

CITY OF RIO GRANDE CITY, TEXAS
ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED SEPTEMBER 30, 2010

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Reyna & Garza, PLLC

Certified Public Accountants

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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, 2010, 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, 2010, 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 February 15, 2011, 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

February 15, 2011

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, 2010. Please read it in conjunction with the independent auditors' report on page 1, and the City's Basic Financial Statements, which begin on page 9.

FINANCIAL HIGHLIGHTS

- The City's net assets: increased by \$1,482,088 as a result of this year's operations. Net assets of our business-type activities: increased by \$240,731, or .2 percent, net assets of all governmental activities: increased, by \$1,241,357 or nearly 9.6 percent.
- During the year, the City had expenses that were \$ 1,241,357 less than the \$ 7.68 million generated in tax and other revenues for governmental programs (before special items).
- In the City's business-type activities, revenues increased from \$3.6 million to \$ 3.8 million (or 5.3 percent) while expenses also increased from \$2.6 million to \$ 3.1 million (or 19.2 percent).
- Total cost of all of the City's programs increased from \$8.5 million to \$ 9.5 million (or 11.8 percent).
- The General Fund ended the year with a fund balance of \$ 1.0 million.
- The resources available for appropriation were \$ 356 thousand less than budgeted for the General Fund.

USING THIS ANNUAL REPORT

This annual report consists of a series of financial statements. The government-wide financial statements include the Statement of Net Assets and the Statement of Activities on pages 9 and 10. These provide information about the activities of the City as a whole and present a longer-term view of the City's property and debt obligations and other financial matters. They reflect the flow of total economic resources in a manner similar to the financial reports of a business enterprise.

Fund financial statements starting on page 12 report the City's operations in more detail than the government-wide statements by providing information about the City's most significant funds. For governmental activities, these statements tell how services were financed in the short term as well as what resources remain for future spending. They reflect the flow of current financial resources, and supply the basis for tax levies and the appropriations budget. For proprietary activities, fund financial statements tell how goods or services of the City were sold to external customers and how the sales revenues covered the expenses of the goods or services. The remaining statements, fiduciary statements (when applicable), provide financial information

about activities for which the City acts solely as a trustee or agent for the benefit of those outside of the City.

The notes to the financial statements (starting on page 22) provide narrative explanations or additional data needed for full disclosure in the government-wide statements or the fund financial statements.

The combining statements for non-major funds contain even more information about the City's individual funds.

Reporting the City as a Whole

The Statement of Net Assets and the Statement of Activities

The analysis of the City's overall financial condition and operations begins on page 9. Its primary purpose is to show whether the City is better off or worse off as a result of the year's activities. The Statement of Net Assets includes all the City's assets and liabilities at the end of the year while the Statement of Activities includes all the revenues and expenses generated by the City's operations during the year. These apply the accrual basis of accounting which is the basis used by private sector companies.

All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid. All the City's assets are reported whether they serve the current year or future years. Liabilities are considered regardless of whether they must be paid in the current or future years.

These two statements report the City's net assets and changes in them. The City's net assets (the difference between assets and liabilities) provide one measure of the City's financial health, or financial position. Over time, increases or decreases in the City's net assets are one indicator of whether its financial health is improving or deteriorating. To fully assess the overall health of the City, however, you should consider non-financial factors as well, such as changes in the City's property tax base and the condition of the City's facilities.

In the Statement of Net Assets and the Statement of Activities, we divide the City into two kinds of activities:

- **Governmental activities**—Most of the City's basic services are reported here, including public safety, public works, culture and recreation, economic development and assistance, and general administration. Property taxes, sales taxes, franchise taxes, charges for services, and state and federal grants finance most of these activities.

- **Business-type activities**—The City charges a fee to “customers” to help it cover all or most of the cost of providing services such as water, sewer, and solid waste services.

Reporting the City's Most Significant Funds

Fund Financial Statements

The fund financial statements begin on page 12 and provide detailed information about the most significant funds—not the City as a whole. Laws and/or contracts require the City to establish some funds, such as grants received under the certain programs. The City's administration establishes several other funds to help it control and manage money for particular purposes. The City's two kinds of funds—governmental and proprietary—use different accounting approaches.

· Governmental funds—Most of the City's basic services are reported in governmental funds. These use modified accrual accounting (a method that measures the receipt and disbursement of cash and all other financial assets that can be readily converted to cash) and report balances that are available for future spending. The governmental fund statements provide a detailed short-term view of the City's general operations and the basic services it provides. We describe the differences between governmental activities (reported in the Statement of Net Assets and the Statement of Activities) and governmental funds in reconciliation schedules following each of the fund financial statements.

· Proprietary funds—The City reports the activities for which it charges users (whether outside customers or other units of the City) in proprietary funds using the same accounting methods employed in the Statement of Net Assets and the Statement of Activities. In fact, the City's enterprise funds (one category of proprietary funds) are the business-type activities reported in the government-wide statements but containing more detail and additional information, such as cash flows.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Our analysis focuses on the net assets (Table I) and changes in net assets (Table II) of the City's governmental and business-type activities.

Net assets of the City's governmental activities increased from \$12.88 million to \$14.2 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 \$ 1.1 million at September 30, 2010.

In 2010, net assets of our business-type activities increased by \$ 241 thousand, or nearly .2 percent. This increase is very minimal in relation to the overall operations of the City.

Table I
CITY OF RIO GRANDE CITY, TEXAS

NET ASSETS

	Governmental Activities 2010	Governmental Activities 2009	Business-type Activities 2010	Business-type Activities 2009	Total 2010	Total 2009
Current and other assets	\$ 15,620,716	\$ 7,355,652	\$ 3,397,601	\$ 3,398,697	\$ 19,018,317	\$ 10,120,341
Capital assets	14,947,888	10,623,066	10,772,508	10,821,466	25,720,396	21,444,532
Total assets	\$30,568,604	\$17,978,718	\$ 14,170,109	\$ 14,220,163	\$ 44,738,713	\$ 32,198,881
Long-term liabilities	14,518,114	4,790,178	1,229,000	1,472,000	15,747,114	6,262,178
Other liabilities	1,884,283	308,942	445,102	419,878	2,329,385	728,820
Total liabilities	\$ 16,402,397	\$ 5,099,120	\$ 1,674,102	\$ 1,891,878	\$ 18,076,499	\$ 6,990,998
Net Assets:						
Invested in capital assets net of related debt	1,007,417	6,600,125	9,543,508	9,349,466	\$ 10,550,925	\$ 15,949,591
Restricted	12,021,803	0	0	0	12,021,803	0
Unrestricted	1,136,987	6,279,473	2,952,499	2,978,819	4,089,486	9,258,292
Total net assets	\$ 14,166,207	\$ 12,879,598	\$ 12,496,007	\$ 12,328,285	\$ 26,662,214	\$ 25,207,883

Table II
CITY OF RIO GRANDE CITY, TEXAS

CHANGES IN NET ASSETS

	Governmental Activities 2010	Governmental Activities 2009	Business-type Activities 2010	Business-type Activities 2009	Total 2010	Total 2009
Revenues:						
Program Revenues:						
Charges for Services	210,981	423,707	3,845,933	3,635,355	4,056,974	4,059,062
General Revenues:						
Maintenance and operations taxes	1,515,475	1,445,327	0	0	1,515,475	1,445,327
Grants	1,483,732	1,868,618	0	0	1,483,732	1,868,618
Sales Taxes	2,368,978	2,512,798	0	0	2,368,978	2,512,798
Franchise Taxes	552,720	551,876	0	0	552,720	551,876
Investment Earnings	34,050	23,851	4,393	8,238	38,443	32,089
Miscellaneous	843,345	513,323	113,714	106,811	957,059	620,134
Total Revenue	\$ 7,009,281	\$ 7,339,500	\$ 3,964,100	\$ 3,750,404	\$ 10,973,381	\$ 11,089,904
Expenses:						
General Government	818,575	697,203	0	0	818,575	697,203
Judicial	142,824	116,034	0	0	142,824	116,034
Public Safety	2,979,185	2,874,952	0	0	2,979,185	2,874,952
Public Works	691,845	613,340	0	0	691,845	613,340
Highways and Streets	150,283	122,500	0	0	150,283	122,500
Culture and Recreation	500,689	288,788	0	0	500,689	288,788
Libraries	183,481	161,172	0	0	183,481	161,172
Conservation & Development	329,117	278,977	0	0	329,117	278,977
Economic Development	560,539	627,094	0	0	560,539	627,094
Bond Interest & Cap Outlay	77,508	57,744	0	0	77,508	57,744
Utility I&S Fund	0	0	3,057,247	2,616,877	3,057,247	2,616,877
Total Expenses	\$ 6,434,046	\$ 5,837,804	\$ 3,057,247	\$ 2,616,877	\$ 9,491,293	\$ 8,454,681
Increase in net assets before transfers and special items	575,235	1,501,696	906,853	1,133,527	1,482,088	2,635,223
Transfers	666,122	316,398	(666,122)	(316,398)	0	0
Special Items - Resources	0	0	0	(2,674)	0	(2,674)
Special Items-Prior Period Adjustments	45,251	(96,606)	(73,009)	0	(27,758)	(96,606)
Net assets at 10/1	\$ 12,879,599	\$ 11,158,111	\$ 12,328,285	\$ 11,513,830	\$ 25,207,884	\$ 22,671,941
Net assets at 9/30	\$ 14,166,207	\$ 12,879,599	\$ 12,496,007	\$ 12,328,285	\$ 26,662,214	\$ 25,207,884

