

CITY OF RIO GRANDE CITY, TEXAS

AUDITED ANNUAL FINANCIAL REPORT

FOR THE YEAR ENDED SEPTEMBER 30, 2012

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

Certified Public Accountants

CITY OF RIO GRANDE CITY, TEXAS
ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED SEPTEMBER 30, 2012

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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, 2012, 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, 2012, 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 May 24, 2013, 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

May 24, 2013

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, 2012. 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: decreased by \$ 5,955,684 as a result of this year's operations. Net assets of our business-type activities: decreased by \$ 384,022, or 2.8 percent, net assets of all governmental activities: decreased, by \$ 5,571,662 or nearly 44.6 percent.
- During the year, the City had expenses that were \$ 77,675 more than the \$ 6.7 million generated in tax and other revenues for governmental programs (before special items).
- In the City's business-type activities, revenues increased from \$ 4.6 million to \$ 4.8 million (or 4.3 percent) while expenses also increased from \$ 3.3 million to \$ 4.3 million (or 30.6 percent).
- Total cost of all of the City's programs increased from \$ 9.9 million to \$ 11.1 million (or 35.2 percent).
- The General Fund ended the year with a fund balance of \$ 727 thousand.
- The resources available for appropriation were \$ 192 thousand more than budgeted for the General Fund.

USING THIS ANNUAL REPORT

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

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

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

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

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

Reporting the City as a Whole

The Statement of Net Assets and the Statement of Activities

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

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

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

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

- **Governmental activities**—Most of the City's basic services are reported here, including public safety, public works, culture and recreation, economic development and assistance, and general administration. Property taxes, sales taxes, franchise taxes, charges for services, and state and federal grants finance most of these activities.
- **Business-type activities**—The City charges a fee to “customers” to help it cover all or most of the cost of providing services such as water, sewer, and solid waste services.

Reporting the City's Most Significant Funds

Fund Financial Statements

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

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

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

GOVERNMENT-WIDE FINANCIAL ANALYSIS

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

Net assets of the City's governmental activities decreased from \$ 12.5 million to \$ 6.9 million, due mostly to a prior period adjustment to accumulated depreciation, which was necessary to correctly reflect the aging of the City's infrastructure assets. There was also a transfer of completed construction in progress from the general fixed assets into the business-type activities. 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 \$ 2.3 million at September 30, 2012.

In 2012, net assets of our business-type activities decreased by \$ 384 thousand, or nearly 2.8 percent. This decrease is considered insignificant in relation to the overall operations of the City.

Table I
CITY OF RIO GRANDE CITY, TEXAS

NET ASSETS

	Governmental Activities 2012	Governmental Activities 2011	Business-type Activities 2012	Business-type Activities 2011	Total 2012	Total 2011
Current and other assets	\$ 7,264,685	\$ 12,838,148	\$ 4,015,361	\$ 4,563,487	\$ 11,280,046	\$ 17,401,635
Capital assets	30,117,984	28,883,934	10,926,017	10,812,957	41,044,001	39,696,891
Total assets	\$ 37,382,669	\$ 41,722,082	\$ 14,941,378	\$ 15,376,444	\$ 52,324,047	\$ 57,098,526
Long-term liabilities	29,208,729	25,505,231	770,986	974,000	29,979,715	26,479,231
Other liabilities	1,259,147	3,730,396	694,661	542,691	1,953,808	4,273,087
Total liabilities	\$ 30,467,876	\$ 29,235,627	\$ 1,465,647	\$ 1,516,691	\$ 31,933,523	\$ 30,752,318
Net Assets:						
Invested in capital assets net of related debt	\$ 1,464,804	3,945,289	\$ 10,155,031	9,838,957	\$ 11,619,835	\$ 13,784,246
Restricted	3,149,341	7,585,521	-	-	3,149,341	7,585,521
Unrestricted	2,300,648	955,645	3,320,700	4,020,796	5,621,348	4,976,441
Total net assets	\$ 6,914,793	\$ 12,486,455	\$ 13,475,731	\$ 13,859,753	\$ 20,390,524	\$ 26,346,208

Table II
CITY OF RIO GRANDE CITY, TEXAS

CHANGES IN NET ASSETS

	Governmental Activities 2012	Governmental Activities 2011	Business-type Activities 2012	Business-type Activities 2011	Total 2012	Total 2011
Revenues:						
Program Revenues:						
Charges for Services	\$ 84,779	\$ 111,633	\$ 4,780,106	\$ 4,583,223	\$ 4,864,885	\$ 4,694,856
General Revenues:						
Maintenance and operations taxes	\$ 1,674,818	\$ 1,724,807	\$ -	-	\$ 1,674,818	\$ 1,724,807
Debt Service taxes	743,429	729,685	-	-	743,429	729,685
Grants	1,356,010	862,443	-	-	1,356,010	862,443
Sales Taxes	2,595,063	2,485,306	-	-	2,595,063	2,485,306
Franchise Taxes	589,474	599,386	-	-	589,474	599,386
Investment Earnings	31,364	63,253	-	13,507	31,364	76,760
Miscellaneous	1,870,486	711,627	137,378	232,277	2,007,864	943,904
Total Revenue	\$ 8,945,423	\$ 7,288,140	\$ 4,917,484	\$ 4,829,007	\$ 13,862,907	\$ 12,117,147
Expenses:						
General Government	\$ 945,542	\$ 902,002	\$ -	-	\$ 945,542	\$ 902,002
Judicial	153,516	141,876	-	-	153,516	141,876
Public Safety	3,034,907	3,379,858	-	-	3,034,907	3,379,858
Public Works	689,410	649,479	-	-	689,410	649,479
Highways and Streets	159,170	153,874	-	-	159,170	153,874
Culture and Recreation	266,175	189,874	-	-	266,175	189,874
Libraries	200,202	210,467	-	-	200,202	210,467
Conservation & Development	298,598	320,985	-	-	298,598	320,985
Economic Development	560,195	378,182	-	-	560,195	378,182
Bond Interest & Cap Outlay	562,682	346,270	-	-	562,682	346,270
Utility Fund	-	-	4,253,583	3,258,119	4,253,583	3,258,119
Total Expenses	\$ 6,870,397	\$ 6,672,867	\$ 4,253,583	\$ 3,258,119	\$ 11,123,980	\$ 9,930,986
Increase in net assets before transfers and special items	2,075,026	615,273	663,901	1,570,888	2,738,927	2,186,161
Transfers	-	208,369	(1,233,787)	(208,369)	(1,233,787)	-
Special Items – Resources	(2,152,701)	-	2,152,701	-	-	-
Special Items-Prior Period Adjustments	(5,493,987)	(2,503,394)	(1,966,837)	1,227	(7,460,824)	(2,502,167)
Net assets at 10/1	\$ 12,486,455	\$ 14,166,207	\$ 13,859,753	\$ 12,496,007	\$ 26,346,208	\$ 26,662,214

\$ 6,914,793	\$ 12,486,455	\$ 13,475,731	\$ 13,859,753	\$ 20,390,524	\$ 26,346,208
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The cost of all governmental activities this year was \$ 11.1 million. However, as shown in the Statement of Activities on pages 10 and 11, the amount that our taxpayers ultimately financed for these activities through City ad-valorem property taxes was only \$ 2.4 million because some of the costs were paid by those who directly benefited from the programs or by other governments and organizations that subsidized certain programs with grants and contributions.

THE CITY'S FUNDS

As the City completed the year, its governmental funds (as presented in the balance sheet on page 12) reported a combined fund balance of \$ 5.4 million, which is less than last year's total of \$ 8.4 million. This is primarily due to the expenditures for the capital projects carried out this year.

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

The City's General Fund balance of \$ 726 thousand reported on page 12 differs from the General Fund's budgetary fund balance of \$ 935 million reported in the General Fund budgetary comparison schedule on page 39. This is principally due to expenditures exceeding projections across various functional categories.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At the end of the 2011-12 year, the City had \$ 41 million invested in a broad range of capital assets, including facilities, land, infrastructure, vehicles, and equipment. The most significant current year addition was approximately \$ 8.5 million in construction in progress related to water and waste water improvements, street improvements, and the new municipal park.

Debt

In prior years, the City closed on three debt issues valued at a total of \$ 23,585,000 from the Texas Water Development Board for water and wastewater projects. Of the total amount of bonds issued, \$ 20,040,000 of proceeds have been drawn down as of 2011-2012. At year-end, the City had \$ 30 million in bonds, capital leases, and notes outstanding versus \$ 26.5 million last year, an increase of 13.2 percent.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

This year the City saw continued growth in revenues as the economic recovery continues. Sales tax deposits ended the year up by 4.5% from the previous year. The City made significant strides in its 2010 Capital Improvement Program, that is about 80% complete. This plan to pave or overlay 70% of the City's streets is just beginning the third and final phase. The park has opened at about 95% completion. The \$20 million water plant also opened and is in full operation.

