u>
Fund Balances:			
Reserved For:			
Retirement of Long Term Debt	-	-	-
Special Revenues	-	2,277,594	-
Construction	-	-	(6,838)
Unassigned:			
Unassigned	798,593	-	-
Total Fund Balances	<u>798,593</u>	<u>2,277,594</u>	<u>(6,838)</u>
Total Liabilities and Fund Balances	<u>\$ 1,378,601</u>	<u>\$ 2,288,662</u>	<u>\$ 3,272,251</u>

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

Major Cap. Projects Fund	Other Funds	Total Governmental Funds
\$ 4,339,335	\$ 981,628	\$ 9,544,964
801	233,924	250,816
-	2	2
-	89,205	201,532
-	(53,054)	(53,054)
-	6,856	85,577
-	219,889	2,447,200
-	100,200	380,439
-	-	824
<u>\$ 4,340,136</u>	<u>\$ 1,578,650</u>	<u>\$ 12,858,300</u>
\$ 139,730	\$ 8,225	\$ 2,820,876
-	-	97,250
-	107,635	727,033
-	-	17,477
50	249,868	586,738
-	36,478	36,478
-	62,031	187,756
-	4	578
<u>139,780</u>	<u>464,241</u>	<u>4,474,186</u>
-	59,294	59,294
-	623,159	2,900,753
4,200,356	431,956	4,625,474
-	-	798,593
<u>4,200,356</u>	<u>1,114,409</u>	<u>8,384,114</u>
<u>\$ 4,340,136</u>	<u>\$ 1,578,650</u>	<u>\$ 12,858,300</u>

CITY OF RIO GRANDE CITY
 RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE
 STATEMENT OF NET ASSETS
 SEPTEMBER 30, 2011

Total Fund Balances - Governmental Funds	\$	8,384,114
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 \$17,048,990 and the accumulated depreciation was \$2,101,102. In addition, long-term liabilities, including bonds payable, are not due and payable in the current period, and, therefore are not reported as liabilities in the funds. The net effect of including the beginning balances for capital assets (net of depreciation) and long-term debt in the governmental activities is to increase (decrease) net assets.		429,775
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 capital outlays and debt principal payments is to increase (decrease) net assets.		17,610,735
The 2011 depreciation expense increases accumulated depreciation. The net effect of the current year's depreciation is to decrease net assets.		(318,704)
Various other reclassifications and eliminations are necessary to convert from the modified accrual basis of accounting to accrual basis of accounting. These include recognizing deferred revenue as revenue, eliminating interfund transactions, reclassifying the proceeds of bond sales as an increase in bonds payable, and recognizing the liabilities associated with maturing long-term debt and interest. The net effect of these reclassifications and recognitions is to increase (decrease) net assets.		(13,619,465)
Net Assets of Governmental Activities	\$	12,486,455

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

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CITY OF RIO GRANDE CITY
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2011

	General Fund	Major Sp. Rev Economic Dev Fund	Major Cap.Prj Water Plant Improv. Fund
REVENUES:			
Taxes:			
Property Taxes	\$ 1,985,170	\$ -	\$ -
General Sales and Use Taxes	1,656,871	828,435	-
Franchise Tax	599,386	-	-
Other Taxes	-	-	-
Penalty and Interest on Taxes	52,559	-	-
Licenses and Permits	101,538	-	-
Intergovernmental Revenue and Grants	246	-	-
Charges for Services	111,633	-	-
Fines	141,486	-	-
Forfeits	-	-	-
Investment Earnings	4,813	10,655	1,991
Rents and Royalties	7,200	-	-
Other Revenue	90,809	21,626	-
Total Revenues	4,751,711	860,716	1,991
EXPENDITURES:			
Current:			
General Government	854,946	-	-
Judicial	134,865	-	-
Public Safety	2,540,614	-	-
Public Works	595,121	-	-
Highways and Streets	153,874	-	-
Culture and Recreation	165,334	-	-
Libraries	199,950	-	-
Conservation and Development	300,776	-	-
Economic Development and Assistance	-	378,182	-
Debt Service:			
Debt Principal	195,470	-	-
Debt Interest	31,393	-	-
Fiscal Agent's Fees	-	-	-
Capital Outlay:			
Capital Outlay	103,650	4,762	11,744,413
Total Expenditures	5,275,993	382,944	11,744,413
Excess (Deficiency) of Revenues Over (Under) Expenditures	(524,282)	477,772	(11,742,422)
OTHER FINANCING SOURCES (USES):			
Capital-related Debt Issued (Regular Bonds)	-	-	11,784,398
Proceeds from Capital Leases	28,290	-	-
Transfers In	300,938	35,000	-
Transfers Out (Use)	(35,524)	(222,362)	-
Total Other Financing Sources (Uses)	293,704	(187,362)	11,784,398
Net Change in Fund Balances	(230,578)	290,410	41,976
Fund Balance - October 1 (Beginning)	1,029,374	1,987,184	(48,814)
Prior Period Adjustment	(203)	-	-
Fund Balance - September 30 (Ending)	\$ 798,593	\$ 2,277,594	\$ (6,838)

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

	Major Cap. Projects Fund	Other Funds	Total Governmental Funds
\$	-	\$ 447,115	\$ 2,432,285
	-	-	2,485,306
	-	-	599,386
	-	93,960	93,960
	-	8,942	61,501
	-	-	101,538
	-	862,197	862,443
	-	-	111,633
	-	-	141,486
	-	168,594	168,594
	34,911	10,883	63,253
	-	-	7,200
	24,913	-	137,348
	<u>59,824</u>	<u>1,591,691</u>	<u>7,265,933</u>
	-	2,537	857,483
	-	-	134,865
	-	667,144	3,207,758
	-	14,650	609,771
	-	-	153,874
	-	-	165,334
	-	-	199,950
	-	-	300,776
	-	-	378,182
	-	630,000	825,470
	-	274,566	305,959
	-	29,264	29,264
	<u>2,271,061</u>	<u>2,661,279</u>	<u>16,785,165</u>
	<u>2,271,061</u>	<u>4,279,440</u>	<u>23,953,851</u>
	<u>(2,211,237)</u>	<u>(2,687,749)</u>	<u>(16,687,918)</u>
	-	-	11,784,398
	-	-	28,290
	-	169,490	505,428
	-	(39,173)	(297,059)
	-	130,317	12,021,057
	<u>(2,211,237)</u>	<u>(2,557,432)</u>	<u>(4,666,861)</u>
	6,411,593	3,671,841	13,051,178
	-	-	(203)
\$	<u>4,200,356</u>	<u>\$ 1,114,409</u>	<u>\$ 8,384,114</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, 2011