The cost of all governmental activities this year was \$ 9.5 million. However, as shown in the Statement of Activities on pages 10 and 11, the amount that our taxpayers ultimately financed for these activities through City ad-valorem property taxes was only \$ 1.5 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 \$ 13.1 million, which is above last year's total of \$ 6.2 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 \$ 1.0 million reported on page 12 differs from the General Fund's budgetary fund balance of \$ 1.39 million reported in the General Fund budgetary comparison schedule on page 38. This is principally due to sales tax and ad-valorem tax revenues not meeting projections.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At the end of the 2009-10 year, the City had \$ 25.7 million invested in a broad range of capital assets, including facilities, land, infrastructure, vehicles, and equipment. The most significant current year addition was approximately \$4.3 million in construction in progress related to water and waste water improvements.

Debt

In the prior year, the City closed on three new debt issues valued at a total of \$23,585,000 from the Texas Water Development Board for water and wastewater projects. Of the total amount of bonds issued, \$7,400,000 of proceeds have been drawn down as of 2009-2010. In September of 2010, the City also closed on \$6.5 million in Certificates of Obligation for a capital improvement project for parks and streets. At year-end, the City had \$ 15.7 million in bonds, capital leases, and notes outstanding versus \$ 6.35 million last year, an increase of 1.5 percent.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The economic recession hit the City hardest in the 2009-2010 budget year. Sales tax saw a decrease of an unprecedented 7% from the previous year. Meanwhile, the City worked on funding a capital improvement plan that will see about 70% of the City's streets repaved or overlaid, as well as construction of a \$1.6 million park with 50% funding from a Texas Parks and Wildlife grant. The City's elected and appointed officials considered all these factors when setting the 2010-2011 budget and tax rate. On September 30th, the City Commission voted to levy

a total tax rate of \$.506 on a \$100 assessed valuation. This includes a Maintenance and Operations rate of \$.356 and an Interest and Sinking rate of \$.15, which is a first for the City. The total rate is an increase of about 42.08% from last year's rate. However, the rate set for M&O is the calculated effective rate, so virtually all of the increase is due the I&S rate. The increase was necessary to fund the debt service for a \$6.5 million Certificate of Obligation which will pay for the 2010-2011 capital improvements.

The budget provided for increases to most expenditures in response to the effect of inflation on the cost of providing municipal services. The Municipal Cost Index (MCI) measures the effect of inflation on cities, and reveals an increase of 3.1% over the previous twelve months. There was no new staff added in the 2010-2011 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 Water Plant and Wastewater Plant projects are continuing construction and are both on schedule.

The Enterprise Fund-Public Utilities Department implemented the third 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 2010-2011 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, 2010

EXHIBIT A-1

	Primary Government		Total
	Governmental Activities	Business Type Activities	
ASSETS			
Cash and Cash Equivalents	\$ 11,080,892	\$ 647,188	\$ 11,728,080
Investments - Current	1,948,324	1,509,349	3,457,673
Receivables (net of allowance for uncollectibles)	2,446,549	776,897	3,223,446
Internal Balances	(433,661)	433,661	-
Inventories	-	11,796	11,796
Deferred Charges	-	18,096	18,096
Capitalized Debt Issuance Costs	577,643	-	577,643
Capital Assets:			
Land	851,810	339,036	1,190,846
Infrastructure, net	5,284,055	9,777,695	15,061,750
Buildings, net	987,144	523,566	1,510,710
Machinery and Equipment, net	1,671,549	132,211	1,803,760
Construction in Progress	6,153,330	-	6,153,330
Other Assets	969	614	1,583
Total Assets	<u>30,568,604</u>	<u>14,170,109</u>	<u>44,738,713</u>
LIABILITIES			
Accounts Payable	1,811,730	120,287	1,932,017
Intergovernmental Payable	15,408	-	15,408
Accrued Interest Payable	14,661	13,928	28,589
Deferred Revenues	41,834	8,255	50,089
	650	302,632	303,282
Noncurrent Liabilities			
Due Within One Year	900,112	255,000	1,155,112
Due in More Than One Year	13,618,002	974,000	14,592,002
Total Liabilities	<u>16,402,397</u>	<u>1,674,102</u>	<u>18,076,499</u>
NET ASSETS			
Invested in Capital Assets, Net of Related Debt	1,007,417	9,543,508	10,550,925
Restricted for:			
Restricted for Debt Service	496,882	-	496,882
Restricted for Capital Projects	6,411,593	-	6,411,593
Restricted for State & Federal Programs	5,113,328	-	5,113,328
Unrestricted Net Assets	1,136,987	2,952,499	4,089,486
Total Net Assets	<u>\$ 14,166,207</u>	<u>\$ 12,496,007</u>	<u>\$ 26,662,214</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, 2010

	Expenses	Program Revenues <u>Charges for Services</u>
Primary Government:		
GOVERNMENTAL ACTIVITIES:		
General Government	\$ 818,575	\$ -
Judicial	142,824	-
Public Safety	2,979,185	-
Public Works	691,845	220,981
Highways and Streets	150,283	-
Culture and Recreation	500,689	-
Libraries	183,481	-
Conservation and Development	329,117	-
Economic Development and Assistance	560,539	-
Debt Service Interest	61,273	-
Fiscal Agent's Fees	5,188	-
Issuance Costs	11,047	-
Total Governmental Activities:	6,434,046	220,981
BUSINESS-TYPE ACTIVITIES:		
Total Business-Type Activities:	3,057,247	3,845,993
Total Business-Type Activities:	3,057,247	3,845,993
TOTAL PRIMARY GOVERNMENT:	\$ 9,491,293	\$ 4,066,974

General Revenues:

Taxes:

Property Taxes, Levied for General Purposes
Sales Taxes
Franchise Taxes
Other Taxes
Penalty and Interest
Grants and Contributions Not Restricted
Miscellaneous Revenue
Investment Earnings
Transfers In (Out)
Total General Revenues and Transfers

Change in Net Assets

Net Assets--Beginning
Prior Period Adjustment
Net Assets--Ending

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

Net (Expense) Revenue and Changes in Net Assets		
Primary Government		
Governmental Activities	Business-type Activities	Total
\$ (818,575)	\$ -	\$ (818,575)
(142,824)	-	(142,824)
(2,979,185)	-	(2,979,185)
(470,864)	-	(470,864)
(150,283)	-	(150,283)
(500,689)	-	(500,689)
(183,481)	-	(183,481)
(329,117)	-	(329,117)
(560,539)	-	(560,539)
(61,273)	-	(61,273)
(5,188)	-	(5,188)
(11,047)	-	(11,047)
<u>(6,213,065)</u>	<u>-</u>	<u>(6,213,065)</u>
-	788,746	788,746
-	788,746	788,746
<u>(6,213,065)</u>	<u>788,746</u>	<u>(5,424,319)</u>
1,515,475	-	1,515,475
2,368,978	-	2,368,978
552,720	-	552,720
112,996	-	112,996
45,508	-	45,508
1,483,732	-	1,483,732
674,841	113,714	788,555
34,050	4,393	38,443
666,122	(666,122)	-
<u>7,454,422</u>	<u>(548,015)</u>	<u>6,906,407</u>
1,241,357	240,731	1,482,088
12,879,599	12,328,285	25,207,884
45,251	(73,009)	(27,758)
<u>\$ 14,166,207</u>	<u>\$ 12,496,007</u>	<u>\$ 26,662,214</u>