The City's elected and appointed officials considered these factors when setting the 2012-2013 budget and tax rate. On September 27th, the City Commission voted to keep taxes virtually the same as last year by levying a total tax rate of \$.51416 on a \$100 assessed valuation. This includes a Maintenance and Operations rate of \$.384145 and an Interest and Sinking rate of \$.130015.

The budget provided for very moderate increases to most expenditures in response to the effect of inflation on the cost of providing municipal services. The Municipal Cost Index (MCI) measures the effect of inflation on cities, and reveals an increase of 3.1% over the previous twelve months. There was no new staff added in the 2012-2013 budget, and no increases in salary.

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

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

The 2012-2013 budget provides for a moderate increase to the fund balance of the General Fund. There is a budgeted use of the fund balance of the Enterprise Fund in order to replace old water and sewer lines, as the City carries out its street paving project. The City will continue to maintain a sufficient level of municipal services to the citizens of Rio Grande City.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

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

CITY OF RIO GRANDE CITY
STATEMENT OF NET ASSETS
SEPTEMBER 30, 2012

EXHIBIT A-1

	Primary Government		Total
	Governmental Activities	Business Type Activities	
ASSETS			
Cash and Cash Equivalents	\$ 1,855,137	\$ 112,607	\$ 1,967,744
Investments - Current	3,728,918	2,785,700	6,514,618
Receivables (net of allowance for uncollectibles)	1,353,657	872,754	2,226,411
Internal Balances	(228,726)	228,726	-
Inventories	-	15,097	15,097
Capitalized Debt Issuance Costs	555,549	-	555,549
Capital Assets:			
Land	1,075,865	339,036	1,414,901
Infrastructure, net	-	9,999,825	9,999,825
Buildings, net	2,868,889	398,037	3,266,926
Machinery and Equipment, net	1,932,594	189,119	2,121,713
Construction in Progress	24,240,636	-	24,240,636
Other Assets	150	477	627
Total Assets	<u>37,382,669</u>	<u>14,941,378</u>	<u>52,324,047</u>
LIABILITIES			
Accounts Payable	993,603	343,901	1,337,504
Intergovernmental Payable	9,849	-	9,849
Accrued Interest Payable	71,211	8,220	79,431
Deferred Revenues	183,244	8,255	191,499
Other Current Liabilities	1,240	334,285	335,525
Noncurrent Liabilities			
Due Within One Year	1,086,000	62,097	1,148,097
Due in More Than One Year	28,122,729	708,889	28,831,618
Total Liabilities	<u>30,467,876</u>	<u>1,465,647</u>	<u>31,933,523</u>
NET ASSETS			
Invested in Capital Assets, Net of Related Debt	1,464,804	10,155,031	11,619,835
Restricted for:			
Restricted for Federal & State Restrictions	256,962	-	256,962
Restricted for Other	2,892,379	-	2,892,379
Unrestricted Net Assets	2,300,648	3,320,700	5,621,348
Total Net Assets	<u>\$ 6,914,793</u>	<u>\$ 13,475,731</u>	<u>\$ 20,390,524</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, 2012

	Expenses	Program Revenues <u>Charges for Services</u>
Primary Government:		
GOVERNMENTAL ACTIVITIES:		
General Government	\$ 945,542	\$ -
Judicial	153,516	-
Public Safety	3,034,907	-
Public Works	689,410	84,779
Highways and Streets	159,170	-
Culture and Recreation	266,175	-
Libraries	200,202	-
Conservation and Development	298,598	-
Economic Development and Assistance	560,195	-
Bond Interest	522,791	-
Fiscal Agent's Fees	28,844	-
Issuance Costs	11,047	-
Total Governmental Activities:	6,870,397	84,779
BUSINESS-TYPE ACTIVITIES:		
Total Business-Type Activities:	4,253,583	4,780,106
Total Business-Type Activities:	4,253,583	4,780,106
TOTAL PRIMARY GOVERNMENT:	\$ 11,123,980	\$ 4,864,885

General Revenues:

Taxes:

Property Taxes, Levied for General Purposes

Property Taxes, Levied for Debt Service

Sales Taxes

Franchise Taxes

Other Taxes

Penalty and Interest

Grants and Contributions Not Restricted

Miscellaneous Revenue

Investment Earnings

Special Item - resource/uses

Transfers In (Out)

Total General Revenues, Special Items, and Transfers

Change in Net Assets

Net Assets--Beginning

Prior Period Adjustment

Net Assets--Ending

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

Net (Expense) Revenue and Changes in Net Assets		
Primary Government		
Governmental Activities	Business-type Activities	Total
\$ (945,542)	\$ -	\$ (945,542)
(153,516)	-	(153,516)
(3,034,907)	-	(3,034,907)
(604,631)	-	(604,631)
(159,170)	-	(159,170)
(266,175)	-	(266,175)
(200,202)	-	(200,202)
(298,598)	-	(298,598)
(560,195)	-	(560,195)
(522,791)	-	(522,791)
(28,844)	-	(28,844)
(11,047)	-	(11,047)
<u>(6,785,618)</u>	<u>-</u>	<u>(6,785,618)</u>
-	526,523	526,523
-	526,523	526,523
<u>(6,785,618)</u>	<u>526,523</u>	<u>(6,259,095)</u>
1,674,818	-	1,674,818
743,429	-	743,429
2,595,063	-	2,595,063
589,474	-	589,474
107,402	-	107,402
63,843	-	63,843
1,356,010	-	1,356,010
1,699,241	137,378	1,836,619
31,364	-	31,364
(2,152,701)	2,152,701	-
-	(1,233,787)	(1,233,787)
<u>6,707,943</u>	<u>1,056,292</u>	<u>7,764,235</u>
(77,675)	1,582,815	1,505,140
12,486,455	13,859,753	26,346,208
(5,493,987)	(1,966,837)	(7,460,824)
<u>\$ 6,914,793</u>	<u>\$ 13,475,731</u>	<u>\$ 20,390,524</u>

CITY OF RIO GRANDE CITY
BALANCE SHEET
GOVERNMENTAL FUNDS
SEPTEMBER 30, 2012

	General Fund	Major Sp. Rev Economic Dev Fund	Major Cap.Prj Water Fund Improv. Fund
ASSETS			
Cash and Cash Equivalents	\$ 580,655	\$ 30,554	\$ 7,748
Investments - Current	263,886	1,478,949	-
Taxes Receivable	819,490	-	-
Allowance for Uncollectible Taxes (credit)	(728,200)	-	-
Receivables (Net)	91,084	-	-
Intergovernmental Receivables	230,950	76,445	629,398
Due from Other Funds	101,073	98,946	-
Other Assets	150	-	-
Total Assets	<u>\$ 1,359,088</u>	<u>\$ 1,684,894</u>	<u>\$ 637,146</u>
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts Payable	\$ 103,124	\$ 6,194	\$ 84,191
Wages and Salaries Payable	116,993	4,758	-
Retainage Payable	-	-	619,398
Intergovernmental Payable	9,849	-	-
Due to Other Funds	242,255	-	14,108
Accrued Interest Payable	-	-	-
Deferred Revenues	158,680	-	-
Other Current Liabilities	1,195	-	-
Total Liabilities	<u>632,096</u>	<u>10,952</u>	<u>717,697</u>
Fund Balances:			
Restricted For:			
Federal and State Restrictions	-	-	-
Other Restrictions	-	-	-
Committed For:			
Committed For Economic Development	-	1,673,942	-
Unassigned:			
Unassigned	726,992	-	(80,551)
Total Fund Balances	<u>726,992</u>	<u>1,673,942</u>	<u>(80,551)</u>
Total Liabilities and Fund Balances	<u>\$ 1,359,088</u>	<u>\$ 1,684,894</u>	<u>\$ 637,146</u>

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

Major Debt Service Fund	Major Capital Proj. Fund	Other Funds	Total Governmental Funds
\$ 106,219	\$ 749,038	\$ 380,923	\$ 1,855,137
-	1,752,133	233,950	3,728,918
136,560	-	-	956,050
(102,339)	-	-	(830,539)
-	-	7,919	99,003
-	-	192,350	1,129,143
43,520	-	71,310	314,849
-	-	-	150
<u>\$ 183,960</u>	<u>\$ 2,501,171</u>	<u>\$ 886,452</u>	<u>\$ 7,252,711</u>
\$ -	\$ 4,040	\$ 54,905	\$ 252,454
-	-	-	121,751
-	-	-	619,398
-	-	-	9,849
128,382	50	158,780	543,575
71,211	-	-	71,211
32,391	-	20,463	211,534
-	-	45	1,240
<u>231,984</u>	<u>4,090</u>	<u>234,193</u>	<u>\$ 1,831,012</u>
-	-	256,962	256,962
-	2,497,081	395,298	2,892,379
-	-	-	1,673,942
(48,024)	-	(1)	598,416
<u>(48,024)</u>	<u>2,497,081</u>	<u>652,259</u>	<u>\$ 5,421,699</u>
<u>\$ 183,960</u>	<u>\$ 2,501,171</u>	<u>\$ 886,452</u>	<u>\$ 7,252,711</u>

CITY OF RIO GRANDE CITY
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE
STATEMENT OF NET ASSETS
SEPTEMBER 30, 2012