Total Net Change in Fund Balances - Governmental Funds	\$	(4,666,861)
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 2011 capital outlays and debt principal payments is to increase (decrease) net assets.		17,610,735
Depreciation is not recognized as an expense in governmental funds since it does not require the use of current financial resources. The net effect of the current year's depreciation is to decrease net assets.		(318,704)
Various other reclassifications and eliminations are necessary to convert from the modified accrual basis of accounting to accrual basis of accounting. These include recognizing deferred revenue as revenue, adjusting current year revenue to show the revenue earned from the current year's tax levy, eliminating interfund transactions, reclassifying the proceeds of bond sales, and recognizing the liabilities associated with maturing long-term debt and interest. The net effect of these reclassifications and recognitions is to increase (decrease) net assets.		(11,801,528)
Change in Net Assets of Governmental Activities	<u>\$</u>	<u>823,642</u>

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

CITY OF RIO GRANDE CITY
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
SEPTEMBER 30, 2011

	Business Type Activities
	Major- Enterprise Fund
ASSETS	
Current Assets:	
Cash and Cash Equivalents	\$ 3,024,369
Investments - Current	511,682
Taxes Receivable	8,255
Accounts Receivable-Net of Uncollectible Allowance	781,432
Due from Other Funds	229,659
Inventories	14,427
Deferred Charges	16,573
Total Current Assets	<u>4,586,397</u>
Noncurrent Assets:	
Capital Assets:	
Land Purchase and Improvements	339,036
Infrastructure	11,837,840
Accumulated Depreciation - Infrastructure	(2,006,882)
Buildings	599,223
Accumulated Depreciation - Buildings	(79,462)
Machinery and Equipment	309,783
Accumulated Depreciation - Machinery & Equipment	(186,581)
Other Asset	450
Total Noncurrent Assets	<u>10,813,407</u>
Total Assets	<u>15,399,804</u>
LIABILITIES	
Current Liabilities:	
Accounts Payable	186,034
Wages and Salaries Payable	24,145
Due to Other Funds	23,360
Accrued Interest Payable	11,136
Deferred Revenue	8,255
Bonds Payable - Current:	
Bonds Payable - Current	271,000
Other Current Liabilities	313,121
Total Current Liabilities	<u>837,051</u>
NonCurrent Liabilities:	
Bonds Payable - Noncurrent	703,000
Total Noncurrent Liabilities	<u>703,000</u>
Total Liabilities	<u>1,540,051</u>
NET ASSETS	
Investments in Capital Assets, Net of Debt	9,838,957
Unrestricted Net Assets	4,020,796
Total Net Assets	<u>\$ 13,859,753</u>

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

CITY OF RIO GRANDE CITY
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2011

EXHIBIT D-2 (Cont'd)

	Business Type Activities <u>Major- Enterprise Fund</u>
OPERATING REVENUES:	
Charges for Water Services	\$ 3,106,744
Charges for Sewage Service	1,432,001
Charges for Sanitation Service	44,478
Investment Earnings	13,507
Other Revenue	232,277
Total Operating Revenues	<u>4,829,007</u>
OPERATING EXPENSES:	
Proprietary Fund Function - Water	
Personnel Services - Salaries and Wages	389,399
Personnel Services - Employee Benefits	144,598
Purchased Professional & Technical Services	257,641
Purchased Property Services	147,092
Other Operating Expenses	38,718
Supplies	706,928
Total Proprietary Fund Function - Water	<u>1,684,376</u>
Proprietary Fund Function - Sewage	
Personnel Services - Salaries and Wages	130,676
Personnel Services - Employee Benefits	31,051
Purchased Professional & Technical Services	64,071
Purchased Property Services	229,067
Other Operating Expenses	2,410
Supplies	366,025
Total Proprietary Fund Function - Sewage	<u>823,300</u>
Proprietary Fund Function - Admin. & Collection	
Personnel Services - Salaries and Wages	229,403
Personnel Services - Employee Benefits	72,536
Purchased Professional & Technical Services	12,600
Purchased Property Services	20,804
Other Operating Expenses	205,260
Supplies	55,847
Total Proprietary Fund Function - Admin. & Collection	<u>596,450</u>
Proprietary Fund Function - Debt Issuance Costs	
Purchased Professional & Technical Services	3,816
Other Operating Expenses	1,524
Total Proprietary Fund Function - Debt Issuance Costs	<u>5,340</u>
Depreciation	88,943
Interest Expense	59,710
Total Operating Expenses	<u>3,258,119</u>
Income Before Transfers	1,570,888
Transfers Out	(208,369)

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

CITY OF RIO GRANDE CITY
 STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS
 PROPRIETARY FUNDS
 FOR THE YEAR ENDED SEPTEMBER 30, 2011

	Business Type Activities
	Major- Enterprise Fund
Change in Net Assets	1,362,519
Total Net Assets - October 1 (Beginning)	12,496,007
Prior Period Adjustment	1,227
Total Net Assets - September 30 (Ending)	<u>\$ 13,859,753</u>

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, 2011

	Business Type Activities
	Major- Enterprise Fund
<u>Cash Flows from Operating Activities:</u>	
Cash Received from User Charges	\$ 4,570,433
Cash Received from Other Revenues	451,473
Cash Payments to Employees for Services	(994,256)
Cash Payments for Services	(735,091)
Cash Payments for Suppliers	(1,021,586)
Cash Payments for Other Operating Expenses	(299,925)
Net Cash Provided by Operating Activities	<u>1,971,048</u>
<u>Cash Flows from Capital & Related Financing Activities:</u>	
Acquisition of Capital Assets	(124,011)
Other	(4,154)
Operating Transfers	(208,369)
Net Cash Provided by (Used for) Capital & Related Financing Activities	<u>(336,534)</u>
<u>Cash Flows from Investing Activities:</u>	
Proceeds from Sale & Maturities of Investments	997,667
Payments on Bonds	(255,000)
Net Cash Provided by Investing Activities	<u>742,667</u>
Net Increase in Cash and Cash Equivalents	2,377,181
Cash and Cash Equivalents at Beginning of the Year:	<u>647,188</u>
Cash and Cash Equivalents at the End of the Year:	<u>\$ 3,024,369</u>

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, 2011

	Business Type Activities
	Major- Enterprise Fund
<hr/>	
<u>Reconciliation of Operating Income to Net Cash</u>	
<u>Provided By Operating Activities:</u>	
Operating Income:	\$ 1,570,888
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:	
Depreciation	88,943
Effect of Increases and Decreases in Current Assets and Liabilities:	
Decrease (increase) in Receivables	(12,790)
Decrease (increase) in Inventories	(2,631)
Decrease (increase) in Other Assets	164
Increase (decrease) in Interfund Receivable	204,002
Increase (decrease) in Accounts Payable	86,485
Increase (decrease) in Other Current Liabilities	10,489
Increase (decrease) in Accrued Interest Payable	(2,792)
Increase (decrease) in Wages Payable	3,407
Increase (decrease) in Deferred Liabilities	1,523
(Increase)decrease in Interfund Payable	23,360
Net Cash Provided by Operating Activities	<u>\$ 1,971,048</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, 2011

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. REPORTING ENTITY

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

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

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

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

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

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

B. GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

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

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

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

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

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

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

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

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

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

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

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

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

In the fund financial statements, governmental funds report fund balances based on the following classifications: nonspendable, restricted, committed or unassigned. Restricted fund balances are amounts legally restricted by outside parties for use by a specific purpose. Commitments of fund balance require approval of the Commission through action. The Commission delegates the responsibility to assign fund balance to the City Manager or his designee, when appropriate. Funds will be utilized in the following spending order: restricted, committed, assigned and unassigned.