CITY OF RIO GRANDE CITY
BALANCE SHEET
GOVERNMENTAL FUNDS
SEPTEMBER 30, 2010

	General Fund	Major Sp. Rev Economic Dev Fund	Major Sp. Rev Stonegarden Fund
ASSETS			
Cash and Cash Equivalents	\$ 172,487	\$ 862,935	\$ -
Investments - Current	713,269	1,001,816	-
Interest Receivable - investments	-	-	-
Taxes Receivable	593,136	-	-
Allowance for Uncollectible Taxes (credit)	(466,749)	-	-
Receivables (Net)	84,705	-	-
Intergovernmental Receivables	192,231	63,139	287,983
Due from Other Funds	277,906	70,109	-
Other Assets	969	-	-
Total Assets	\$ 1,567,954	\$ 1,997,999	\$ 287,983
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts Payable	\$ 96,895	\$ 5,669	\$ -
Wages and Salaries Payable	87,840	4,483	-
Intergovernmental Payable	15,408	-	-
Due to Other Funds	227,608	13	287,983
Accrued Interest Payable	-	-	-
Deferred Revenues	110,829	-	-
Other Current Liabilities	-	650	-
Total Liabilities	538,580	10,815	287,983
Fund Balances:			
Reserved For:			
Debt Service	-	-	-
Construction	-	-	-
Unreserved and Undesignated:			
Reported in the General Fund	1,029,374	-	-
Reported in the Special Revenue Fund	-	1,987,184	-
Total Fund Balances	1,029,374	1,987,184	-
Total Liabilities and Fund Balances	\$ 1,567,954	\$ 1,997,999	\$ 287,983

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

Major Cap. Proj. Water Plant Improv. Fund	Major Cap. Proj. Waste Water Improv. Fund	Capital Projects	Other Funds	Total Governmental Funds
\$ 97,011	\$ 2,397,131	\$ 6,466,644	\$ 1,084,684	\$ 11,080,892
-	233,239	-	-	1,948,324
-	81	-	-	81
-	-	-	-	593,136
-	-	-	-	(466,749)
-	-	-	8,517	93,222
1,420,000	-	-	263,506	2,226,859
-	-	-	76,841	424,856
-	-	-	-	969
<u>\$ 1,517,011</u>	<u>\$ 2,630,451</u>	<u>\$ 6,466,644</u>	<u>\$ 1,433,548</u>	<u>\$ 15,901,590</u>
\$ 1,456,725	\$ 5,640	\$ 55,001	\$ 99,477	\$ 1,719,407
-	-	-	-	92,323
-	-	-	-	15,408
109,100	50	50	233,713	858,517
-	-	-	14,661	14,661
-	-	-	38,618	149,447
-	-	-	-	650
<u>1,565,825</u>	<u>5,690</u>	<u>55,051</u>	<u>\$ 386,469</u>	<u>2,850,413</u>
-	-	-	496,882	496,882
-	-	6,411,593	-	6,411,593
-	-	-	-	1,029,374
(48,814)	2,624,761	-	550,197	5,113,328
<u>(48,814)</u>	<u>2,624,761</u>	<u>6,411,593</u>	<u>\$ 1,047,079</u>	<u>13,051,177</u>
<u>\$ 1,517,011</u>	<u>\$ 2,630,451</u>	<u>\$ 6,466,644</u>	<u>\$ 1,433,548</u>	<u>\$ 15,901,590</u>

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CITY OF RIO GRANDE CITY
 RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE
 STATEMENT OF NET ASSETS
 SEPTEMBER 30, 2010

Total Fund Balances - Governmental Funds	\$	13,051,177
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 \$12,416,236 and the accumulated depreciation was \$1,793,170. 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 net assets.		5,832,888
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 2010 capital outlays and debt principal payments is to increase net assets.		5,076,326
The 2010 depreciation expense increases accumulated depreciation. The net effect of the current year's depreciation is to decrease net assets.		(311,515)
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.		(9,482,669)
Net Assets of Governmental Activities	\$	14,166,207

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

CITY OF RIO GRANDE CITY
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2010

	General Fund	Major Sp. Rev Economic Dev Fund	Major Sp. Rev Stonegarden Fund
REVENUES:			
Taxes:			
Property Taxes	\$ 1,882,753	\$ -	\$ -
General Sales and Use Taxes	1,579,319	789,659	-
Franchise Tax	552,720	-	-
Other Taxes	8,999	-	-
Penalty and Interest on Taxes	45,508	-	-
Licenses and Permits	120,857	-	-
Intergovernmental Revenue and Grants	68,322	-	445,898
Charges for Services	220,981	-	-
Fines	149,134	-	-
Forfeits	-	-	-
Investment Earnings	2,591	4,253	-
Rents and Royalties	6,600	-	-
Contributions & Donations from Private Sources	1,191	-	-
Other Revenue	90,333	16,197	-
Total Revenues	4,729,308	810,109	445,898
EXPENDITURES:			
Current:			
General Government	834,982	-	-
Judicial	142,824	-	-
Public Safety	2,452,233	-	321,348
Public Works	600,939	-	-
Highways and Streets	150,283	-	-
Culture and Recreation	145,074	-	-
Libraries	183,481	-	-
Conservation and Development	285,505	-	-
Economic Development and Assistance	-	552,781	-
Debt Service:			
Principal	191,288	-	-
Interest	35,258	-	-
Fiscal Agent's Fees	-	-	-
Capital Outlay:			
Capital Outlay	200,310	6,206	124,550
Total Expenditures	5,222,177	558,987	445,898
Excess (Deficiency) of Revenues Over (Under) Expenditures	(492,869)	251,122	-
OTHER FINANCING SOURCES (USES):			
Capital-related Debt Issued (Regular Bonds)	-	-	-
Proceeds from Capital Leases	114,224	-	-
Transfers In	270,000	30,000	-
Transfers Out (Use)	(10,734)	(125,751)	-
Total Other Financing Sources (Uses)	373,490	(95,751)	-
Net Change in Fund Balances	(119,379)	155,371	-
Fund Balance - October 1 (Beginning)	1,221,951	1,834,939	-
Prior Period Adjustment	(73,198)	(3,126)	-
Fund Balance - September 30 (Ending)	\$ 1,029,374	\$ 1,987,184	\$ -

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

Major Sp. Rev Water Plant Improv. Fund	Major Sp Rev Waste Water Improv. Fund	Capital Projects	Other Funds	Total Governmental Funds
\$ -	\$ -	\$ -	\$ -	\$ 1,882,753
-	-	-	-	2,368,978
-	-	-	-	552,720
-	-	-	103,997	112,996
-	-	-	-	45,508
-	-	-	-	120,857
-	-	-	968,321	1,482,541
-	-	-	-	220,981
-	-	-	-	149,134
-	-	-	291,720	291,720
564	3,845	20,560	2,237	34,050
-	-	-	-	6,600
-	-	-	-	1,191
-	-	-	-	106,530
<u>564</u>	<u>3,845</u>	<u>20,560</u>	<u>1,366,275</u>	<u>7,376,559</u>
-	-	-	-	834,982
-	-	-	-	142,824
-	-	-	383,655	3,157,236
-	-	-	50,409	651,348
-	-	-	-	150,283
-	-	-	-	145,074
-	-	-	-	183,481
-	-	-	-	285,505
-	-	-	7,758	560,539
-	-	-	-	191,288
-	-	-	26,015	61,273
-	-	-	5,188	5,188
<u>3,274,895</u>	<u>126,454</u>	<u>288,210</u>	<u>798,164</u>	<u>4,818,789</u>
<u>3,274,895</u>	<u>126,454</u>	<u>288,210</u>	<u>1,271,189</u>	<u>11,187,810</u>
<u>(3,274,331)</u>	<u>(122,609)</u>	<u>(267,650)</u>	<u>95,086</u>	<u>(3,811,251)</u>
3,305,000	-	6,678,547	-	9,983,547
-	-	-	-	114,224
-	92,000	19,662	441,101	852,763
-	-	(18,966)	(31,190)	(186,641)
<u>3,305,000</u>	<u>92,000</u>	<u>6,679,243</u>	<u>409,911</u>	<u>10,763,893</u>
30,669	(30,609)	6,411,593	504,997	6,952,642
(79,483)	2,655,370	-	542,082	6,174,859
-	-	-	-	(76,324)
<u>\$ (48,814)</u>	<u>\$ 2,624,761</u>	<u>\$ 6,411,593</u>	<u>\$ 1,047,079</u>	<u>\$ 13,051,177</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, 2010