Total Fund Balances - Governmental Funds	\$	5,421,699
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 \$31,039,936 and the accumulated depreciation was \$2,156,012. 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 amount of long term debt was \$25,505,231. The net effect of including the beginning balances for capital assets (net of depreciation) and long-term debt in the governmental activities is to increase (decrease) net assets.		3,378,693
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 2012 capital outlays and debt principal payments is to increase (decrease) net assets.		10,063,947
The 2012 depreciation expense increases accumulated depreciation. The net effect of the current year's depreciation is to decrease net assets.		(329,287)
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.		(11,620,259)
Net Assets of Governmental Activities	<u>\$</u>	<u>6,914,793</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 REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2012

	General Fund	Major Sp. Rev Economic Dev Fund	Major Cap.Prj Water Fund Improv. Fund
REVENUES:			
Taxes:			
Property Taxes	\$ 2,108,891	\$ -	\$ -
General Sales and Use Taxes	1,730,042	865,021	-
Franchise Tax	581,845	-	-
Other Taxes	6,666	-	-
Penalty and Interest on Taxes	51,256	-	-
Licenses and Permits	82,494	-	-
Intergovernmental Revenue and Grants	144,699	-	-
Charges for Services	84,779	-	-
Fines	144,956	-	-
Forfeits	-	-	-
Investment Earnings	3,872	9,496	1,348
Rents and Royalties	10,400	-	-
Other Revenue	46,865	17,862	-
Total Revenues	4,996,765	892,379	1,348
EXPENDITURES:			
Current:			
General Government	925,225	-	-
Judicial	146,601	-	-
Public Safety	2,749,792	-	-
Public Works	599,298	-	421,863
Highways and Streets	151,926	-	-
Culture and Recreation	253,991	-	-
Libraries	190,982	-	-
Conservation and Development	284,768	-	-
Economic Development and Assistance	-	535,837	-
Debt Service:			
Bond Principal	89,055	-	-
Bond Interest	21,018	-	-
Fiscal Agent's Fees	-	-	-
Capital Outlay:			
Capital Outlay	338,056	4,554	4,250,337
Total Expenditures	5,750,712	540,391	4,672,200
Excess (Deficiency) of Revenues Over (Under) Expenditures	(753,947)	351,988	(4,670,852)
OTHER FINANCING SOURCES (USES):			
Capital-related Debt Issued (Regular Bonds)	-	-	4,370,000
Proceeds from Capital Leases	187,410	-	-
Transfers In	497,816	35,000	227,140
Transfers Out (Use)	(2,881)	(990,640)	-
Total Other Financing Sources (Uses)	682,345	(955,640)	4,597,140
Net Change in Fund Balances	(71,602)	(603,652)	(73,712)
Fund Balance - October 1 (Beginning)	798,593	2,277,594	(6,838)
Fund Balance - September 30 (Ending)	\$ 726,991	\$ 1,673,942	\$ (80,550)

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

Major Debt Service Fund	Major Capital Proj. Fund	Other Funds	Total Governmental Funds
\$ 438,304	\$ -	\$ -	\$ 2,547,195
-	-	-	2,595,063
-	-	7,629	589,474
-	-	100,736	107,402
12,587	-	-	63,843
-	-	-	82,494
-	760,000	451,311	1,356,010
-	-	-	84,779
-	-	-	144,956
-	-	162,876	162,876
760	12,696	3,192	31,364
-	-	-	10,400
-	-	-	64,727
<u>451,651</u>	<u>772,696</u>	<u>725,744</u>	<u>7,840,583</u>
-	-	5,062	930,287
-	-	-	146,601
-	-	490,970	3,240,762
-	-	37,746	1,058,907
-	-	-	151,926
-	-	-	253,991
-	-	-	190,982
-	-	-	284,768
-	-	-	535,837
735,000	-	-	824,055
501,773	-	-	522,791
28,844	-	-	28,844
-	<u>3,675,971</u>	<u>155,341</u>	<u>8,424,259</u>
<u>1,265,617</u>	<u>3,675,971</u>	<u>689,119</u>	<u>16,594,010</u>
<u>(813,966)</u>	<u>(2,903,275)</u>	<u>36,625</u>	<u>(8,753,427)</u>
-	-	-	4,370,000
-	-	-	187,410
706,647	1,200,000	2,881	2,669,484
-	-	(442,176)	(1,435,697)
<u>706,647</u>	<u>1,200,000</u>	<u>(439,295)</u>	<u>5,791,197</u>
<u>(107,319)</u>	<u>(1,703,275)</u>	<u>(402,670)</u>	<u>(2,962,230)</u>
<u>59,294</u>	<u>4,200,356</u>	<u>1,054,929</u>	<u>8,383,928</u>
<u>\$ (48,025)</u>	<u>\$ 2,497,081</u>	<u>\$ 652,259</u>	<u>\$ 5,421,698</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, 2012

Total Net Change in Fund Balances - Governmental Funds	\$	2,962,230
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 2012 capital outlays and debt principal payments is to increase (decrease) net assets.		10,063,947
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.		(329,287)
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.		(12,774,565)
Change in Net Assets of Governmental Activities	<u>\$</u>	<u>(77,675)</u>

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

CITY OF RIO GRANDE CITY
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
SEPTEMBER 30, 2012

	Business Type Activities
	Major Enterprise Fund
ASSETS	
Current Assets:	
Cash and Cash Equivalents	\$ 112,607
Investments - Current	2,785,700
Taxes Receivable	8,255
Accounts Receivable-Net of Uncollectible Allowance	864,499
Due from Other Funds	267,146
Inventories	15,097
Total Current Assets	<u>4,053,304</u>
Noncurrent Assets:	
Capital Assets:	
Land Purchase and Improvements	339,036
Infrastructure	9,999,825
Buildings	398,037
Machinery and Equipment	189,119
Other Asset	477
Total Noncurrent Assets	<u>10,926,494</u>
Total Assets	<u>14,979,798</u>
LIABILITIES	
Current Liabilities:	
Accounts Payable	311,603
Wages and Salaries Payable	32,298
Due to Other Funds	38,420
Accrued Interest Payable	8,220
Deferred Revenue	8,255
Bonds Payable - Current:	
Revenue Bonds Payable	28,000
Capital Leases Payable - Current	34,097
Other Current Liabilities	334,285
Total Current Liabilities	<u>795,178</u>
NonCurrent Liabilities:	
Bonds Payable - Noncurrent	675,000
Capital Leases Payable - Noncurrent	33,889
Total Noncurrent Liabilities	<u>708,889</u>
Total Liabilities	<u>1,504,067</u>
NET ASSETS	
Investments in Capital Assets, Net of Debt	10,155,031
Unrestricted Net Assets	3,320,700
Total Net Assets	<u>\$ 13,475,731</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, 2012

EXHIBIT D-2 (Cont'd)

	Business Type Activities <u>Major</u> Enterprise Fund
OPERATING REVENUES:	
Charges for Services	\$ 31,280
Charges for Water Services	3,233,077
Charges for Sewage Service	1,473,393
Charges for Sanitation Service	42,356
Investment Earnings	12,930
Other Revenue	124,448
Total Operating Revenues	4,917,484
OPERATING EXPENSES:	
Proprietary Fund Function - Water	
Personnel Services - Salaries and Wages	505,707
Personnel Services - Employee Benefits	163,701
Purchased Professional & Technical Services	838,714
Purchased Property Services	123,898
Other Operating Expenses	22,531
Supplies	849,602
Total Proprietary Fund Function - Water	2,504,153
Proprietary Fund Function - Sewage	
Personnel Services - Salaries and Wages	61,572
Personnel Services - Employee Benefits	24,748
Purchased Professional & Technical Services	111,687
Purchased Property Services	254,531
Other Operating Expenses	3,203
Supplies	395,616
Total Proprietary Fund Function - Sewage	851,357
Proprietary Fund Function - Admin & Collections	
Personnel Services - Salaries and Wages	233,429
Personnel Services - Employee Benefits	69,366
Purchased Professional & Technical Services	11,402
Purchased Property Services	23,330
Other Operating Expenses	256,196
Supplies	60,583
Total Proprietary Fund Function - Admin. & Collections	654,306
Proprietary Fund Function - User Defined	
Other Operating Expenses	16,573
Proprietary Fund Function	
Purchased Professional & Technical Services	2,544
Depreciation	177,547
Interest Expense	47,103
Total Operating Expenses	4,253,583
Income Before Contributions & Transfers	663,901
Capital Contributions	2,152,701
Transfers Out	(1,233,787)

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, 2012

	Business Type Activities
	Major Enterprise Fund
Change in Net Assets	1,582,815
Total Net Assets - October 1 (Beginning)	13,859,753
Prior Period Adjustment	(1,966,837)
Total Net Assets - September 30 (Ending)	<u>\$ 13,475,731</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, 2012