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

- 5. 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.

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

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

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

Governmental Funds:

- 1. Special Revenue Funds** – The City accounts for resources restricted to, or designated for, specific purposes by the City or a grantor in a special revenue fund. Most Federal and some State financial assistance is accounted for in a Special Revenue Fund, and sometimes unused balances must be returned to the grantor at the close of specified project periods.
- 2. Debt Service Funds** – The City accounts for resources accumulated and payments made for principal and interest on long-term general obligation debt of governmental funds in a debt service fund.
- 3. 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.

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> at the Beginning of the year	<u>Historic Cost</u>	<u>Accumulated</u> <u>Depreciation</u>	<u>Net Value at the</u> <u>Beginning of the</u> <u>Year</u>	<u>Change in Net</u> <u>Assets</u>
Land	\$ 851,810	\$ 0	\$ 851,810	
Buildings	1,211,808	(224,664)	987,144	
Furniture & Equipment	3,547,986	(1,876,437)	1,671,549	
Infrastructure	5,284,055	0	5,284,055	
Construction in Progress	<u>6,153,330</u>	<u>0</u>	<u>6,153,330</u>	
Change in Net Assets				<u>\$ 14,947,889</u>
<u>Long-term Liabilities</u> at the Beginning of the year			<u>Payable at the</u> <u>Beginning of the</u> <u>Year</u>	
Capital Leases Payable			\$ 274,144	
Notes Payable			135,056	
Bonds Payable			<u>13,900,000</u>	
Change in Net Assets				<u>\$ (14,518,114)</u>
 Net Adjustment to Net Assets				 <u>\$ 429,775</u>

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

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

	<u>Amount</u>	<u>Adjustments to Changes in Net Assets</u>	<u>Adjustments to Net Assets</u>
<u>Current Year Capital Outlay</u>			
Various Categories	\$16,785,165	\$16,785,165	\$16,785,165
Total Capital Outlay	<u>\$ 16,785,165</u>	<u>\$16,785,165</u>	<u>\$16,785,165</u>
<u>Debt Principal Payments</u>			
Bonds Principal	\$ 630,000	\$ 630,000	\$ 630,000
Capital Lease Principal	163,290	163,290	163,290
Loan Principal	<u>32,280</u>	<u>32,280</u>	<u>32,280</u>
Total Principal Payments	<u>\$ 825,570</u>	<u>\$ 825,570</u>	<u>\$ 825,570</u>
Total Adjustment to Net Assets		<u>\$17,610,735</u>	<u>\$17,610,735</u>

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

	<u>Amount</u>	<u>Adjustments to Change in Net Assets</u>	<u>Adjustments to Net Assets</u>
<u>Adjustments to Revenue and Deferred Revenue</u>			
Taxes Collected from Prior Year Levies	\$ 94,198	\$ (94,198)	\$ -
Uncollected taxes (assumed collectible) from Current Year Levy	\$ 14,135	\$ 14,135	\$ 14,135
Uncollected Taxes from prior year deemed collectible	\$ 142,917	\$ -	\$ 142,917
Other	\$ 593,224	\$ (91,223)	\$ 593,224
<u>Reclassify Proceeds of Bonds, Loans & Capital Leases</u>			
Retirement of Capital Assets	\$ 2,557,053	\$ -	\$(2,557,053)
Capital Leases Proceeds	\$28,290	\$ (28,290)	\$ (28,290)
Bond Proceeds	\$ 11,784,398	<u>\$ (11,784,398)</u>	<u>\$ (11,784,398)</u>
Total		<u>\$ (11,801,528)</u>	<u>\$ (13,619,465)</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 2011.
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	\$ 72,130
Highways & Streets	\$ 38,374
Culture and Recreation	\$ 16,515
Libraries	\$ 29,828
Conservation and Development	\$ 13,805
Debt Service	\$ 47,550
Capital Outlay	\$ 98,450

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, 2011, the carrying amount of the City's deposits (cash and interest-bearing savings accounts included in temporary investments) was \$12,569,333 and the bank balance was \$ 12,750,967. The City's cash deposits at September 30, 2011 and during the year ended September 30, 2011 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, 2011, 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	\$ 13,617	\$ 13,617			
Total-General Fund	\$ 13,682	\$ 13,682			
<u>Special Revenues Funds:</u>					
Logic Money Market	\$ 2,409	\$ 2,409			
Total-Special Revenue Fund	\$ 2,409	\$ 2,409			
<u>Capital Projects Funds:</u>					
Logic Money Market	\$ 1,373	\$ 1,373			
Wells Fargo Money Market	\$ 233,352	\$ 233,352			
Total-Capital Projects Funds	\$ 234,725	\$ 234,725			
Subtotal-Governmental Type	\$ 250,816	\$ 250,816			
<u>Enterprise Fund:</u>					
Texpool Money Market	\$ 59,343	\$ 59,343			
Bank of New York Money Market	452,339	452,339			
Total-Enterprise Fund	\$ 511,682	\$ 511,682			
Subtotal-Proprietary Type	\$ 511,682	\$ 511,682			
Total-All Fund Types	\$ 762,498	\$ 762,498			

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, 2011, 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, 2011 consisted of the following:

Due From Fund	Due To Fund	Amount	Purpose
General Fund	Special Revenue Funds	\$ 107,649	Short-term loans
General Fund	Public Utility Fund	120,071	
Special Revenue Funds	General Fund	154,979	Short-term loans
Special Revenue Funds	Special Revenue Funds	66,989	
Special Revenue Funds	Public Utility Fund	109,588	Short-term loans
Debt Service Fund	General Fund	27,413	Short-term loans
Capital Projects Fund	General Fund	50	Short-term loans
Public Utility Fund	Debt Service Fund	23,359	
	Total	<u>\$ 610,098</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, 2011 consisted of the following:

Transfers From	Transfers To	Amount	Reason
Public Utilities Dept.	General Fund	\$170,000	Supplemental other funds sources
Economic Development	General Fund	127,500	Supplemental other funds sources
Public Utilities Dept.	Debt Service Fund	38,369	Supplemental other funds sources
Hotel Fund	Economic Development	35,000	Supplemental other funds sources
Forfeiture Fund	General Fund Fund	3,438	Supplemental other funds sources
Forfeiture Fund	PD Training Fund	500	Supplemental other funds sources
Economic Development	SECO Block Grant	94,862	Supplemental other funds sources
PD Forfeiture	CJD Byrne JAG	235	Supplemental other funds sources
General Fund	TDRA DRS010154	30,734	Supplemental other funds sources
General Fund	Airport	4,790	Supplemental other funds sources
	Total	<u>\$505,428</u>	