Total Net Change in Fund Balances - Governmental Funds	\$	6,952,642
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 2010 capital outlays and debt principal payments is to increase net assets.		5,076,326
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.		(311,515)
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.		(10,476,096)
Change in Net Assets of Governmental Activities	\$	1,241,357

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, 2010

	Business Type Activities
	Enterprise Fund
ASSETS	
Current Assets:	
Cash and Cash Equivalents	\$ 647,188
Investments - Current	1,509,349
Taxes Receivable	8,255
Accounts Receivable-Net of Uncollectible Allowance	768,642
Due from Other Funds	433,661
Inventories	11,796
Deferred Charges	18,096
Total Current Assets	<u>3,396,987</u>
Noncurrent Assets:	
Capital Assets:	
Land Purchase and Improvements	339,036
Infrastructure	11,717,840
Accumulated Depreciation - Infrastructure	(1,940,145)
Buildings	599,223
Accumulated Depreciation - Buildings	(75,657)
Machinery and Equipment	305,772
Accumulated Depreciation - Machinery & Equipment	(173,561)
Other Asset	614
Total Noncurrent Assets	<u>10,773,122</u>
Total Assets	<u>14,170,109</u>
LIABILITIES	
Current Liabilities:	
Accounts Payable	99,549
Wages and Salaries Payable	20,738
Accrued Interest Payable	13,928
Deferred Revenue	8,255
Bonds Payable - Current:	
Bonds Payable - Current	255,000
Other Current Liabilities	302,632
Total Current Liabilities	<u>700,102</u>
NonCurrent Liabilities:	
Bonds Payable - Noncurrent	974,000
Total Noncurrent Liabilities	<u>974,000</u>
Total Liabilities	<u>1,674,102</u>
NET ASSETS	
Investments in Capital Assets, Net of Debt	9,543,508
Unrestricted Net Assets	2,952,499
Total Net Assets	<u>\$ 12,496,007</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, 2010

EXHIBIT D-2 (Cont'd)

	Business Type Activities
	Enterprise Fund
OPERATING REVENUES:	
Charges for Water Services	\$ 2,568,101
Charges for Sewerage Service	1,232,304
Charges for Sanitation Service	45,588
Investment Earnings	4,393
Other Revenue	113,715
Total Operating Revenues	3,964,101
OPERATING EXPENSES:	
Proprietary Fund Function - Water	
Personnel Services - Salaries and Wages	377,246
Personnel Services - Employee Benefits	142,231
Purchased Professional & Technical Services	185,676
Purchased Property Services	77,806
Other Operating Expenses	14,438
Supplies	658,579
Total Proprietary Fund Function - Water	1,455,976
Proprietary Fund Function - Sewage	
Personnel Services - Salaries and Wages	158,148
Personnel Services - Employee Benefits	42,868
Purchased Professional & Technical Services	109,783
Purchased Property Services	207,687
Other Operating Expenses	29,737
Supplies	321,686
Total Proprietary Fund Function - Sewage	869,909
Proprietary Fund Function - Admin. & Coll.	
Personnel Services - Salaries and Wages	215,522
Personnel Services - Employee Benefits	69,669
Purchased Professional & Technical Services	8,500
Purchased Property Services	24,322
Other Operating Expenses	196,798
Supplies	58,930
Total Proprietary Fund Function - Admin. & Coll.	573,741
Proprietary Fund Function - Debt Issuance Costs	
Purchased Professional & Technical Services	3,816
Other Operating Expenses	1,524
Total Proprietary Fund Function - Debt Issuance Costs	5,340
Depreciation	79,996
Interest Expense	72,285
Total Operating Expenses	3,057,247
Income Before Transfers	906,854
Transfers Out	(666,122)

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, 2010

	Business Type Activities
	Enterprise Fund
Change in Net Assets	240,732
Total Net Assets - October 1 (Beginning)	12,328,285
Prior Period Adjustment	(73,009)
Total Net Assets - September 30 (Ending)	<u>\$ 12,496,007</u>

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

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CITY OF RIO GRANDE CITY
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2010

	Business Type Activities
	Enterprise Fund
<u>Cash Flows from Operating Activities:</u>	
Cash Received from User Charges	\$ 3,845,993
Cash Received from Other Revenues	118,008
Cash Payments to Employees for Services	(1,005,684)
Cash Payments for Services	(617,590)
Cash Payments for Suppliers	(1,039,195)
Cash Payments for Other Operating Expenses	(444,648)
Net Cash Provided by Operating Activities	<u>856,884</u>
<u>Cash Flows from Non-Capital Financing Activities:</u>	
Increase(decrease) in Short-term Loans	(10,388)
Operating Transfer Out	(666,122)
Increase(decrease) in Bonds Payable	(243,000)
Net Cash Provided by (Used for) Non-Capital Financing Activities	<u>(919,510)</u>
<u>Cash Flows from Capital & Related Financing Activities:</u>	
Acquisition of Capital Assets	(59,379)
Other	24,243
Net Cash Provided by (Used for) Capital & Related Financing Activities	<u>(35,136)</u>
Net Increase(Decrease) in Cash and Cash Equivalents	(97,762)
Cash and Cash Equivalents at Beginning of the Year:	<u>744,880</u>
Cash and Cash Equivalents at the End of the Year:	<u>\$ 647,118</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, 2010

	Business Type Activities
	Enterprise Fund
<hr/>	
<u>Reconciliation of Operating Income to Net Cash</u>	
<u>Provided By Operating Activities:</u>	
Operating Income:	\$ 906,854
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:	
Depreciation	79,996
Effect of Increases and Decreases in Current Assets and Liabilities:	
Decrease (increase) in Receivables	115,165
Decrease (increase) in Inventories	4,580
Increase (decrease) in Accounts Payable	(13,069)
(Increase) decrease in Other Assets	2,175
(Increase) decrease in Interfund Receivable	(214,489)
Increase (decrease) in Other Current Liabilities	30,634
Increase (decrease) in Accrued Interest Payable	(2,691)
Increase (decrease) in Wages Payable	20,738
Increase(decrease) Prior Period Adjustment	(73,009)
Net Cash Provided by Operating Activities	<u>\$ 856,884</u>
<u>Reconciliation of Total Cash and Cash Equivalents:</u>	
Cash & Cash Equivalents - Statement of Net Assets	<u>\$ 647,118</u>
	<hr/>

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

CITY OF RIO GRANDE CITY
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED SEPTEMBER 30, 2010

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. REPORTING ENTITY

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

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

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

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

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

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

B. GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

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

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

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

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

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

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

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

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

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

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

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

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

D. FUND ACCOUNTING

The City reports the following major governmental funds:

1. **The General Fund** – The general fund is the City's primary operating fund. It accounts for all financial resources except those required to be accounted for in another fund.
2. **The Economic Development Corporation Fund** – This fund is a special revenue fund to account for the ½ cent sales and use tax for economic and industrial development. Since the sales and use tax is approved specifically for such expenditures, the EDC fund is considered a Special Revenue Fund.
3. **The Stonegarden Fund** – This fund is a special revenue fund This fund is a special revenue fund used to account for the activity related to this grant.
4. **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. **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.
6. **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	1,186,761	(224,664)	962,097	
Furniture & Equipment	3,229,380	(1,568,506)	1,660,874	
Infrastructure	5,284,055	0	5,284,055	
Construction in Progress	<u>1,864,230</u>	<u>0</u>	<u>1,864,230</u>	
Change in Net Assets				<u>\$ 10,623,066</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			\$ 319,600	
Loans Payable			375,578	
Bonds Payable			<u>4,095,000</u>	
Change in Net Assets				<u>\$ (4,790,178)</u>
 Net Adjustment to Net Assets				 <u>\$ 5,832,888</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	\$ 4,885,038	\$ 4,885,038	\$ 4,885,038
Total Capital Outlay	<u>\$ 4,885,038</u>	<u>\$ 4,885,038</u>	<u>\$ 4,885,038</u>
<u>Debt Principal Payments</u>			
Capital Lease Principal	\$ 159,680	\$ 159,680	\$ 159,680
Loan Principal	<u>31,608</u>	<u>31,608</u>	<u>31,608</u>
Total Principal Payments	<u>\$ 191,288</u>	<u>\$ 191,288</u>	<u>\$ 191,288</u>
Total Adjustment to Net Assets		<u>\$ 5,076,326</u>	<u>\$ 5,076,326</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	\$ 83,802	\$ (83,802)	\$ 0
Uncollected taxes (assumed collectible) from Current Year Levy	\$ 75,626	\$ 75,626	\$ 75,626
Uncollected Taxes from prior year deemed collectible	\$ 31,987	\$ 0	\$ 31,987
Other	\$ 699,218	\$ (548,696)	\$ 699,218
<u>Reclassify Proceeds of Bonds, Loans & Capital Leases</u>			
Retirement of Capital Assets	\$ 370,276	\$ 0	\$ (370,276)
Capital Leases	\$ 114,224	\$ (114,224)	\$ (114,224)
Bond Proceeds	\$ 9,805,000	<u>\$ (9,805,000)</u>	<u>\$ (9,805,000)</u>
Total		<u>\$ (10,476,096)</u>	<u>\$ (9,482,669)</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 2010.
4. Budgeted amounts are as amended by the Council. All budget appropriations lapse at year end.