	Business Type Activities
	Major Enterprise Fund
<u>Cash Flows from Operating Activities:</u>	
Cash Received from User Charges	\$ 4,665,759
Cash Received from Other	168,658
Cash Payments to Employees for Services	(1,050,370)
Cash Payments for Services	(1,366,106)
Cash Payments for Suppliers	(1,164,329)
Cash Payments for Other Operating Expenses	(349,785)
Net Cash Provided by Operating Activities	<u>903,827</u>
<u>Cash Flows from Non-Capital Financing Activities:</u>	
Operating Transfer Out	<u>(1,233,787)</u>
<u>Cash Flows from Capital & Related Financing Activities:</u>	
Acquisition of Capital Assets	(2,219,433)
Increase (decrease) in Bonds	(271,000)
Adjustment to Accumulated Depreciation	1,928,799
Adjustment to Capital Assets	185,864
Increases (decreases) in Capital Leases	67,986
Net Cash Provided by (Used for) Capital & Related Financing Activities	<u>(307,784)</u>
<u>Cash Flows from Investing Activities:</u>	
Purchase of Investment Securities	<u>(2,274,018)</u>
Net Increase(Decrease) in Cash and Cash Equivalents	(2,911,762)
Cash and Cash Equivalents at Beginning of the Year:	<u>3,024,369</u>
Cash and Cash Equivalents at the End of the Year:	<u>\$ 112,607</u>
<u>Reconciliation of Operating Income to Net Cash Provided By Operating Activities:</u>	
Operating Income:	\$ 663,901
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:	
Depreciation	177,547
Effect of Increases and Decreases in Current Assets and Liabilities:	
Decrease (increase) in Receivables	(83,067)
Decrease (increase) in Inventories	(670)
Decrease (increase) in Interfund Receivables	(37,487)
Decrease (increase) in Deferred Charges	16,573
Increase (decrease) in Accounts payable	125,569
Increase (decrease) in Due to Other Funds	15,060
Increase (decrease) in Accrued payable	(2,916)
Increase (decrease) in Current payable	21,164

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, 2012

	Business Type Activities
	Major Enterprise Fund
Increase (decrease) in Wages Payable	8,153
Net Cash Provided by Operating Activities	<u>\$ 903,827</u>

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

CITY OF RIO GRANDE CITY
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED SEPTEMBER 30, 2012

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. REPORTING ENTITY

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

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

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

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

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

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

B. GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

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

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

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

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

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

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

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

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

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

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

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

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

D. FUND ACCOUNTING

The City reports the following major governmental funds:

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

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

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

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

Governmental Funds:

1. **Special Revenue Funds** – The City accounts for resources restricted to, or designated for, specific purposes by the City or a grantor in a special revenue fund. Most Federal and some State financial assistance is accounted for in a Special Revenue Fund, and sometimes unused balances must be returned to the grantor at the close of specified project periods.
2. **Permanent Funds** – The City accounts for donations for which the donor has stipulated that the principal may not be expended and where the income may only be used for purposes that support the City's programs. The City has no Permanent Funds.

Proprietary Funds:

4. **Enterprise Funds** – The City's activities for which outside users are charged a fee roughly equal to the cost of providing the goods or services of those activities are accounted for in an enterprise fund. The City's only Enterprise Fund(s) is the Public Utilities Department.
5. **Internal Service Funds** – Revenues and expenses related to services provided to organizations inside the City on a cost reimbursement basis are accounted for in an internal service fund. The City has no internal service funds.

Fiduciary Funds:

6. **Private Purpose Trust Funds** – The City accounts for donations for which the donor has stipulated that both the principal and the income may be used for purposes that benefit parties outside the City. The City has no Private Purpose Trust Funds.
7. **Agency Funds** – The City accounts for resources held for others in a custodial capacity in agency funds. The City has no Agency Funds.

E. OTHER ACCOUNTING POLICIES

1. For purposes of the statement of cash flows for proprietary funds, the City considers highly liquid investments to be cash equivalents if they have a maturity of three months or less when purchased.
2. In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

3. It is the City's policy to permit some employees to accumulate earned but unused vacation and sick pay benefits. There is a liability for unpaid accumulated vacation leave since the City does have a policy to pay any amounts when employees separate from service with the City. All vacation pay is accrued when incurred in the government-wide, proprietary, and fiduciary fund financial statements. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations and retirements.
4. Capital assets, which include land, buildings, furniture and equipment [and infrastructure assets] are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the City as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed.

Buildings, furniture and equipment of the City are depreciated using the straight line method over the following estimated useful lives. The estimated lives range from 3 to 15 years for equipment, 2 to 15 years for vehicles, 30 years for infrastructure, 20 years for improvements, and 50 years for buildings.

5. Restricted Assets-Certain proceeds of enterprise fund revenue bonds, as well as certain resources set aside for their repayment, are classified as restricted assets on the balance sheet because their use is limited by applicable bond covenants.
6. Deferred revenues are those for which asset recognition criteria have been met, but for which revenue recognition criteria have not been met. Monies collected in advance from federal or state agencies are recorded as revenue in the year for which the expenditures are incurred.
7. When the City incurs an expense for which it may use either restricted or unrestricted assets, it uses the restricted assets first whenever they will have to be returned if they are not used.
8. Encumbrances-The City of Rio Grande City, Texas, employs encumbrance accounting; under which purchase order, contracts, and other commitments for the expenditure of monies are recorded in order to reserve that portion of the applicable appropriation.
9. The City has adopted GASB 54 as part of its 2010-11 fiscal year reporting. Implementation of GASB 54 is required for all cities for their fiscal year ending 2012. The intention of GASB 54 is to provide a more structured classification of fund balance and to improve the usefulness of fund balance reporting to the users of the City's financial statements. The reporting standard establishes a hierarchy for fund balance classifications and the constraints imposed on the uses of those resources. GASB 54 provides for two major types of fund balances, which are nonspendable and spendable.

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

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

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

When the City incurs an expense for which it may use either restricted or unrestricted assets, it used the restricted assets first whenever they will have to be returned if they are not used.

II. RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

A. EXPLANATION OF CERTAIN DIFFERENCES BETWEEN THE GOVERNMENTAL FUND BALANCE SHEET AND THE GOVERNMENT-WIDE STATEMENT OF NET ASSETS

Exhibit C-2 provides the reconciliation between the fund balance for total governmental funds on the governmental fund balance sheet and the net assets for governmental activities as reported in the government-wide statement of net assets. One element of that reconciliation explains that capital assets are not financial resources and are therefore not reported in governmental funds. In addition, long-term liabilities, including bonds payable, are not due and payable in the current period and are not reported as liabilities in the funds. The details of capital assets and long-term debt at the beginning of the year were as follows:

<u>Capital Assets</u> <u>at the Beginning of the year</u>	<u>Historic Cost</u>	<u>Accumulated</u> <u>Depreciation</u>	<u>Net Value at the</u> <u>Beginning of the</u> <u>Year</u>	<u>Change in Net</u> <u>Assets</u>
Land	\$ 1,075,865	\$ 0	\$ 1,075,865	
Buildings	1,182,988	(248,884)	934,104	
Furniture & Equipment	3,348,856	(1,907,128)	1,441,728	
Infrastructure	5,284,055	0	5,284,055	
Construction in Progress	<u>20,148,172</u>	<u>0</u>	<u>20,148,172</u>	
Change in Net Assets				<u>\$ 28,883,924</u>
<u>Long-term Liabilities</u> <u>at the Beginning of the year</u>			<u>Payable at the</u> <u>Beginning of the</u> <u>Year</u>	
Capital Leases Payable			\$ 139,144	
Notes Payable			311,689	
Bonds Payable			<u>25,054,398</u>	
Change in Net Assets				<u>\$ (25,505,231)</u>
Net Adjustment to Net Assets				<u>\$ 3,378,693</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	\$ 9,210,035	\$ 9,210,035	\$ 9,210,035
Total Capital Outlay	<u>\$ 9,210,035</u>	<u>\$ 9,210,035</u>	<u>\$ 9,210,035</u>
<u>Debt Principal Payments</u>			
Bonds Principal	\$ 735,000	\$ 735,000	\$ 735,000
Capital Lease Principal	81,208	81,208	81,208
Loan Principal	<u>37,704</u>	<u>37,704</u>	<u>37,704</u>
Total Principal Payments	<u>\$ 853,912</u>	<u>\$ 853,912</u>	<u>\$ 853,912</u>
Total Adjustment to Net Assets		<u>\$10,063,947</u>	<u>\$10,063,947</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	\$ 97,389	\$ (97,389)	\$ -
Uncollected taxes (assumed collectible) from Current Year Levy	\$ 28,290	\$ 28,290	\$ 28,290
Other	\$ 423,572	\$ (423,572)	\$ 66,749
<u>Reclassify Proceeds of Bonds, Loans & Capital Leases</u>			
Retirement of Capital Assets/Transfer to Utility Fund	\$ 2,152,701	\$ (2,152,701)	\$ (2,152,701)
Recalculated Accumulated Depreciation	\$ 5,571,783	\$ (5,571,783)	\$ (5,571,783)
Capitalized Debt Issuance Costs	\$ 566,596	\$ -	\$ 566,596
Capital Leases Proceeds	\$ 187,410	\$ (187,410)	\$ (187,410)
Bond Proceeds	\$ 4,370,000	<u>\$ (4,370,000)</u>	<u>\$ (4,370,000)</u>
Total		<u>\$ (12,774,565)</u>	<u>\$ (11,620,259)</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. One budget amendments occurred in 2012.
4. Budgeted amounts are as amended by the Council. All budget appropriations lapse at year end.