E. CAPITAL ASSET ACTIVITY

Capital asset activity for the City for the year ended September 30, 2011, was as follows:

	Primary Government			
	<u>Beginning Balance</u>	<u>Additions</u>	<u>Retirements & Adjustments</u>	<u>Ending Balance</u>
Governmental Activities:				
Land	\$ 851,810	\$ 224,000	\$ -	\$ 1,075,865
Buildings	1,211,808	-	(28,820)	1,182,988
Furniture and Equipment	3,547,986	132,397	(331,527)	3,348,856
Infrastructure	5,284,055	-	-	5,284,055
Construction in Progress	<u>6,153,331</u>	<u>16,428,768</u>	<u>(2,433,927)</u>	<u>20,148,172</u>
Totals at Historic Cost	<u>\$ 17,048,990</u>	<u>\$ 16,785,165</u>	<u>\$ (2,794,274)</u>	<u>\$ 31,039,936</u>
Less Accumulated Depreciation:				
Total Accumulated Depreciation	<u>(2,101,101)</u>	<u>(318,704)</u>	<u>263,795</u>	<u>(2,156,012)</u>
Governmental Activities Capital Assets, Net	<u>\$ 14,947,889</u>	<u>\$ 16,466,459</u>	<u>\$ (2,530,479)</u>	<u>\$ 28,883,924</u>
Business-type Activities:				
Land	\$ 339,035	\$ -	\$ -	\$ 339,035
Buildings and Improvements	599,223	-	-	599,223
Furniture and Equipment	305,772	8,166	(4,155)	309,783
Infrastructure	<u>11,717,840</u>	<u>120,000</u>	<u>-</u>	<u>11,837,840</u>
Totals at Historic Cost	<u>\$ 12,961,870</u>	<u>\$ 128,166</u>	<u>\$ (4,155)</u>	<u>\$ 13,085,881</u>
Less Accumulated Depreciation				
Total Accumulated Depreciation	<u>(2,189,362)</u>	<u>(88,943)</u>	<u>5,380</u>	<u>(2,272,924)</u>
Business-type Activities Capital Assets, Net	<u>\$ 10,772,508</u>	<u>\$ (39,223)</u>	<u>\$ (1,225)</u>	<u>\$ 10,812,957</u>

Depreciation expense was charged to governmental functions as follows:

General Government	\$ 44,619
Judicial	7,011
Public Safety	172,100
Public Works	39,708
Conservation & Development	20,209
Culture & Recreation	24,540
Libraries	<u>10,517</u>
Total Depreciation Expense	<u>\$ 318,704</u>

F. BONDS AND OTHER LONG-TERM PAYABLES

At September 30, 2011, long-term debt consisted of the following:

General Long Term Debt:

Capital Leases:

Capital lease payable to Southside Bank dated 04-15-03,
payable in 120 monthly installments of \$3,887.68 including interest
at 4.711%, secured by (1) pumper truck and (1) tanker truck \$ 120,784

Capital lease payable to Kansas State Bank dated 12-10-10,
payable in 3 annual installments of \$ 28,290 including interest
at 4.25 %, secured by (1) Chevy Silverado 2500HD Truck 18,461

Subtotal- Capital Leases Payable \$ 139,245

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 \$ 91,474

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 220,214

Subtotal- Notes Payable \$ 311,689

Capital Project 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% \$ 2,745,000

\$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% 11,865,000

\$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% 4,189,398

\$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% 6,255,000

Subtotal- Bonds Payable \$ 25,054,398

Total General Long Term Debt \$ 25,505,332

Revenue Bonds Payable:

\$600,000 1989 Waterworks and Sewer System Revenue Serial Bonds due in annual installments ranging from \$25,000 to \$60,000 from 07-10-02 through 2012; interest at 7.5% to 8.5%	\$ 60,000
\$2,100,000 1991 Waterworks and Sewer System Revenue Serial Bonds due in annual installments ranging from \$110,000 to \$170,000 from 07-10-02 through 2012; interest at 3.3%	170,000
\$210,000 1992 Waterworks and Sewer System Revenue Serial Bonds due in annual installments ranging from \$10,000 to \$15,000 from 07-10-02 through 2012; interest at 5.5%	15,000
\$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%	65,000
\$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%	<u>664,000</u>
Total Revenue Bonds Payable	<u>\$ 974,000</u>
Total Long-Term Debt	<u>\$26,479,332</u>

There are a number of limitations and restrictions contained in the revenue bond indenture. Management has indicated that the City is in compliance with all significant limitations and restrictions at September 30, 2011.

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
2012	\$ 59,048	\$ 4,557	\$ 38,272	\$ 15,320	\$1,006,000	\$419,697
2013	61,500	2,105	40,330	13,262	998,000	424,178
2014	18,697	92	42,499	11,093	1,019,000	412,725
2015	-	-	40,376	8,836	1,036,000	400,418
2016	-	-	19,915	7,397	1,048,000	385,949
2017-2021	-	-	130,297	19,919	5,405,000	1,608,536
2022-2026	-	-	-	-	5,463,000	1,087,877
2027-2031	-	-	-	-	2,741,000	358,589
2032-2036	-	-	-	-	<u>1,425,000</u>	<u>22,550</u>
Total	<u>\$ 139,245</u>	<u>\$ 6,754</u>	<u>\$ 311,689</u>	<u>\$ 75,827</u>	<u>\$26,026,398</u>	<u>\$5,120,517</u>

H. DEFINED BENEFIT PENSION PLAN

Plan Description

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

Funding Policy

The contribution rate for the employees is 5%, and the City matching ratio is currently 1.5 to 1, both as adopted by the governing body of the City. The City's contributions to TMRS for the years ended September 30, 2011, 2010, and 2009 were \$ 333,598, \$209,013, and \$208,032, respectively.

Annual Pension Cost

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

The City is one of 811 municipalities having the benefit plan administered by TMRS. Each of the 811 municipalities has an annual, actuarial valuation performed. All assumptions for the December 31, 2009 valuations are contained in the 2009 TMRS Comprehensive Annual Financial Report, a copy of which may be obtained by writing to P.O. Box 149153, Austin, Texas, 78714-9153.