B. EXCESS OF EXPENDITURES OVER APPROPRIATIONS

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

<u>Functional Category</u>	<u>Amount</u>
Judicial	\$ 1,749
Highways & Streets	\$ 34,783
Culture and Recreation	\$ 4,009
Libraries	\$ 232
Conservation and Development	\$ 23,512
Debt Service	\$ 42,582
Capital Outlay	\$ 83,660

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, 2010, the carrying amount of the City's deposits (cash and interest-bearing savings accounts included in temporary investments) was \$ 11,728,080 and the bank balance was \$11,922,475. The City's cash deposits at September 30, 2010 and during the year ended September 30, 2010 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, 2010, the City had the following investments, some of which are reflected under cash & cash equivalents.

<u>Investment Type</u>	<u>Fair Value</u>	<u>Investment Maturities (in years)</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	\$ 50,040	\$ 50,040			
Logic Money Market	\$ 663,229	\$ 663,229			
Total-General Fund	\$ 713,269	\$ 713,269			
<u>Special Revenues Funds:</u>					
Logic Money Market	\$ 1,001,816	\$ 1,001,816			
Total-Special Revenue Fund	\$ 1,001,816	\$ 1,001,816			
<u>Capital Projects Funds:</u>					
Wels Fargo Money Market	\$ 233,239	\$ 233,239			
Total-Capital Projects Funds	\$ 233,239	\$ 233,239			
<u>Enterprise Fund:</u>					
Texpool Money Market	\$ 1,058,767	\$ 1,058,767			
Bank of New York Money Market	450,582	450,582			
Total-Enterprise Fund	\$ 1,509,349	\$ 1,509,349			

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, 2010, 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, 2010 consisted of the following:

Due From Fund	Due To Fund	Amount	Purpose
General Fund	Special Revenue Funds	\$107,537	Short-term loans
General Fund	Public Utility Fund	120,071	
Special Revenue Funds	General Fund	277,794	Short-term loans
Special Revenue Funds	Special Revenue Funds	39,426	
Special Revenue Funds	Public Utility Fund	313,539	Short-term loans
Debt Service Fund	General Fund	50	Short-term loans
Debt Service Fund	Public Utility Fund	50	Short-term loans
Capital Projects Fund	General Fund	50	Short-term loans
	Total	<u>\$858,517</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, 2010 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	100,000	Supplemental other funds sources
Public Utilities Dept.	Debt Service Fund	385,000	Supplemental other funds sources
Capital Projects Funds	Debt Service Fund	18,966	Supplemental other funds sources
Hotel Fund	Economic Development	30,000	Supplemental other funds sources
Public Utilities Dept.	Wasterwater Improvement Fund	92,000	Supplemental other funds sources

Public Utilities Dept.	BECC WW Project	19,122	Supplemental other funds sources
General Fund	Capital Projects Fund	1,126	Supplemental other funds sources
Economic Development	Capital Projects Fund	18,536	Supplemental other funds sources
Economic Development	SECO Block Grant	7,215	Supplemental other funds sources
PD Forfeiture	CJD Byrne JAG	1,190	Supplemental other funds sources
General Fund	Tx Parks & Wildlife	1,850	Supplemental other funds sources
General Fund	Airport	7,758	Supplemental other funds sources
	Total	<u>\$852,763</u>	

E. CAPITAL ASSET ACTIVITY

Capital asset activity for the City for the year ended September 30, 2010, was as follows:

	Primary Government			
	<u>Beginning</u>		<u>Retirements</u>	<u>Ending</u>
	<u>Balance</u>	<u>Additions</u>	<u>& Adjustments</u>	<u>Balance</u>
Governmental Activities:				
Land	\$ 851,810	\$ 0	\$ (0)	\$ 851,810
Buildings	1,186,761	25,047	(0)	1,211,808
Furniture and Equipment	3,229,380	570,891	(252,285)	3,547,986
Infrastructure	5,284,055	0	(0)	5,284,055
Construction in Progress	<u>1,864,230</u>	<u>4,289,101</u>	<u>(0)</u>	<u>6,153,331</u>
Totals at Historic Cost	<u>\$ 12,416,236</u>	<u>\$ 4,885,039</u>	<u>\$ (252,285)</u>	<u>\$ 17,048,990</u>
Less Accumulated Depreciation:				
Total Accumulated Depreciation	<u>(1,793,170)</u>	<u>(311,515)</u>	<u>3,584</u>	<u>(2,101,101)</u>
Governmental Activities Capital Assets, Net	<u>\$ 10,623,066</u>	<u>\$ 4,573,524</u>	<u>\$ (248,701)</u>	<u>\$ 14,947,888</u>
Business-type Activities:				
Land	\$ 339,035	\$ 0	\$ (0)	\$ 339,035
Buildings and Improvements	599,223	0	(0)	599,223
Furniture and Equipment	246,393	84,270	(24,891)	305,772
Infrastructure	<u>11,717,840</u>	<u>0</u>	<u>(0)</u>	<u>11,717,840</u>
Totals at Historic Cost	<u>\$ 12,902,491</u>	<u>\$ 84,270</u>	<u>\$ (24,891)</u>	<u>\$ 12,961,870</u>
Less Accumulated Depreciation				
Total Accumulated Depreciation	<u>(2,081,026)</u>	<u>(79,996)</u>	<u>(28,341)</u>	<u>(2,189,362)</u>
Business-type Activities Capital Assets, Net	<u>\$ 10,821,465</u>	<u>\$ (4,274)</u>	<u>\$ (53,232)</u>	<u>\$ 10,772,508</u>

Depreciation expense was charged to governmental functions as follows:

General Government	\$ 49,842
Public Safety	143,297
Public Works	40,497
Conservation & Development	43,612
Culture & Recreation	<u>34,267</u>
Total Depreciation Expense	<u>\$ 311,515</u>

F. BONDS AND OTHER LONG-TERM PAYABLES

At September 30, 2010, 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	\$ 161,701
Capital lease payable to Kansas State Bank dated 04-14-08, payable in 36 monthly installments of \$1,803.10 including interest at 6.69%, secured by (2) police vehicles	10,656
Capital lease payable to Citizens National Bank dated 05-15-08, payable in 4 annual installments of \$24,775.56 including interest at 4.68%, secured by (1) brush truck and radios	23,606
Capital lease payable to First Texas Bank dated 11-19-08, payable in 36 monthly installments of \$317 including interest at 8.99%, secured by computer hardware and software	3,727
Capital lease payable to Kansas State Bank dated 11-20-09, payable in 3 annual installments of \$39,670.07 including interest at 4.25%, secured by (1) tractor with attachments, (1) fire dept. vehicle with equipment & radio, and (1) animal control vehicle	<u>74,454</u>
Subtotal- Capital Leases Payable	\$ 274,144

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	110,348
Note payable to Lone Star National Bank dated 2/04/08, payable in 35 monthly payments of \$2,276 including interest of 6.00%, with remaining balance due at maturity, secured by real estate	<u>233,621</u>
Subtotal- Notes Payable	\$ 343,969

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%	\$ 2,885,000
\$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%	3,480,000
\$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%	1,035,000
\$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%	<u>6,500,000</u>
Subtotal- Bonds Payable	<u>\$ 13,900,000</u>
Total General Long Term Debt	<u>\$ 14,518,114</u>
 <u>Revenue Bonds Payable:</u>	
\$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%	\$ 120,000
\$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%	325,000
\$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%	30,000
\$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%	76,000
\$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%	678,000
Total Revenue Bonds Payable	<u>\$ 1,229,000</u>
Total Long-Term Debt	<u>\$15,747,114</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, 2010.