B. EXCESS OF EXPENDITURES OVER APPROPRIATIONS

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

<u>Functional Category</u>	<u>Amount</u>
Judicial	\$ 4,856
Public Safety	\$111,447
Highways & Streets	\$ 10,441
Culture and Recreation	\$ 54,581
Conservation and Development	\$284,768
Debt Service	\$110,073
Capital Outlay	\$338,056

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, 2012, the carrying amount of the City's deposits (cash and interest-bearing savings accounts included in temporary investments) was \$1,962,090 and the bank balance was \$ 2,286,050. The City's cash deposits at September 30, 2012 and during the year ended September 30, 2012 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, 2012, the City had the following investments;

<u>Investment Type</u>	Investment Maturities (in years)				
	Fair Value	Less than 1	1-5	6-10	More Than 10
<u>General Fund:</u>					
Tex-Pool	\$ 65	\$ 65			
Logic Money Market	\$ 263,821	\$ 263,821			
Total-General Fund	\$ 263,886	\$ 263,886			
<u>Special Revenues Funds:</u>					
Logic Money Market	\$ 1,478,949	\$ 1,478,949			
Total-Special Revenue Fund	\$ 1,478,949	\$ 1,478,949			
<u>Capital Projects Funds:</u>					
Logic Money Market	\$ 1,752,706	\$ 1,752,706			
Wells Fargo Money Market	\$ 233,377	\$ 233,377			
Total-Capital Projects Funds	\$ 1,986,083	\$ 1,986,083			
Subtotal-Governmental Type	\$ 3,728,918	\$ 3,728,918			
<u>Enterprise Fund:</u>					
Texpool Money Market	\$ 1,880,263	\$ 1,880,263			
Bank of New York Money Market	386,409	386,409			
Logic Money Market	519,028	519,028			
Total-Enterprise Fund	\$ 2,785,700	\$ 2,785,700			
Subtotal-Proprietary Type	\$ 2,785,700	\$ 2,785,700			
Total-All Fund Types	\$ 6,514,618	\$ 6,514,618			

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, 2012, 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, 2012 consisted of the following:

Due From Fund	Due To Fund	Amount	Purpose
General Fund	Special Revenue Funds	\$ 112,680	Short-term loans
General Fund	Debt Service Fund	5,101	Short-term loans
General Fund	Public Utility Fund	124,473	Short-term loans
Special Revenue Funds	General Fund	100,715	Short-term loans
Special Revenue Funds	EDC Fund	57,576	Short-term loans
Special Revenue Funds	Public Utility Fund	14,598	Short-term loans
Debt Service Fund	General Fund	306	Short-term loans
Debt Service Fund	Public Utility Fund	128,076	Short-term loans
Capital Projects Fund	General Fund	50	Short-term loans
Enterprise Fund	General Fund	1	Short-term loans
Enterprise Fund	Debt Service Fund	38,419	Short-term loans
	Total	\$ 581,995	

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, 2012 consisted of the following:

Transfers From	Transfers To	Amount	Reason
General Fund	HIDTA Task Force	\$58	Supplemental other funds sources
General Fund	Airport	2,823	Supplemental other funds sources
Hotel Fund	Economic Development	35,000	Supplemental other funds sources
Hotel Fund	Capital Projects Fund	400,000	Supplemental other funds sources
Forfeiture Fund	General Fund Fund	7,176	Supplemental other funds sources
Economic Development	General Fund	190,640	Supplemental other funds sources
Economic Development	Capital Projects Fund	800,000	Supplemental other funds sources
Public Utilities Dept.	General Fund	300,000	Supplemental other funds sources
Public Utilities Dept.	Water Plant Project	227,140	Supplemental other funds sources
Public Utilities Dept.	Debt Service	706,647	Supplemental other funds sources
	Total	<u>\$2,669,484</u>	

In addition, in the government-wide financial statements, the amount \$2,152,701, is reflected as a non-operating transfer in/out of construction in progress previously carried in the general fixed assets account group which was completed in 2012 and transferred to the proprietary fund type .

E. CAPITAL ASSET ACTIVITY

Capital asset activity for the City for the year ended September 30, 2012, was as follows:

	Primary Government			
	<u>Beginning Balance</u>	<u>Additions</u>	<u>Retirements & Adjustments</u>	<u>Ending Balance</u>
Governmental Activities:				
Land	\$ 1,075,865	\$ -	\$ -	\$ 1,075,865
Buildings	1,182,988	2,244,873	-	3,427,861
Furniture and Equipment	3,348,856	719,997	(360,628)	3,708,225
Infrastructure	5,284,055	-	-	5,284,055
Construction in Progress	<u>20,148,172</u>	<u>8,490,039</u>	<u>(4,397,574)</u>	<u>24,240,637</u>
Totals at Historic Cost	<u>\$ 31,039,936</u>	<u>\$ 11,454,908</u>	<u>\$ (4,758,202)</u>	<u>\$ 37,736,643</u>
Less Accumulated Depreciation:				
Total Accumulated Depreciation	<u>(2,156,012)</u>	<u>(329,287)</u>	<u>(5,133,359)</u>	<u>(7,618,658)</u>
Governmental Activities Capital Assets, Net	<u>\$ 28,883,924</u>	<u>\$ 11,125,621</u>	<u>\$ (9,891,560)</u>	<u>\$ 30,117,985</u>
Business-type Activities:				
Land	\$ 339,035	\$ -	\$ -	\$ 339,035
Buildings and Improvements	599,223	-	-	599,223
Furniture and Equipment	309,783	156,543	(89,838)	376,488
Infrastructure	<u>11,837,840</u>	<u>2,152,701</u>	<u>-</u>	<u>13,990,541</u>
Totals at Historic Cost	<u>\$ 13,085,881</u>	<u>\$ 2,309,224</u>	<u>\$ (89,838)</u>	<u>\$ 15,305,287</u>
Less Accumulated Depreciation				
Total Accumulated Depreciation	<u>(2,272,924)</u>	<u>(177,547)</u>	<u>(1,928,799)</u>	<u>(4,379,270)</u>
Business-type Activities Capital Assets, Net	<u>\$ 10,688,946</u>	<u>\$ 2,131,677</u>	<u>\$ (1,894,606)</u>	<u>\$ 10,926,017</u>

Depreciation expense was charged to governmental functions as follows:

General Government	\$ 45,112
Judicial	6,915
Public Safety	158,058
Public Works	59,610
Economic Development	24,358
Conservation & Development	13,830
Culture & Recreation	12,184
Libraries	<u>9,220</u>
Total Depreciation Expense	<u>\$ 329,287</u>

F. BONDS AND OTHER LONG-TERM PAYABLES

At September 30, 2012, long-term debt consisted of the following:

General Long Term Debt:

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%	\$ 2,605,000
\$12,200,000 2007B Combination Tax and Revenue Certificates of Obligation due in annual installments ranging from \$100,000 to \$430,000 from 02-15-11 through 2040; interest at 0.0%	11,895,000
\$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%	8,184,398
\$6,500,000 Combination Tax & Limited Pledge Revenue Certificates of Obligation due in annual installments ranging from \$190,000 to \$510,000 from 03-15-11 through 2030; interest estimated at 5.34%	<u>6,005,000</u>
Subtotal- Bonds Payable	<u>\$ 28,689,398</u>

Capital Lease Obligations:

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	77,897
Capital lease payable to Kansas State Bank dated 12-10-10, payable in 3 annual installments of \$28,290 including interest at 4.25%, secured by (1) Chevy Silverado 2500HD Truck	9,424
Capital lease payable to Kansas State Bank dated 07-10-12, payable in 7 annual installments of \$29,284 including interest at 3.098%, secured by (1) TYMCO Street Sweeper	158,125

Subtotal- Capital Leases Payable	<u>\$ 245,446</u>
 <u>Notes Payable:</u>	
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	69,591
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>204,394</u>
Subtotal-Notes Payable	<u>\$ 273,885</u>
Total General Long Term Debt	<u>\$ 29,208,729</u>
 Enterprise Long Term Debt:	
<u>Revenue Bonds Payable:</u>	
\$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%	54,000
\$811,000 1996A Waterworks and Sewer System Revenue Serial Bonds due in annual installments ranging from \$8,000 to \$46,000 from 07-10-02 through 2035; interest at 5.125%	<u>649,000</u>
Subtotal- Revenue Bonds Payable	\$ 703,000
<u>Capital Leases:</u>	
Capital lease payable to Diversified Lenders dated 10-01-12, Payable in 3 annual installments of \$36,758 including interest At 4.711% , secured by hardware/software	<u>\$ 69,423</u>
Subtotal- Capital Leases Payable	\$ 69,423
Total Enterprise Long Term Debt	<u>\$ 772,423</u>
Total Long-Term Debt	<u>\$ 29,461,821</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, 2012.