The CITY OF RIO GRANDE CITY	
Schedule of Actuarial Liabilities and Funding Progress	
Actuarial Valuation Date December 31, 2009	
Actuarial Value of Assets	\$2,068,315
Actuarial Accrued Liability	\$3,383,674
Percentage Funded	61.1%
Unfunded (over-funded) Actuarial Accrued Liability (UAAL)	\$1,315,359
Annual covered payroll	\$3,634,622
UAAL as a Percentage of Covered Payroll	36.2%
Net Pension Obligation as of beginning of Period	\$0
Annual Pension Cost:	\$0
Annual Required Contribution (ARC)	\$209,013
Less: Contributions Made	\$209,013
NPO at the end of the period	\$0

I. CHANGES IN LONG-TERM LIABILITIES

Long-term activity for the year ended September 30, 2011, was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Governmental Activities:					
Bonds and Notes Payable:					
Capital Leases	\$ 274,144	\$ 28,290	\$ (163,290)	\$ 139,144	\$ 59,048
Bonds Payable	13,900,000	11,784,398	(630,000)	25,054,398	735,000
Notes Payable	343,970	0	(32,281)	311,689	38,272
Total Bonds and Notes Payable	<u>\$ 14,518,114</u>	<u>\$ 11,812,688</u>	<u>\$ (825,571)</u>	<u>\$ 25,505,231</u>	<u>\$ 832,320</u>
Total Governmental Activities Long-term Liabilities	<u>\$ 14,518,114</u>	<u>\$ 11,812,688</u>	<u>\$ (825,571)</u>	<u>\$ 25,505,231</u>	<u>\$ 832,320</u>
Business-type Activities:					
Bonds and Notes Payable:					
Revenue Bonds Payable	<u>\$ 1,229,000</u>	<u>\$ 0</u>	<u>\$ (255,000)</u>	<u>\$ 974,000</u>	<u>\$ 271,000</u>
Total Bonds and Notes Payable	<u>\$ 1,229,000</u>	<u>\$ 0</u>	<u>\$ (255,000)</u>	<u>\$ 974,000</u>	<u>\$ 271,000</u>
Total Business-type Activities Long-term Liabilities	<u>\$ 1,229,000</u>	<u>\$ 0</u>	<u>\$ (255,000)</u>	<u>\$ 974,000</u>	<u>\$ 271,000</u>

J. DEFERRED REVENUE

Deferred revenue at year-end consisted of the following:

	<u>Governmental Funds</u>	<u>Enterprise Fund</u>	<u>Total</u>
Deferred Revenue	\$187,756	\$8,255	\$196,011
Total Deferred Revenue	<u>\$187,756</u>	<u>\$8,255</u>	<u>\$196,011</u>

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

K. COMMITMENTS AND CONTINGENCIES

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

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

L. RISK MANAGEMENT

The City is exposed to various risks of loss related to torts, theft, damage, or destruction of assets, errors and omissions, injuries to employees, and natural disasters. During fiscal year 2009, the city has maintained general liability coverage at a cost that is considered to be economically justifiable by joining together with other governmental entities in the State as a member of the Texas Municipal League Intergovernmental Risk Pool (“TML”). TML is a self-funded pool operating as a common risk management and insurance program. The City pays an annual premium to TML for its insurance coverage. The agreement for the formation of TML provides that TML will be self-sustaining through member premiums and will reinsure through commercial companies for claims in excess of acceptable risk levels; however each category of coverage has its own level of reinsurance. The City continues to carry commercial insurance for other risks of loss. There were no significant reductions in commercial insurance coverage in the past fiscal year and settled claims resulting from these risks have not exceeded coverage in any of the past three years.

M. CONCENTRATIONS OF CREDIT RISK

Proprietary fund accounts receivable are concentrated within the geographic service area of the utility system, which is within the City. 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 \$768,642. Utility customer deposits held at year end totaled \$ 302,632.

N. HEALTH CARE COVERAGE

During the year ended September 30, 2011, employees of the City were covered by a health insurance plan (the “Plan”). The City paid premiums of \$264 per month per employee to the Plan. Employees, at their option, authorized payroll withholdings to pay premiums for dependents. All premiums were paid to a licensed insurer. The Plan was authorized by Article 3.51-2, Texas Insurance Code and was documented by contractual agreement.

The contract between the City and the licensed insurer is renewable March 1, 2012, 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, 2011 and have been filed with the Texas Board of Insurance in Austin, Texas, and are public records.

O. CONSTRUCTION COMMITMENTS

New 6.0 MGD Water Treatment Plant	Contract Amount	Costs to Date	Remaining Commitment
Half Associates - Construction & Project Rep Svcs	\$ 441,000	\$ 392,000	\$ 49,000
Terracon - Materials Testing	170,000	126,832	43,168
CDM Constructors Inc (CCI) - CM Construction	16,870,262	12,387,965	4,482,297
CDM - Design Engineering (Executed 11/01/2007)	2,951,588	2,709,503	242,085
Wastewater Treatment Plant Upgrades			
R.P. Constructors Inc.	2,155,701	2,152,701	3,000
Melden & Hunt	316,000	315,295	705
Raba Kistner Consultants	950	950	-
2010 Capital Projects			
- RGC Municipal Park			
Negrete & Kolar Architects	137,300	117,803	19,497
Rio Delta Engineering	38,280	11,484	26,796
FJW Construction, LLC - Proposal 1	344,594	262,148	82,446
FJW Construction, LLC - Proposal 7	275,000	45,756	229,244
- Street Paving			
S & B Infrastructure	454,400	349,651	104,749
JF Utility Trenching	1,526,338	1,526,338	-
Totals	\$ 25,681,413	\$ 20,398,426	\$ 5,282,987

O. PRIOR PERIOD ADJUSTMENT

The City's net assets were decreased by \$(2,503,394) in the governmental funds and increased by \$ 1,227 in the proprietary funds due to restatement of capital assets (construction in progress) as a result of a comprehensive physical inventory conducted for the year.

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, 2011

EXHIBIT E-1

	Budgeted Amounts		Actual Amounts (GAAP BASIS)	Variance With Final Budget Positive or (Negative)
	Original	Final		
REVENUES:				
Taxes:				
Property Taxes	\$ 1,870,786	\$ 1,870,786	\$ 1,985,170	\$ 114,384
General Sales and Use Taxes	1,584,000	1,584,000	1,656,871	72,871
Franchise Tax	558,981	558,981	599,386	40,405
Penalty and Interest on Taxes	43,750	43,750	52,559	8,809
Licenses and Permits	123,939	123,939	101,538	(22,401)
Intergovernmental Revenue and Grants	15,000	15,000	246	(14,754)
Charges for Services	432,393	432,393	111,633	(320,760)
Fines	-	-	141,486	141,486
Investment Earnings	2,200	2,200	4,813	2,613
Rents and Royalties	7,200	7,200	7,200	-
Other Revenue	91,018	91,018	90,809	(209)
Total Revenues	4,729,267	4,729,267	4,751,711	22,444
EXPENDITURES:				
Current:				
General Government	782,816	782,816	854,946	(72,130)
Judicial	142,912	142,912	134,865	8,047
Public Safety	2,564,966	2,564,966	2,540,614	24,352
Public Works	624,149	624,149	595,121	29,028
Highways and Streets	115,500	115,500	153,874	(38,374)
Culture and Recreation	148,819	148,819	165,334	(16,515)
Libraries	170,122	170,122	199,950	(29,828)
Conservation and Development	286,971	286,971	300,776	(13,805)
Debt Service:				
Debt Principal	148,309	148,309	195,470	(47,161)
Debt Interest	31,004	31,004	31,393	(389)
Capital Outlay:				
Capital Outlay	5,200	5,200	103,650	(98,450)
Total Expenditures	5,020,768	5,020,768	5,275,993	(255,225)
Excess (Deficiency) of Revenues Over (Under) Expenditures	(291,501)	(291,501)	(524,282)	(232,781)
OTHER FINANCING SOURCES (USES):				
Proceeds from Capital Leases	-	-	28,290	28,290
Transfers In	297,500	297,500	300,938	3,438
Transfers Out (Use)	(6,000)	(6,000)	(35,524)	(29,524)
Total Other Financing Sources (Uses)	291,500	291,500	293,704	2,204
Net Change in Fund Balances	(1)	(1)	(230,578)	(230,577)
Fund Balance - October 1 (Beginning)	1,029,374	1,029,374	1,029,374	-
Prior Period Adjustment	-	-	(203)	(203)
Fund Balance - September 30 (Ending)	\$ 1,029,373	\$ 1,029,373	\$ 798,593	\$ (230,780)