G. DEBT SERVICE REQUIREMENTS

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

Year Ending	Capital Leases		Note Payable		Bonds Payable	
	Principal	Interest	Principal	Interest	Principal	Interest
September 30						
2011	\$ 135,056	\$ 10,412	\$ 34,231	\$ 21,957	\$885,000	\$310,499
2012	82,565	5,382	36,251	17,455	1,006,000	289,094
2013	44,952	1,700	38,201	15,505	998,000	266,670
2014	11,572	91	40,256	13,451	1,019,000	255,218
2015	0	0	36,247	11,296	1,036,000	242,910
2016-2020	0	0	158,783	4,230	4,440,000	1,021,466
2021-2025	0	0	0	0	2,562,000	709,173
2026-2030	0	0	0	0	2,973,000	294,845
2031-2035	0	0	0	0	210,000	33,312
Total	\$ 274,145	\$ 13,585	\$ 343,969	\$ 29,271	\$15,129,000	\$3,423,187

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, 2010, 2009, and 2008 were \$ 209,013, \$208,032, and \$169,094, respectively.

Annual Pension Cost

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

The City is one of 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, 2010, was as follows:

	<u>Beginning</u> <u>Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending</u> <u>Balance</u>	<u>Due Within</u> <u>One Year</u>
Governmental Activities:					
Bonds and Notes Payable:					
Capital Leases	\$ 319,600	\$ 114,224	\$ (159,680)	\$ 274,144	\$135,056
Bonds Payable	4,095,000	9,805,000	0	13,900,000	630,000
Notes Payable	<u>375,578</u>	<u>0</u>	<u>(31,608)</u>	<u>343,970</u>	<u>135,056</u>
Total Bonds and Notes Payable	<u>\$ 4,790,178</u>	<u>\$ 9,919,224</u>	<u>\$(191,288)</u>	<u>\$ 14,518,114</u>	<u>\$ 900,112</u>
Total Governmental Activities Long-term Liabilities	<u>\$ 4,790,178</u>	<u>\$ 9,919,224</u>	<u>\$(191,288)</u>	<u>\$ 14,518,114</u>	<u>\$ 900,112</u>
 Business-type Activities:					
Bonds and Notes Payable:					
Revenue Bonds Payable	\$ 1,472,000	\$ 0	\$ (243,000)	\$ 1,229,000	\$ 255,000
Total Bonds and Notes Payable	<u>\$ 1,472,000</u>	<u>\$ 0</u>	<u>\$(243,000)</u>	<u>\$ 1,229,000</u>	<u>\$ 255,000</u>
Total Business-type Activities Long-term Liabilities	<u>\$ 1,472,000</u>	<u>\$ 0</u>	<u>\$(243,000)</u>	<u>\$ 1,229,000</u>	<u>\$ 255,000</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	\$149,447	\$8,255	\$157,702
Total Deferred Revenue	<u>\$149,447</u>	<u>\$8,255</u>	<u>\$157,702</u>

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

K. COMMITMENTS AND CONTINGENCIES

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

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

L. RISK MANAGEMENT

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

M. CONCENTRATIONS OF CREDIT RISK

Proprietary fund accounts receivable are concentrated within the geographic service area of the utility system, which is within the City. Thos receivables are not concentrated within any individually significant customers. The City requires a deposit from each utility customer prior to establishing service. The net amount of proprietary fund accounts receivable at year end after deducting the allowance for doubtful accounts and after including estimated amounts for service provided but not yet billed at year end was \$768,642. Utility customer deposits held at year end totaled \$ 302,632.

N. HEALTH CARE COVERAGE

During the year ended September 30, 2010, 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, 2011, 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, 2010 and have been filed with the Texas Board of Insurance in Austin, Texas, and are public records.

O. CONSTRUCTION COMMITMENTS

	<u>Contract Amount</u>	<u>Costs to Date</u>	<u>Remaining Commitment</u>
<u>New 6.0 MGD Water Treatment Plant</u>			
Halff Associates - Construction & Project Rep Svcs	\$ 441,000	\$ 122,950	\$ 318,050
Terracon - Materials Testing	170,000	3,641	166,359
CDM Constructors Inc (CCI) - CM Construction	16,400,000	1,750,289	14,649,711
CDM - Design Engineering (Executed 11/01/2007)	2,951,588	1,879,098	1,072,490
<u>Wastewater Treatment Plant Upgrades</u>			
R.P. Constructors Inc.	2,140,125	-	2,140,125
Melden & Hunt	316,000	261,715	54,285
Raba Kistner Consultants	950	-	950
<u>2010 Capital Projects</u>			
<i>- RGC Municipal Park</i>			
Negrete & Kolar Architects	137,300	69,337	67,963
<i>- Street Paving</i>			
S & B Infrastructure	454,359	-	454,359
<hr/>			
Totals	\$ 23,011,322	\$ 4,087,030	\$ 18,924,292
<hr/>			

O. PRIOR PERIOD ADJUSTMENT

The City's net assets were increased by \$45,251 in the governmental funds and decreased by \$(73,009) in the proprietary funds due to restatement of capital assets 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, 2010

EXHIBIT E-1

	Budgeted Amounts		Actual Amounts (GAAP BASIS)	Variance With Final Budget Positive or (Negative)
	Original	Final		
REVENUES:				
Taxes:				
Property Taxes	\$ 1,993,910	\$ 1,993,910	\$ 1,882,753	\$ (111,157)
General Sales and Use Taxes	1,857,848	1,857,848	1,579,319	(278,529)
Franchise Tax	548,005	548,005	552,720	4,715
Other Taxes	-	-	8,999	8,999
Penalty and Interest on Taxes	38,913	38,913	45,508	6,595
Licenses and Permits	78,362	78,362	120,857	42,495
Intergovernmental Revenue and Grants	5,000	5,000	68,322	63,322
Charges for Services	224,940	224,940	220,981	(3,959)
Fines	256,556	256,556	149,134	(107,422)
Investment Earnings	8,985	8,985	2,591	(6,394)
Rents and Royalties	7,200	7,200	6,600	(600)
Contributions & Donations from Private Sources	-	-	1,191	1,191
Other Revenue	65,487	65,487	90,333	24,846
Total Revenues	<u>5,085,206</u>	<u>5,085,206</u>	<u>4,729,308</u>	<u>(355,898)</u>
EXPENDITURES:				
Current:				
General Government	863,211	863,211	834,982	28,229
Judicial	141,075	141,075	142,824	(1,749)
Public Safety	2,538,576	2,538,576	2,452,233	86,343
Public Works	627,193	627,193	600,939	26,254
Highways and Streets	115,500	115,500	150,283	(34,783)
Culture and Recreation	141,065	141,065	145,074	(4,009)
Libraries	187,224	187,224	183,481	3,743
Conservation and Development	261,993	261,993	285,505	(23,512)
Debt Service:				
Principal	149,919	149,919	191,288	(41,369)
Interest	34,045	34,045	35,258	(1,213)
Capital Outlay:				
Capital Outlay	116,650	116,650	200,310	(83,660)
Total Expenditures	<u>5,176,451</u>	<u>5,176,451</u>	<u>5,222,177</u>	<u>(45,726)</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>(91,245)</u>	<u>(91,245)</u>	<u>(492,869)</u>	<u>(401,624)</u>
OTHER FINANCING SOURCES (USES):				
Proceeds from Capital Leases	-	-	114,224	114,224
Transfers In	270,000	270,000	270,000	-
Transfers Out (Use)	(7,000)	(7,000)	(10,734)	(3,734)
Total Other Financing Sources (Uses)	<u>263,000</u>	<u>263,000</u>	<u>373,490</u>	<u>110,490</u>
Net Change in Fund Balances	171,755	171,755	(119,379)	(291,134)
Fund Balance - October 1 (Beginning)	1,221,951	1,221,951	1,221,951	-
Prior Period Adjustment	-	-	(73,198)	(73,198)
Fund Balance - September 30 (Ending)	<u>\$ 1,393,706</u>	<u>\$ 1,393,706</u>	<u>\$ 1,029,374</u>	<u>\$ (364,332)</u>

CITY OF RIO GRANDE CITY
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL - EDC
FOR THE YEAR ENDED SEPTEMBER 30, 2010

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	\$ 928,924	\$ 928,924	\$ 789,659	\$ (139,265)
Investment Earnings	5,600	5,600	4,253	(1,347)
Other Revenue	5,000	5,000	16,197	11,197
Total Revenues	939,524	939,524	810,109	(129,415)
EXPENDITURES:				
Current:				
Conservation and Development:				
Economic Development and Assistance	2,422,848	2,422,848	552,781	1,870,067
Capital Outlay:				
Capital Outlay	31,000	31,000	6,206	24,794
Total Expenditures	2,453,848	2,453,848	558,987	1,894,861
Excess (Deficiency) of Revenues Over (Under) Expenditures	(1,514,324)	(1,514,324)	251,122	1,765,446
OTHER FINANCING SOURCES (USES):				
Transfers In	30,000	30,000	30,000	-
Transfers Out (Use)	-	-	(125,751)	(125,751)
Total Other Financing Sources (Uses)	30,000	30,000	(95,751)	(125,751)
Change in Fund Balance	(1,484,324)	(1,484,324)	155,371	1,639,695
Fund Balance - October 1 (Beginning)	1,834,939	1,834,939	1,834,939	-
Prior Period Adjustment	-	-	(3,126)	(3,126)
Fund Balance - September 30 (Ending)	\$ 350,615	\$ 350,615	\$ 1,987,184	\$ 1,636,569

The accompanying notes are an integral part of this statement.