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						
2013	\$ 112,859	\$ 9,664	\$ 37,238	\$ 16,354	\$ 998,000	\$419,697
2014	93,412	5,667	39,503	14,089	1,019,000	424,178
2015	25,920	3,364	41,911	11,681	1,036,000	412,725
2016	26,723	2,561	18,411	8,901	1,048,000	400,418
2017	27,551	1,734	19,547	7,765	1,049,000	385,949
2018-2022	28,404	880	117,375	19,185	5,405,000	1,608,536
2023-2027	-	-	-	-	6,110,000	1,087,877
2028-2032	-	-	-	-	5,671,000	358,589
2033-2037	-	-	-	-	4,357,000	485,863
2033-2037	-	-	-	-	<u>2,604,398</u>	<u>30,581</u>
Total	<u>\$ 314,869</u>	<u>\$ 23,870</u>	<u>\$ 273,985</u>	<u>\$ 77,975</u>	<u>\$29,392,398</u>	<u>\$8,811,459</u>

H. CHANGES IN LONG-TERM LIABILITIES

Long-term activity for the year ended September 30, 2012, 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	\$ 139,245	\$ 187,409	\$ (81,208)	\$ 245,446	\$ 78,762
Bonds Payable	25,054,398	4,370,000	(735,000)	28,689,398	970,000
Notes Payable	<u>311,689</u>	<u>0</u>	<u>(37,704)</u>	<u>273,985</u>	<u>37,238</u>
Total Bonds and Notes Payable	<u>\$ 25,505,332</u>	<u>\$ 4,557,409</u>	<u>\$ (853,912)</u>	<u>\$ 29,208,829</u>	<u>\$ 1,086,000</u>
Total Governmental Activities Long-term Liabilities	<u>\$ 25,505,332</u>	<u>\$ 4,557,409</u>	<u>\$ (853,912)</u>	<u>\$ 29,208,829</u>	<u>\$ 1,086,000</u>
Business-type Activities:					
Bonds and Notes Payable:					
Capital Leases Payable	\$ 0	\$ 104,744	\$ (35,321)	\$ 69,423	\$ 34,097
Revenue Bonds Payable	<u>\$ 974,000</u>	<u>\$ 0</u>	<u>\$ (271,000)</u>	<u>\$ 703,000</u>	<u>\$ 28,000</u>
Total Bonds and Notes Payable	<u>\$ 974,000</u>	<u>\$ 104,744</u>	<u>\$ (306,321)</u>	<u>\$ 772,423</u>	<u>\$ 62,097</u>
Total Business-type Activities Long-term Liabilities	<u>\$ 974,000</u>	<u>\$ 104,744</u>	<u>\$ (306,321)</u>	<u>\$ 772,423</u>	<u>\$ 62,097</u>

I. DEFERRED REVENUE

Deferred revenue at year-end consisted of the following:

	<u>Governmental</u> <u>Funds</u>	<u>Enterprise</u> <u>Fund</u>	<u>Total</u>
Deferred Revenue	<u>\$211,534</u>	<u>\$8,255</u>	<u>\$219,789</u>
Total Deferred Revenue	<u>\$211,534</u>	<u>\$8,255</u>	<u>\$219,789</u>

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

J. COMMITMENTS AND CONTINGENCIES

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

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

K. RISK MANAGEMENT

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

L. CONCENTRATIONS OF CREDIT RISK

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

M. HEALTH CARE COVERAGE

During the year ended September 30, 2012, employees of the City were covered by a health insurance plan (the "Plan"). The City paid premiums of \$280.86 per month per employee to the Plan. Employees, at their option, authorized payroll withholdings to pay premiums for dependents. All premiums were paid to a licensed insurer. The Plan was authorized by Article 3.51-2, Texas Insurance Code and was documented by contractual agreement.

The contract between the City and the licensed insurer is renewable March 1, 2012, and terms of coverage and premium costs are included in the contractual provisions.

Latest financial statements for the insurer (Texas municipal League Employee Benefits Pool) are available for the year ended December 31, 2012 and have been filed with the Texas Board of Insurance in Austin, Texas, and are public records.

N. DEFINED BENEFIT PENSION PLAN

Plan Description

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

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

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

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

Contributions

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

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

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

1. Annual Required Contribution (ARC)	\$ 322,069
2. Interest on Net Pension Obligation	-
3. Adjustment to the ARC	-
4. Annual Pension Cost (APC)	322,069
5. Contributions Made	<u>(322,069)</u>
6. Increase (decrease) in net pension obligation	-
7. Net Pension Obligation/(Asset), beginning of year	<u>-</u>
8. Net Pension Obligation/(Asset), end of year	\$ -

Three Year Trend Information

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

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

Valuation Date	12/31/2009	12/31/10	12/31/11
Actuarial Cost Method	Projected Unit Credit	Projected Unit Credit	Projected Unit Credit
Amortization Method	Level Percent of Payroll	Level Percent of Payroll	Level Percent of Payroll
GASB 25 Equivalent Single Amortization Period	28.2 years; Closed Period	27.2 years; Closed Period	26.3 years; Closed Period
Amortization Period for new Gains/Losses	30 years	30 years	30 years
Asset Valuation Method	10-year smoothed market	10-year smoothed market	10-year smoothed market
Actuarial Assumptions: Investment Rate of Return	7.5%	7.0%	7.0%
Projected Salary Increases	Varies by age and service	Varies by age and service	Varies by age and service
Includes inflation at	3.00%	3.00%	3.00%
Cost of Living Adjustments	2.1%	2.1%	2.1%

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Funded Ratio	Unfunded AAL (UAAL)	Covered Payroll	UAAL as a Percentage of Covered Payroll
	(1)	(2)	(3)	(4)	(5)	(6)
			(1)/(2)	(2)-(1)		(4)/(5)
12/31/11	\$ 3,431,264	\$5,132,327	66.9%	\$ 1,701,063	\$ 3,932,136	43.3%

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

Actuarial calculations are based on the benefits provided under the terms of the substantive plan in effect at the time of each valuation, and reflect a long-term perspective. Consistent with that perspective, actuarial methods and assumptions used include techniques that are designed to reduce short – term volatility in actuarial accrued

liabilities and the actuarial value of assets. The schedule of funding progress, presented as Required Supplementary Information following the notes to the financial statements, presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability of benefits.

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Funded Ratio	Unfunded AAL (UAAL)	Covered Payroll	UAAL as a Percentage of Covered Payroll
	(1)	(2)	(3)	(4)	(5)	(6)
			(1)/(2)	(2)-(1)		(4)/(5)
12/31/09	\$ 2,068,315	\$ 3,383,674	61.1%	\$ 1,315,359	\$ 3,662,654	35.9%
12/31/10	2,716,219	4,444,952	61.1	1,728,733	3,922,101	44.1
12/31/11	3,431,264	5,132,327	66.9	1,701,063	3,932,136	43.3

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

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

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

Your city offers supplemental death to:	Plan Year 2011	Plan Year 2012
Active employees (yes or no)	Yes	Yes
Retirees (yes or no)	Yes	Yes

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

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

P. CONSTRUCTION COMMITMENTS

New 6.0 MGD Water Treatment Plant	Contract Amount	Costs to Date	Remaining Commitment
CDM Constructors Inc (CCI) - CM Construction	\$ 16,870,262	\$ 16,026,749	\$ 843,513
CDM - Design Engineering (Executed 11/01/2007)	2,951,588	2,920,353	31,235
Half Associates - Additional Time & Materials	80,000	41,652	38,348
Terracon - Materials Testing	170,000	138,458	31,542
TDA Street Improvement Project #711399			
JF Utility Trenching	495,171	29,703	465,468
Rio Delta Engineering	51,446	23,150	28,296
2010 Capital Projects			
- RGC Municipal Park			
Negrete & Kolar Architects	137,300	133,456	3,844
Rio Irrigation & Landscaping	173,425	151,941	21,484
Rio Delta Engineering	38,280	11,484	26,796
JF Utility Trenching - Cast Concrete	148,835	113,619	35,216
JF Utility Trenching - Walking Trails	101,807	96,717	5,090
- Street Paving			
S & B Infrastructure	454,400	349,651	104,749
Terracon - San Benito St Extension	6,012	4,930	1,083
Rio Delta Engineering - San Benito St Extension	19,713	14,785	4,928
TOTALS	\$ 21,698,239	\$ 20,056,648	\$ 1,641,591

Q. PRIOR PERIOD ADJUSTMENT

Government-Wide Financial Statements:

The City's net assets in the governmental fund type decreased by \$(5,493,987) relating primarily to an adjustment for \$(5,571,783) for a re-assessment of accumulated depreciation on older infrastructure assets being carried in the books, with the residual balance of \$77,796 relating to other revenue recognition items. In the proprietary fund type, net assets decreased by \$(1,996,837) due primarily to an adjustment for \$(1,928,799) for a re-assessment of accumulated depreciation on older infrastructure assets being carried in the books, with the residual balance of \$(68,038) relating to other revenue recognition items.