CITY OF RIO GRANDE CITY
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL - EDC
FOR THE YEAR ENDED SEPTEMBER 30, 2011

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	\$ 791,000	\$ 791,000	\$ 828,435	\$ 37,435
Investment Earnings	3,000	3,000	10,655	7,655
Other Revenue	20,000	20,000	21,626	1,626
Total Revenues	814,000	814,000	860,716	46,716
EXPENDITURES:				
Current:				
Conservation and Development:				
Economic Development and Assistance	2,106,881	2,106,881	378,182	1,728,699
Capital Outlay:				
Capital Outlay	6,200	6,200	4,762	1,438
Total Expenditures	2,113,081	2,113,081	382,944	1,730,137
Excess (Deficiency) of Revenues Over (Under) Expenditures	(1,299,081)	(1,299,081)	477,772	1,776,853
OTHER FINANCING SOURCES (USES):				
Transfers In	35,000	35,000	35,000	-
Transfers Out (Use)	(127,500)	(127,500)	(222,362)	(94,862)
Total Other Financing Sources (Uses)	(92,500)	(92,500)	(187,362)	(94,862)
Change in Fund Balance	(1,391,581)	(1,391,581)	290,410	1,681,991
Fund Balance - October 1 (Beginning)	1,987,184	1,987,184	1,987,184	-
Fund Balance - September 30 (Ending)	\$ 595,603	\$ 595,603	\$ 2,277,594	\$ 1,681,991

The accompanying notes are an integral part of this statement.

CITY OF RIO GRANDE CITY
 COMBINING BALANCE SHEET
 NONMAJOR GOVERNMENTAL FUNDS
 SEPTEMBER 30, 2011

	Hotel Occupancy Tax Fund	Forfeiture Fund	HIDTA Task Force Fund	Treasury Forfeiture Fund
ASSETS				
Cash and Cash Equivalents	\$ 423,017	\$ 120,411	\$ 1,726	\$ 3,050
Investments - Current	-	-	-	-
Interest Receivable - investments	-	-	-	-
Taxes Receivable	-	-	-	-
Allowance for Uncollectible Taxes (credit)	-	-	-	-
Receivables (Net)	6,856	-	-	-
Intergovernmental Receivables	-	-	74,470	-
Due from Other Funds	67,428	-	-	9,413
Total Assets	<u>\$ 497,301</u>	<u>\$ 120,411</u>	<u>\$ 76,196</u>	<u>\$ 12,463</u>
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts Payable	\$ -	\$ 7,351	\$ -	\$ -
Retainage Payable	-	-	-	-
Due to Other Funds	-	-	76,196	-
Accrued Interest Payable	-	-	-	-
Deferred Revenues	-	-	-	-
Other Current Liabilities	-	-	-	-
Total Liabilities	<u>-</u>	<u>7,351</u>	<u>76,196</u>	<u>-</u>
Fund Balances:				
Reserved For:				
Retirement of Long Term Debt	-	-	-	-
Special Revenues	497,301	113,060	-	12,463
Construction	-	-	-	-
Total Fund Balances	<u>497,301</u>	<u>113,060</u>	<u>-</u>	<u>12,463</u>
Total Liabilities and Fund Balances	<u>\$ 497,301</u>	<u>\$ 120,411</u>	<u>\$ 76,196</u>	<u>\$ 12,463</u>

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

RGC Police Department Fund	Airport Fund	Border Security Fund	Stonegarden Fund	FEMA Fund	Buchalters Addition Escrow Fund	TDRA #729661 Grant Fund	CJD-ARRA Byrne Fund
\$ 148	\$ -	\$ 10,657	\$ -	\$ 20,104	\$ 187	\$ 50	\$ 50
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	87,843	-	-	-	-
-	-	-	-	-	-	-	-
<u>\$ 148</u>	<u>\$ -</u>	<u>\$ 10,657</u>	<u>\$ 87,843</u>	<u>\$ 20,104</u>	<u>\$ 187</u>	<u>\$ 50</u>	<u>\$ 50</u>
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
-	-	-	-	-	-	-	-
-	-	51	87,843	-	1	50	50
-	-	-	-	-	-	-	-
-	-	10,600	-	20,104	-	-	-
-	-	4	-	-	-	-	-
-	-	<u>10,655</u>	<u>87,843</u>	<u>20,104</u>	<u>1</u>	<u>50</u>	<u>50</u>
-	-	-	-	-	-	-	-
148	-	2	-	-	186	-	-
-	-	-	-	-	-	-	-
<u>148</u>	<u>-</u>	<u>2</u>	<u>-</u>	<u>-</u>	<u>186</u>	<u>-</u>	<u>-</u>
<u>\$ 148</u>	<u>\$ -</u>	<u>\$ 10,657</u>	<u>\$ 87,843</u>	<u>\$ 20,104</u>	<u>\$ 187</u>	<u>\$ 50</u>	<u>\$ 50</u>