CITY OF RIO GRANDE CITY
 COMBINING BALANCE SHEET
 NONMAJOR GOVERNMENTAL FUNDS
 SEPTEMBER 30, 2010

	Hotel Occupancy Tax Fund	Forfeiture Fund	HIDTA Task Force Fund	Treasury Forfeiture Fund
ASSETS				
Cash and Cash Equivalents	\$ 392,537	\$ 133,686	\$ 45	\$ 1,436
Receivables (Net)	8,517	-	-	-
Intergovernmental Receivables	-	-	95,213	-
Due from Other Funds	67,428	-	-	9,413
Total Assets	<u>\$ 468,482</u>	<u>\$ 133,686</u>	<u>\$ 95,258</u>	<u>\$ 10,849</u>
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts Payable	\$ -	\$ 1,736	\$ -	\$ -
Due to Other Funds	30,000	-	95,258	400
Accrued Interest Payable	-	-	-	-
Deferred Revenues	-	-	-	-
Total Liabilities	<u>30,000</u>	<u>1,736</u>	<u>95,258</u>	<u>400</u>
Fund Balances:				
Reserved For:				
Debt Service	-	-	-	-
Unreserved and Undesignated:				
Reported in the Special Revenue Fund	438,482	131,950	-	10,449
Total Fund Balances	<u>438,482</u>	<u>131,950</u>	<u>-</u>	<u>10,449</u>
Total Liabilities and Fund Balances	<u>\$ 468,482</u>	<u>\$ 133,686</u>	<u>\$ 95,258</u>	<u>\$ 10,849</u>

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

RGC Police Department Fund	CJD Task Force Grant Fund	Airport Fund	TCDP#726090 Grant Fund	Border Security Fund	TPWD Fund	FEMA Fund	Buchalters Addition Escrow Fund
\$ 1,604	\$ -	\$ -	\$ 50	\$ 51	\$ -	\$ 20,104	\$ 18,590
-	-	-	-	-	-	-	-
-	371	-	-	-	-	30,796	-
-	-	-	-	-	-	-	-
<u>\$ 1,604</u>	<u>\$ 371</u>	<u>\$ -</u>	<u>\$ 50</u>	<u>\$ 51</u>	<u>\$ -</u>	<u>\$ 50,900</u>	<u>\$ 18,590</u>
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
-	371	-	50	50	-	30,796	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	20,104	18,514
-	371	-	50	50	-	50,900	18,514
-	-	-	-	-	-	-	-
1,604	-	-	-	1	-	-	76
<u>1,604</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1</u>	<u>-</u>	<u>-</u>	<u>76</u>
<u>\$ 1,604</u>	<u>\$ 371</u>	<u>\$ -</u>	<u>\$ 50</u>	<u>\$ 51</u>	<u>\$ -</u>	<u>\$ 50,900</u>	<u>\$ 18,590</u>

CITY OF RIO GRANDE CITY
 COMBINING BALANCE SHEET
 NONMAJOR GOVERNMENTAL FUNDS
 SEPTEMBER 30, 2010

	TDRA #729661 Grant Fund	CJD-ARRA Byrne Fund	SECO Fund	TDRA DRS010154 Fund
ASSETS				
Cash and Cash Equivalents	\$ 50	\$ 50	\$ 50	\$ 50
Receivables (Net)	-	-	-	-
Intergovernmental Receivables	2,700	5,100	57,576	-
Due from Other Funds	-	-	-	-
Total Assets	<u>\$ 2,750</u>	<u>\$ 5,150</u>	<u>\$ 57,626</u>	<u>\$ 50</u>
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts Payable	\$ 2,700	\$ 5,100	\$ 89,941	\$ -
Due to Other Funds	50	50	50	50
Accrued Interest Payable	-	-	-	-
Deferred Revenues	-	-	-	-
Total Liabilities	<u>2,750</u>	<u>5,150</u>	<u>89,991</u>	<u>50</u>
Fund Balances:				
Reserved For:				
Debt Service	-	-	-	-
Unreserved and Undesignated:				
Reported in the Special Revenue Fund	-	-	(32,365)	-
Total Fund Balances	<u>-</u>	<u>-</u>	<u>(32,365)</u>	<u>-</u>
Total Liabilities and Fund Balances	<u>\$ 2,750</u>	<u>\$ 5,150</u>	<u>\$ 57,626</u>	<u>\$ 50</u>

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

BECC WW Fund	Total Nonmajor Special Revenue Funds	Debt Service Fund	Total Nonmajor Governmental Funds
\$ 4,738	\$ 573,041	\$ 511,643	\$ 1,084,684
-	8,517	-	8,517
71,750	263,506	-	263,506
-	76,841	-	76,841
<u>\$ 76,488</u>	<u>\$ 921,905</u>	<u>\$ 511,643</u>	<u>\$ 1,433,548</u>
\$ -	\$ 99,477	\$ -	\$ 99,477
76,488	233,613	100	233,713
-	-	14,661	14,661
-	38,618	-	38,618
<u>76,488</u>	<u>371,708</u>	<u>14,761</u>	<u>386,469</u>
-	-	496,882	496,882
-	550,197	-	550,197
<u>-</u>	<u>550,197</u>	<u>496,882</u>	<u>1,047,079</u>
<u>\$ 76,488</u>	<u>\$ 921,905</u>	<u>\$ 511,643</u>	<u>\$ 1,433,548</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, 2010

	Hotel Occupancy Tax Fund	Forfeiture Fund	HIDTA Task Force Fund	Treasury Forfeiture Fund
REVENUES:				
Taxes:				
Other Taxes	\$ 103,997	\$ -	\$ -	\$ -
Intergovernmental Revenue and Grants	-	-	267,803	-
Forfeits	-	291,720	-	-
Investment Earnings	916	325	-	21
Total Revenues	<u>104,913</u>	<u>292,045</u>	<u>267,803</u>	<u>21</u>
EXPENDITURES:				
Current:				
Public Safety	-	80,436	267,803	6,401
Public Works	-	-	-	-
Conservation and Development:				
Economic Development and Assistance	-	-	-	-
Debt Service:				
Bond Interest	-	-	-	-
Fiscal Agent's Fees	-	-	-	-
Capital Outlay:				
Capital Outlay	-	96,668	-	18,936
Total Expenditures	<u>-</u>	<u>177,104</u>	<u>267,803</u>	<u>25,337</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>104,913</u>	<u>114,941</u>	<u>-</u>	<u>(25,316)</u>
OTHER FINANCING SOURCES (USES):				
Transfers In	-	-	-	-
Transfers Out (Use)	(30,000)	(1,190)	-	-
Total Other Financing Sources (Uses)	<u>(30,000)</u>	<u>(1,190)</u>	<u>-</u>	<u>-</u>
Net Change in Fund Balance	74,913	113,751	-	(25,316)
Fund Balance - October 1 (Beginning)	<u>363,569</u>	<u>18,199</u>	<u>-</u>	<u>35,765</u>
Fund Balance - September 30 (Ending)	<u>\$ 438,482</u>	<u>\$ 131,950</u>	<u>\$ -</u>	<u>\$ 10,449</u>

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

RGC Police Department Fund	CJD Task Force Grant Fund	Airport Fund	TCDP#726090 Grant Fund	Border Security Fund	TPWD Fund	FEMA Fund	Buchalters Addition Escrow Fund
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
2,342	26,099	-	-	-	-	50,409	-
-	-	-	-	-	-	-	-
6	-	-	-	-	-	-	47
<u>2,348</u>	<u>26,099</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>50,409</u>	<u>47</u>
2,066	26,099	-	-	-	-	-	-
-	-	-	-	-	-	50,409	-
-	-	7,758	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	1,850	-	-
<u>2,066</u>	<u>26,099</u>	<u>7,758</u>	<u>-</u>	<u>-</u>	<u>1,850</u>	<u>50,409</u>	<u>-</u>
282	-	(7,758)	-	-	(1,850)	-	47
-	-	7,758	-	-	1,850	-	-
-	-	-	-	-	-	-	-
-	-	7,758	-	-	1,850	-	-
282	-	-	-	-	-	-	47
<u>1,322</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1</u>	<u>-</u>	<u>-</u>	<u>29</u>
<u>\$ 1,604</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 76</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, 2010