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, 2012

EXHIBIT E-1

	Budgeted Amounts		Actual Amounts (GAAP BASIS)	Variance With Final Budget Positive or (Negative)
	Original	Final		
REVENUES:				
Taxes:				
Property Taxes	\$ 1,997,989	\$ 1,997,989	\$ 2,108,891	\$ 110,902
General Sales and Use Taxes	1,640,000	1,640,000	1,730,042	90,042
Franchise Tax	544,500	544,500	581,845	37,345
Other Taxes	-	-	6,666	6,666
Penalty and Interest on Taxes	50,000	50,000	51,256	1,256
Licenses and Permits	175,000	175,000	82,494	(92,506)
Intergovernmental Revenue and Grants	15,000	15,000	144,699	129,699
Charges for Services	164,500	164,500	84,779	(79,721)
Fines	-	-	144,956	144,956
Investment Earnings	5,000	5,000	3,872	(1,128)
Rents and Royalties	-	-	10,400	10,400
Other Revenue	212,700	212,700	46,865	(165,835)
Total Revenues	4,804,689	4,804,689	4,996,765	192,076
EXPENDITURES:				
Current:				
General Government	1,205,341	1,205,341	925,225	280,116
Judicial	141,745	141,745	146,601	(4,856)
Public Safety	2,638,345	2,638,345	2,749,792	(111,447)
Public Works	640,057	640,057	599,298	40,759
Highways and Streets	141,485	141,485	151,926	(10,441)
Culture and Recreation	199,410	199,410	253,991	(54,581)
Libraries	221,520	221,520	190,982	30,538
Conservation and Development	-	-	284,768	(284,768)
Debt Service:				
Bond Principal	-	-	89,055	(89,055)
Bond Interest	-	-	21,018	(21,018)
Capital Outlay:				
Capital Outlay	-	-	338,056	(338,056)
Total Expenditures	5,187,903	5,187,903	5,750,712	(562,809)
Excess (Deficiency) of Revenues Over (Under) Expenditures	(383,214)	(383,214)	(753,947)	(370,733)
OTHER FINANCING SOURCES (USES):				
Proceeds from Capital Leases	-	-	187,410	187,410
Transfers In	400,000	525,000	497,816	(27,184)
Transfers Out (Use)	(5,200)	(5,200)	(2,881)	2,319
Total Other Financing Sources (Uses)	394,800	519,800	682,345	162,545
Net Change in Fund Balances	11,586	136,586	(71,602)	(208,188)
Fund Balance - October 1 (Beginning)	798,593	798,593	798,593	-
Fund Balance - September 30 (Ending)	\$ 810,179	\$ 935,179	\$ 726,991	\$ (208,188)

CITY OF RIO GRANDE CITY
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL - 4B EDC
FOR THE YEAR ENDED SEPTEMBER 30, 2012

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	\$ 820,000	\$ 820,000	\$ 865,021	\$ 45,021
Investment Earnings	12,000	12,000	9,496	(2,504)
Other Revenue	22,000	22,000	17,862	(4,138)
Total Revenues	854,000	854,000	892,379	38,379
EXPENDITURES:				
Current:				
Conservation and Development:				
Economic Development and Assistance	1,429,856	1,429,856	535,837	894,019
Capital Outlay:				
Capital Outlay	-	-	4,554	(4,554)
Total Expenditures	1,429,856	1,429,856	540,391	889,465
Excess (Deficiency) of Revenues Over (Under) Expenditures	(575,856)	(575,856)	351,988	927,844
OTHER FINANCING SOURCES (USES):				
Transfers In	35,000	35,000	35,000	-
Transfers Out (Use)	900,000	1,025,000	(990,640)	(2,015,640)
Total Other Financing Sources (Uses)	935,000	1,060,000	(955,640)	(2,015,640)
Change in Fund Balance	359,144	484,144	(603,652)	(1,087,796)
Fund Balance - October 1 (Beginning)	2,277,594	2,277,594	2,277,594	-
Fund Balance - September 30 (Ending)	<u>\$ 2,636,738</u>	<u>\$ 2,761,738</u>	<u>\$ 1,673,942</u>	<u>\$ (1,087,796)</u>

The accompanying notes are an integral part of this statement.

CITY OF RIO GRANDE CITY
 COMBINING BALANCE SHEET
 NONMAJOR GOVERNMENTAL FUNDS
 SEPTEMBER 30, 2012

	Hotel Occupancy Tax Fund	Forfeiture Fund	HIDTA Task Force Fund	Treasury Forfeiture Fund
ASSETS				
Cash and Cash Equivalents	\$ 84,337	\$ 98,190	\$ (92)	\$ 2,899
Investments - Current	-	-	-	-
Receivables (Net)	7,920	-	-	-
Intergovernmental Receivables	-	-	82,410	-
Due from Other Funds	67,428	-	-	-
Total Assets	<u>\$ 159,685</u>	<u>\$ 98,190</u>	<u>\$ 82,318</u>	<u>\$ 2,899</u>
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts Payable	\$ -	\$ 10,349	\$ 4,830	\$ -
Due to Other Funds	-	45	77,488	-
Deferred Revenues	-	-	-	-
Other Current Liabilities	-	-	-	-
Total Liabilities	<u>-</u>	<u>10,394</u>	<u>82,318</u>	<u>-</u>
Fund Balances:				
Restricted For:				
Federal and State Restrictions	159,685	87,796	-	2,899
Other Restrictions	-	-	-	-
Unassigned:				
Unassigned	-	-	-	-
Total Fund Balances	<u>159,685</u>	<u>87,796</u>	<u>-</u>	<u>2,899</u>
Total Liabilities and Fund Balances	<u>\$ 159,685</u>	<u>\$ 98,190</u>	<u>\$ 82,318</u>	<u>\$ 2,899</u>

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

RGC Police Department Fund	CJD Taskforce Fund	Airport Fund	PEG Fee Revenue	Border Security Grant	Stonegarden Fund	TDRA #711399 Grant Fund	FEMA Fund
\$ 149	\$ -	\$ -	\$ 2,549	\$ 10,698	\$ -	\$ 51	\$ 20,105
-	-	-	-	-	-	-	-
-	-	-	-	-	-	(1)	-
-	10,764	-	-	-	1,874	39,726	-
-	-	-	3,882	-	-	-	-
<u>\$ 149</u>	<u>\$ 10,764</u>	<u>\$ -</u>	<u>\$ 6,431</u>	<u>\$ 10,698</u>	<u>\$ 1,874</u>	<u>\$ 39,776</u>	<u>\$ 20,105</u>
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 39,726	\$ -
-	10,764	-	-	10,292	1,874	50	1
-	-	-	-	359	-	-	20,104
-	-	-	-	45	-	-	-
-	10,764	-	-	10,696	1,874	39,776	20,105
149	-	-	6,431	2	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
<u>149</u>	<u>-</u>	<u>-</u>	<u>6,431</u>	<u>2</u>	<u>-</u>	<u>-</u>	<u>-</u>
<u>\$ 149</u>	<u>\$ 10,764</u>	<u>\$ -</u>	<u>\$ 6,431</u>	<u>\$ 10,698</u>	<u>\$ 1,874</u>	<u>\$ 39,776</u>	<u>\$ 20,105</u>

CITY OF RIO GRANDE CITY
 COMBINING BALANCE SHEET
 NONMAJOR GOVERNMENTAL FUNDS
 SEPTEMBER 30, 2012

	CJD-ARRA Byrne Fund	SECO Fund	BECC WW Fund	Total Nonmajor Special Revenue Funds
ASSETS				
Cash and Cash Equivalents	\$ 50	\$ 50	\$ 539	\$ 219,525
Investments - Current	-	-	-	-
Receivables (Net)	-	-	-	7,919
Intergovernmental Receivables	-	57,576	-	192,350
Due from Other Funds	-	-	-	71,310
Total Assets	<u>\$ 50</u>	<u>\$ 57,626</u>	<u>\$ 539</u>	<u>\$ 491,104</u>
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts Payable	\$ -	\$ -	\$ -	\$ 54,905
Due to Other Funds	50	57,627	539	158,730
Deferred Revenues	-	-	-	20,463
Other Current Liabilities	-	-	-	45
Total Liabilities	<u>50</u>	<u>57,627</u>	<u>539</u>	<u>234,143</u>
Fund Balances:				
Restricted For:				
Federal and State Grant Restrictions	-	-	-	256,962
Other Restrictions	-	-	-	-
Unassigned:				
Unassigned	-	(1)	-	(1)
Total Fund Balances	<u>-</u>	<u>(1)</u>	<u>-</u>	<u>256,961</u>
Total Liabilities and Fund Balances	<u>\$ 50</u>	<u>\$ 57,626</u>	<u>\$ 539</u>	<u>\$ 491,104</u>