CITY OF RIO GRANDE CITY
 COMBINING BALANCE SHEET
 NONMAJOR GOVERNMENTAL FUNDS
 SEPTEMBER 30, 2011

	SECO Fund	TDRA DRS010154 Fund	BECC WW Fund	Total Nonmajor Special Revenue Funds
ASSETS				
Cash and Cash Equivalents	\$ 49	\$ 50	\$ 538	\$ 580,037
Investments - Current	-	-	-	-
Interest Receivable - investments	-	-	-	-
Taxes Receivable	-	-	-	-
Allowance for Uncollectible Taxes (credit)	-	-	-	-
Receivables (Net)	-	-	-	6,856
Intergovernmental Receivables	57,576	-	-	219,889
Due from Other Funds	-	-	-	76,841
Total Assets	<u>\$ 57,625</u>	<u>\$ 50</u>	<u>\$ 538</u>	<u>\$ 883,623</u>
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts Payable	\$ -	\$ -	\$ -	\$ 7,351
Retainage Payable	-	-	-	-
Due to Other Funds	57,626	50	538	222,405
Accrued Interest Payable	-	-	-	-
Deferred Revenues	-	-	-	30,704
Other Current Liabilities	-	-	-	4
Total Liabilities	<u>57,626</u>	<u>50</u>	<u>538</u>	<u>260,464</u>
Fund Balances:				
Reserved For:				
Retirement of Long Term Debt	-	-	-	-
Special Revenues	(1)	-	-	623,159
Construction	-	-	-	-
Total Fund Balances	<u>(1)</u>	<u>-</u>	<u>-</u>	<u>623,159</u>
Total Liabilities and Fund Balances	<u>\$ 57,625</u>	<u>\$ 50</u>	<u>\$ 538</u>	<u>\$ 883,623</u>

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

Debt Service Fund	Capital Proj. Waste Water Fund	Total Nonmajor Governmental Funds
\$ 95,171	\$ 306,420	\$ 981,628
-	233,924	233,924
-	2	2
89,205	-	89,205
(53,054)	-	(53,054)
-	-	6,856
-	-	219,889
23,359	-	100,200
<u>\$ 154,681</u>	<u>\$ 540,346</u>	<u>\$ 1,578,650</u>
\$ 169	\$ 705	\$ 8,225
-	107,635	107,635
27,413	50	249,868
36,478	-	36,478
31,327	-	62,031
-	-	4
<u>95,387</u>	<u>108,390</u>	<u>464,241</u>
59,294	-	59,294
-	-	623,159
-	431,956	431,956
<u>59,294</u>	<u>431,956</u>	<u>1,114,409</u>
<u>\$ 154,681</u>	<u>\$ 540,346</u>	<u>\$ 1,578,650</u>

CITY OF RIO GRANDE CITY
 COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
 FUND BALANCES - NONMAJOR GOVERNMENTAL FUNDS
 FOR THE YEAR ENDED SEPTEMBER 30, 2011

	Hotel Occupancy Tax Fund	Forfeiture Fund	HIDTA Task Force Fund	Treasury Forfeiture Fund
REVENUES:				
Taxes:				
Property Taxes	\$ -	\$ -	\$ -	\$ -
Other Taxes	93,960	-	-	-
Penalty and Interest on Taxes	-	-	-	-
Intergovernmental Revenue and Grants	-	-	276,062	-
Forfeits	-	166,596	-	1,998
Investment Earnings	2,396	692	-	16
Total Revenues	<u>96,356</u>	<u>167,288</u>	<u>276,062</u>	<u>2,014</u>
EXPENDITURES:				
Current:				
General Government	2,537	-	-	-
Public Safety	-	105,421	276,062	-
Public Works	-	-	-	-
Debt Service:				
Debt Principal	-	-	-	-
Debt Interest	-	-	-	-
Fiscal Agent's Fees	-	-	-	-
Capital Outlay:				
Capital Outlay	-	76,584	-	-
Total Expenditures	<u>2,537</u>	<u>182,005</u>	<u>276,062</u>	<u>-</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>93,819</u>	<u>(14,717)</u>	<u>-</u>	<u>2,014</u>
OTHER FINANCING SOURCES (USES):				
Transfers In	-	-	-	-
Transfers Out (Use)	<u>(35,000)</u>	<u>(4,173)</u>	<u>-</u>	<u>-</u>
Total Other Financing Sources (Uses)	<u>(35,000)</u>	<u>(4,173)</u>	<u>-</u>	<u>-</u>
Net Change in Fund Balance	58,819	(18,890)	-	2,014
Fund Balance - October 1 (Beginning)	<u>438,482</u>	<u>131,950</u>	<u>-</u>	<u>10,449</u>
Fund Balance - September 30 (Ending)	<u>\$ 497,301</u>	<u>\$ 113,060</u>	<u>\$ -</u>	<u>\$ 12,463</u>

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

RGC Police Department Fund	Airport Fund	Border Security Fund	Stonegarden Fund	FEMA Fund	Buchalters Addition Escrow Fund	TDRA #729661 Grant Fund	CJD-ARRA Byrne Fund
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
2,267	-	-	273,040	-	-	121,378	67,322
-	-	-	-	-	-	-	-
8	-	-	-	-	110	-	-
<u>2,275</u>	<u>-</u>	<u>-</u>	<u>273,040</u>	<u>-</u>	<u>110</u>	<u>121,378</u>	<u>67,322</u>
-	-	-	-	-	-	-	-
4,231	4,790	-	273,040	-	-	-	3,600
-	-	-	-	-	-	3,600	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	117,778	63,957
<u>4,231</u>	<u>4,790</u>	<u>-</u>	<u>273,040</u>	<u>-</u>	<u>-</u>	<u>121,378</u>	<u>67,557</u>
(1,956)	(4,790)	-	-	-	110	-	(235)
500	4,790	-	-	-	-	-	235
-	-	-	-	-	-	-	-
<u>500</u>	<u>4,790</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>235</u>
(1,456)	-	-	-	-	110	-	-
<u>1,604</u>	<u>-</u>	<u>2</u>	<u>-</u>	<u>-</u>	<u>76</u>	<u>-</u>	<u>-</u>
<u>\$ 148</u>	<u>\$ -</u>	<u>\$ 2</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 186</u>	<u>\$ -</u>	<u>\$ -</u>

CITY OF RIO GRANDE CITY
 COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
 FUND BALANCES - NONMAJOR GOVERNMENTAL FUNDS
 FOR THE YEAR ENDED SEPTEMBER 30, 2011

	SECO Fund	TDRA DRS010154 Fund	BECC WW Fund	Total Nonmajor Special Revenue Funds
REVENUES:				
Taxes:				
Property Taxes	\$ -	\$ -	\$ -	\$ -
Other Taxes	-	-	-	93,960
Penalty and Interest on Taxes	-	-	-	-
Intergovernmental Revenue and Grants	-	117,928	4,200	862,197
Forfeits	-	-	-	168,594
Investment Earnings	-	-	-	3,222
Total Revenues	<u>-</u>	<u>117,928</u>	<u>4,200</u>	<u>1,127,973</u>
EXPENDITURES:				
Current:				
General Government	-	-	-	2,537
Public Safety	-	-	-	667,144
Public Works	3,692	3,158	4,200	14,650
Debt Service:				
Debt Principal	-	-	-	-
Debt Interest	-	-	-	-
Fiscal Agent's Fees	-	-	-	-
Capital Outlay:				
Capital Outlay	58,806	145,504	-	462,629
Total Expenditures	<u>62,498</u>	<u>148,662</u>	<u>4,200</u>	<u>1,146,960</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>(62,498)</u>	<u>(30,734)</u>	<u>-</u>	<u>(18,987)</u>
OTHER FINANCING SOURCES (USES):				
Transfers In	94,862	30,734	-	131,121
Transfers Out (Use)	-	-	-	(39,173)
Total Other Financing Sources (Uses)	<u>94,862</u>	<u>30,734</u>	<u>-</u>	<u>91,948</u>
Net Change in Fund Balance	32,364	-	-	72,961
Fund Balance - October 1 (Beginning)	<u>(32,365)</u>	<u>-</u>	<u>-</u>	<u>550,198</u>
Fund Balance - September 30 (Ending)	<u>\$ (1)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 623,159</u>