	TDRA #729661 Grant Fund	CJD-ARRA Byrne Fund	SECO Fund	TDRA DRS010154 Fund
REVENUES:				
Taxes:				
Other Taxes	\$ -	\$ -	\$ -	\$ -
Intergovernmental Revenue and Grants	409,664	82,678	57,576	-
Forfeits	-	-	-	-
Investment Earnings	-	-	-	-
Total Revenues	<u>409,664</u>	<u>82,678</u>	<u>57,576</u>	<u>-</u>
EXPENDITURES:				
Current:				
Public Safety	-	850	-	-
Public Works	-	-	-	-
Conservation and Development:				
Economic Development and Assistance	-	-	-	-
Debt Service:				
Bond Interest	-	-	-	-
Fiscal Agent's Fees	-	-	-	-
Capital Outlay:				
Capital Outlay	409,664	83,018	97,156	-
Total Expenditures	<u>409,664</u>	<u>83,868</u>	<u>97,156</u>	<u>-</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>-</u>	<u>(1,190)</u>	<u>(39,580)</u>	<u>-</u>
OTHER FINANCING SOURCES (USES):				
Transfers In	-	1,190	7,215	-
Transfers Out (Use)	-	-	-	-
Total Other Financing Sources (Uses)	<u>-</u>	<u>1,190</u>	<u>7,215</u>	<u>-</u>
Net Change in Fund Balance	-	-	(32,365)	-
Fund Balance - October 1 (Beginning)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Fund Balance - September 30 (Ending)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (32,365)</u>	<u>\$ -</u>

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

BECC WW Fund	Total Nonmajor Special Revenue Funds	Debt Service Fund	Total Nonmajor Governmental Funds
\$ -	\$ 103,997	\$ -	\$ 103,997
71,750	968,321	-	968,321
-	291,720	-	291,720
-	1,315	922	2,237
<u>71,750</u>	<u>1,365,353</u>	<u>922</u>	<u>1,366,275</u>
-	383,655	-	383,655
-	50,409	-	50,409
-	7,758	-	7,758
-	-	26,015	26,015
-	-	5,188	5,188
<u>90,872</u>	<u>798,164</u>	<u>-</u>	<u>798,164</u>
<u>90,872</u>	<u>1,239,986</u>	<u>31,203</u>	<u>1,271,189</u>
<u>(19,122)</u>	<u>125,367</u>	<u>(30,281)</u>	<u>95,086</u>
19,122	37,135	403,966	441,101
-	(31,190)	-	(31,190)
<u>19,122</u>	<u>5,945</u>	<u>403,966</u>	<u>409,911</u>
-	131,312	373,685	504,997
-	418,885	123,197	542,082
<u>\$ -</u>	<u>\$ 550,197</u>	<u>\$ 496,882</u>	<u>\$ 1,047,079</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, 2010, which collectively comprise the City of Rio Grande City's basic financial statements and have issued our report thereon dated February 15, 2011. 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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and questioned costs as item #2010-1.

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

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

Reyna & Garza, PLLC
Certified Public Accountants

February 15, 2011

Reyna & Garza, PLLC

Certified Public Accountants

2111 Jackson Creek Ave.

Edinburg, TX 78539

**REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO
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* that could have a direct and material effect on each of its major federal programs for the year ended September 30, 2010. The City's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of City of Rio Grande City'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; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about City of Rio Grande City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. 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 programs for the year ended September 30, 2010.

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 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 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*, 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 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

February 15, 2011

CITY OF RIO GRANDE CITY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Fiscal Year Ending September 30, 2010

1) **SUMMARY OF AUDIT RESULTS**

- a) The auditor's report expresses an unqualified opinion on General Purpose Financial Statements.
- b) No significant deficiencies or material weaknesses disclosed during the audit of the general purpose financial statements.
- c) One instance of noncompliance (finding #2010-1) material to the general-purpose financial statements of City of Rio Grande City, which would be required to be reported in accordance with *Government Auditing Standards*, was disclosed during the audit.
- d) The report on compliance for the major federal award program for City of Rio Grande City expresses an unqualified opinion on all major federal programs.
- e) The programs tested as major programs included:
 - 1) Drinking Water SRF (CFDA#66.468)
 - 2) Homeland Security (CFDA# 97.067)
 - 3) CJD-ARRA Byrne (CFDA#16.803)
- f) The threshold used for distinguishing between Type A and B programs was \$300,000.
- g) City of Rio Grande City qualified as a low-risk auditee within the context of OMB Circular A-133.

2) **FINDINGS – FINANCIAL STATEMENT AUDIT**

2010-01: FORMAL COMPETITIVE PROCUREMENT

Criteria:

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.

Condition:

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.

Effect:

The City may be in noncompliance with state law related to formal competitive procurement.

Recommendation:

The City should carefully monitor purchase activity during the year in order to ensure that anticipated purchases in any category which might exceed the dollar threshold, be subjected to the formal competitive process.

Auditee's Response:

Mary Barrera, CPA, Finance Director for the City will review internal controls related this area and will make a recommendation to management. The contact number is (956)487-0672.

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

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

CITY OF RIO GRANDE CITY
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
Fiscal Year Ending September 30, 2010

No findings were noted in the prior year.

CITY OF RIO GRANDE CITY
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 YEAR ENDED SEPTEMBER 30, 2010

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	64,881
High Intensity Drug Trafficking Area Task Force	07.616	G09SS0006A	82,770
High Intensity Drug Trafficking Area Task Force	07.616	G10SS0006A	120,153
Total-Office of National Drug Control Policy			<u>267,803</u>
<u>U.S. DEPARTMENT OF HOUSING & URBAN DEVELOPMENT</u>			
Passed through Office of Rural Community Affairs	14.228	729661	409,664
Total-Department of Housing & Urban Development			<u>409,664</u>
<u>U.S. DEPARTMENT OF JUSTICE</u>			
Bureau of Justice Assistance-Bulletproof Vest Partnership	16.607		837
Community Oriented Policing Services-Law Enforcement Technology	16.710	2009CKWX0614	49,754
Passed through Office of the Governor-Criminal Justice Division	16.738	DB-03-A10-13888-05	26,099
Passed through Office of the Governor-Criminal Justice Division	16.803	SU-09-A10-23327-01	82,678 *
Total-Department of Justice			<u>159,368</u>
<u>U.S. ENVIRONMENTAL PROTECTION AGENCY</u>			
Congressionally Mandated Projects			
Passed through the Border Environment Cooperation Commission	66.202	TAA10-040	71,750
Total-Passed through BECC			<u>71,750</u>
Capitalization Grants for Drinking Water State Revolving Funds			
Passed through Texas Water Development Board -			
Drinking Water State Revolving Fund - Loan	66.468	L070018	645,000
Drinking Water State Revolving Fund - Disadvantaged Loan	66.468	L070017	2,660,000
Total-Passed through Texas Water Development Board			<u>3,305,000</u>
Total-Environmental Protection Agency			<u>3,376,750</u>
<u>U.S. DEPARTMENT OF ENERGY</u>			
Passed through State Energy Conservation Office-EECBG	81.128	4554	57,576
Total Department of Energy			<u>57,576</u>
<u>U.S. DEPARTMENT OF HOMELAND SECURITY</u>			
Office for Domestic Preparedness			
Passed through Governor's Division of Emergency Management			
- Disaster Relief Funds	97.036	FEMA 1780-DR	19,613
- Disaster Relief Funds	97.036	FEMA 1931-DR	30,796
- Homeland Security Grant Program	97.067	2008-SG-T8-0009	374,190
- Homeland Security Grant Program	97.067	2009-SJ-T9-0011	71,708
Total-Department of Homeland Security			<u>496,308</u>
TOTAL FEDERAL AWARDS			<u>\$ 4,767,468</u>

*-Denotes Federal Stimulus-ARRA funds

CITY OF RIO GRANDE CITY
NOTES ON ACCOUNTING POLICIES FOR FEDERAL AWARDS
YEAR ENDED SEPTEMBER 30, 2010

- 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.