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

Debt Service Fund	Capital Proj. Waste Water Fund	Total Nonmajor Governmental Funds
\$ 447,115	\$ -	\$ 447,115
-	-	93,960
8,942	-	8,942
-	-	862,197
-	-	168,594
1,816	5,845	10,883
<u>457,873</u>	<u>5,845</u>	<u>1,591,691</u>
-	-	2,537
-	-	667,144
-	-	14,650
630,000	-	630,000
274,566	-	274,566
29,264	-	29,264
-	2,198,650	2,661,279
<u>933,830</u>	<u>2,198,650</u>	<u>4,279,440</u>
<u>(475,957)</u>	<u>(2,192,805)</u>	<u>(2,687,749)</u>
38,369	-	169,490
-	-	(39,173)
<u>38,369</u>	<u>-</u>	<u>130,317</u>
(437,588)	(2,192,805)	(2,557,432)
<u>496,882</u>	<u>2,624,761</u>	<u>3,671,841</u>
<u>\$ 59,294</u>	<u>\$ 431,956</u>	<u>\$ 1,114,409</u>

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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 *GOVERNMENT AUDITING STANDARDS*

Honorable Mayor and City Council
CITY OF RIO GRANDE CITY

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Rio Grande City, as of and for the year ended September 30, 2011, which collectively comprise the City of Rio Grande City's basic financial statements and have issued our report thereon dated March 9, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered City of Rio Grande City's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of City of Rio Grande City's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City of Rio Grande City's internal control over financial reporting.

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.

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

Compliance and Other Matters

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

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

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

Reyna & Garza, PLLC
Certified Public Accountants

March 9, 2012

Reyna & Garza, PLLC

Certified Public Accountants

2111 Jackson Creek Ave.

Edinburg, TX 78539

INDEPENDENT AUDITOR'S 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

Independent Auditor's Report

Honorable Mayor and City Council
City of Rio Grande City

Compliance

We have audited the compliance of City of Rio Grande City with the types of compliance requirements described in the U.S. *Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* and the *State of Texas Single Audit Circular* that could have a direct and material effect on each of its major federal and state programs for the year ended September 30, 2011. The City's major federal and state programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal and state programs is the responsibility of City of Rio Grande City's administrators. Our responsibility is to express an opinion on the City's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States; OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and the *State of Texas Single Audit Circular*. 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 and state 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. Our audit does not provide a legal determination of City of Rio Grande City's compliance with those requirements.

In our opinion, City of Rio Grande City complied, in all material respects, with the requirements referred to above that could have a direct and material effect on each of its major federal and programs for the year ended September 30, 2011.

Internal Control Over Compliance

The administration of City of Rio Grande City is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal and state programs. In planning and performing our audit, we considered the City's internal control over compliance with requirements that could have a direct and material effect on a major federal and state program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with *OMB Circular A-133* and the *State of Texas Single Audit Circular*, but not for the purpose of expressing an opinion of the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the 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 a combination of deficiencies such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal and state program will not be prevented, or detected and corrected, on a timely basis.

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

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

Reyna & Garza, PLLC
Certified Public Accountants

March 9, 2012

CITY OF RIO GRANDE CITY
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
Fiscal Year Ending September 30, 2011

Finding:

We noted that the City's public utilities department made several purchases from vendors for goods and/or services that exceeded the dollar threshold for formal competitive bidding. In these instances, there was no evidence that such purchases were secured through the formal procurement process prescribed by state law. State law prescribes that aggregate purchases during a year in excess of \$50,000 for any good or service, except for those items exempt, must be secured through a formal competitive bidding process.

Current Status:

In the current year audit, no matters regarding noncompliance with formal procurement requirements were noted.

CITY OF RIO GRANDE CITY
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 YEAR ENDED SEPTEMBER 30, 2011

G-1

DESCRIPTION	FEDERAL CFDA NUMBER	GRANTOR NUMBER	EXPENDITURES/ DISBURSEMENTS
<u>OFFICE OF NATIONAL DRUG CONTROL POLICY</u>			
High Intensity Drug Trafficking Area Task Force	07.616	I8PSSP616	5,880
High Intensity Drug Trafficking Area Task Force	07.616	G09SS0006A	5,963
High Intensity Drug Trafficking Area Task Force	07.616	G10SS0006A	121,439
High Intensity Drug Trafficking Area Task Force	07.616	G11SS0006A	142,780
Total-Office of National Drug Control Policy			276,062
<u>U.S. DEPARTMENT OF HOUSING & URBAN DEVELOPMENT</u>			
Passed through Texas Department of Agriculture	14.228	729661	121,378
Passed through Texas General land Office	14.228	DRS010154	117,928
Total-Department of Housing & Urban Development			239,306
<u>U.S. DEPARTMENT OF JUSTICE</u>			
Community Oriented Policing Services-Law Enforcement Technology	16.710	2009CKWX0614	246
Passed through Office of the Governor-Criminal Justice Division	16.803	SU-09-A10-23327-01	67,322 *
Total-Department of Justice			67,568
<u>U.S. ENVIRONMENTAL PROTECTION AGENCY</u>			
Congressionally Mandated Projects			
Passed through the Border Environment Cooperation Commission	66.202	TAA10-040	4,200
Total-Passed through BECC			4,200
Capitalization Grants for Drinking Water State Revolving Funds			
Passed through Texas Water Development Board -			
Drinking Water State Revolving Fund - Loan	66.468	L070018	3,299,398 **
Drinking Water State Revolving Fund - Disadvantaged Loan	66.468	L070017	8,485,000 **
Total-Passed through Texas Water Development Board			11,784,398
Total-Environmental Protection Agency			11,788,598
<u>U.S. DEPARTMENT OF HOMELAND SECURITY</u>			
Office for Domestic Preparedness			
Passed through Governor's Division of Emergency Management			
- Homeland Security Grant Program	97.067	2009-SJ-T9-0011	216,292
- Homeland Security Grant Program	97.067	2010-SS-T0-0008	56,748
Total-Department of Homeland Security			273,040
TOTAL FEDERAL AWARDS			\$ 12,644,574

*-Denotes Federal Stimulus-ARRA funds

** This grant has a State grant component in the total amount reflected.

CITY OF RIO GRANDE CITY
NOTES ON ACCOUNTING POLICIES FOR FEDERAL AWARDS
YEAR ENDED SEPTEMBER 30, 2011

- 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.