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

Waste Water Fund	Total Nonmajor Governmental Funds
\$ 161,398	\$ 380,923
233,950	233,950
-	7,919
-	192,350
-	71,310
<u>\$ 395,348</u>	<u>\$ 886,452</u>
\$ -	\$ 54,905
50	158,780
-	20,463
-	45
<u>50</u>	<u>234,193</u>
-	256,962
395,298	395,298
-	(1)
<u>395,298</u>	<u>652,259</u>
<u>\$ 395,348</u>	<u>\$ 886,452</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, 2012

	Hotel Occupancy Tax Fund	Forfeiture Fund	HIDTA Task Force Fund	Treasury Forfeiture Fund
REVENUES:				
Taxes:				
Franchise Tax	\$ -	\$ -	\$ -	\$ -
Other Taxes	100,736	-	-	-
Intergovernmental Revenue and Grants	-	-	255,593	-
Forfeits	-	143,951	-	18,925
Investment Earnings	1,710	352	-	73
Total Revenues	<u>102,446</u>	<u>144,303</u>	<u>255,593</u>	<u>18,998</u>
EXPENDITURES:				
Current:				
General Government	5,062	-	-	-
Public Safety	-	133,970	255,651	6,962
Public Works	-	-	-	-
Capital Outlay:				
Capital Outlay	-	28,421	-	21,600
Total Expenditures	<u>5,062</u>	<u>162,391</u>	<u>255,651</u>	<u>28,562</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>97,384</u>	<u>(18,088)</u>	<u>(58)</u>	<u>(9,564)</u>
OTHER FINANCING SOURCES (USES):				
Transfers In	-	-	58	-
Transfers Out (Use)	(435,000)	(7,176)	-	-
Total Other Financing Sources (Uses)	<u>(435,000)</u>	<u>(7,176)</u>	<u>58</u>	<u>-</u>
Net Change in Fund Balance	(337,616)	(25,264)	-	(9,564)
Fund Balance - October 1 (Beginning)	<u>497,301</u>	<u>113,060</u>	<u>-</u>	<u>12,463</u>
Fund Balance - September 30 (Ending)	<u>\$ 159,685</u>	<u>\$ 87,796</u>	<u>\$ -</u>	<u>\$ 2,899</u>

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

RGC Police Department Fund	CJD Taskforce Fund	Airport Fund	PEG Fee Revenue	Border Security Grant	Stonegarden Fund	TDRA #711399 Grant Fund	FEMA Fund
\$ -	\$ -	\$ -	\$ 7,629	\$ -	\$ -	\$ -	\$ -
-	-	-	-	-	-	-	-
-	32,702	-	-	20,841	38,021	104,154	-
-	-	-	-	-	-	-	-
1	-	-	1	-	-	-	-
<u>1</u>	<u>32,702</u>	<u>-</u>	<u>7,630</u>	<u>20,841</u>	<u>38,021</u>	<u>104,154</u>	<u>-</u>
-	-	-	-	-	-	-	-
-	32,702	2,823	-	20,841	38,021	-	-
-	-	-	-	-	-	37,041	-
-	-	-	1,199	-	-	67,113	-
-	<u>32,702</u>	<u>2,823</u>	<u>1,199</u>	<u>20,841</u>	<u>38,021</u>	<u>104,154</u>	<u>-</u>
<u>1</u>	<u>-</u>	<u>(2,823)</u>	<u>6,431</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
-	-	2,823	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	<u>2,823</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
1	-	-	6,431	-	-	-	-
<u>148</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2</u>	<u>-</u>	<u>-</u>	<u>-</u>
<u>\$ 149</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 6,431</u>	<u>\$ 2</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

CITY OF RIO GRANDE CITY
 COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
 FUND BALANCES - NONMAJOR GOVERNMENTAL FUNDS
 FOR THE YEAR ENDED SEPTEMBER 30, 2012

	CJD-ARRA Byrne Fund	SECO Fund	BECC WW Fund	Total Nonmajor Special Revenue Funds
REVENUES:				
Taxes:				
Franchise Tax	\$ -	\$ -	\$ -	\$ 7,629
Other Taxes	-	-	-	100,736
Intergovernmental Revenue and Grants	-	-	-	451,311
Forfeits	-	-	-	162,876
Investment Earnings	-	-	-	2,137
Total Revenues	<u>-</u>	<u>-</u>	<u>-</u>	<u>724,689</u>
EXPENDITURES:				
Current:				
General Government	-	-	-	5,062
Public Safety	-	-	-	490,970
Public Works	-	-	-	37,041
Capital Outlay:				
Capital Outlay	-	-	-	118,333
Total Expenditures	<u>-</u>	<u>-</u>	<u>-</u>	<u>651,406</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>-</u>	<u>-</u>	<u>-</u>	<u>73,283</u>
OTHER FINANCING SOURCES (USES):				
Transfers In	-	-	-	2,881
Transfers Out (Use)	-	-	-	(442,176)
Total Other Financing Sources (Uses)	<u>-</u>	<u>-</u>	<u>-</u>	<u>(439,295)</u>
Net Change in Fund Balance	-	-	-	(366,012)
Fund Balance - October 1 (Beginning)	<u>-</u>	<u>(1)</u>	<u>-</u>	<u>622,973</u>
Fund Balance - September 30 (Ending)	<u>\$ -</u>	<u>\$ (1)</u>	<u>\$ -</u>	<u>\$ 256,961</u>

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

Waste Water Fund	Total Nonmajor Governmental Funds
\$ -	\$ 7,629
-	100,736
-	451,311
-	162,876
1,055	3,192
1,055	725,744
-	5,062
-	490,970
705	37,746
37,008	155,341
37,713	689,119
(36,658)	36,625
-	2,881
-	(442,176)
-	(439,295)
(36,658)	(402,670)
431,956	1,054,929
\$ 395,298	\$ 652,259

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

Internal Control Over Financial Reporting

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether City of Rio Grande City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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

Reyna & Garza, PLLC
Certified Public Accountants

May 24, 2013

Reyna & Garza, PLLC

Certified Public Accountants

2111 Jackson Creek Ave.

Edinburg, TX 78539

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS
THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR
PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE
WITH OMB CIRCULAR A-133

Honorable Mayor and City Council
City of Rio Grande City

Compliance

We have audited City of Rio Grande City's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* and the *State of Texas Single Audit Circular* that could have a direct and material effect on each of City of Rio Grande City's major federal and state programs for the year ended September 30, 2012. City of Rio Grande City's major federal and state programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal and state programs is the responsibility of City of Rio Grande City's management. Our responsibility is to express an opinion on City of Rio Grande City's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* and the *State of Texas Single Audit Circular*. Those standards, OMB Circular A-133, and the *State of Texas Single Audit Circular* 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 or state program occurred. An audit includes examining, on a test basis, evidence about City of Rio Grande City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of City of Rio Grande City's compliance with those requirements.

In our opinion, City of Rio Grande City, complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal or state programs for the year ended September 30, 2012.

Internal Control over Compliance

Management of City of Rio Grande City, is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal and state programs. In planning and performing our audit, we considered City of Rio Grande City's internal control over compliance with the requirements that could have a direct and material effect on a major federal or state program to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133 and the *State of Texas Single Audit Circular*, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of City of Rio Grande City's internal control over compliance.

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in 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 solely for the information and use of management, City Council, others within the entity, federal and state 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

May24, 2013

CITY OF RIO GRANDE CITY
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
Fiscal Year Ending September 30, 2012

There were no findings reported in the prior year.

CITY OF RIO GRANDE CITY, TEXAS
SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS
YEAR ENDED SEPTEMBER 30, 2012

	Federal CFDA No.	Pass-through ID. No.	Federal Expenditures
OFFICE OF NATIONAL DRUG CONTROL POLICY			
High Intensity Drug Trafficking Area Task Force	07.616	G10SS0006A	\$ 796
High Intensity Drug Trafficking Area Task Force	07.616	G11SS0006A	\$ 144,160
High Intensity Drug Trafficking Area Task Force	07.616	G12SS0006A	\$ 110,637
Total ONDCP			<u>\$ 255,593</u>
U.S. DEPARTMENT OF HOUSING & URBAN DEVELOPMENT			
Passed through Texas Department of Agriculture	14.228	711399	\$ 104,154
Total Department of Housing & Urban Development			<u>\$ 104,154</u>
U.S. DEPARTMENT OF JUSTICE			
Edward Byrne Memorial Justice Assistance Grant			
Passed through Office of the Governor-Criminal Justice Division	16.738	DJ-09-A10-22819-03	\$ 32,702
Total Department of Justice			<u>\$ 32,702</u>
U.S. ENVIRONMENTAL PROTECTION AGENCY			
Capitalization Grants for Drinking Water State Revolving Funds			
Passed through Texas Water Development Board (TWDB)-			
Drinking Water State Revolving Fund - Loan	66.468	L070018	\$ 4,150,000 *
Drinking Water State Revolving Fund - Disadvantaged Loan	66.468	L070017	\$ 220,000 *
Total Passed through TWDB			<u>\$ 4,370,000</u>
Total Environmental Protection Agency			<u>\$ 4,370,000</u>
U.S. DEPARTMENT OF HOMELAND SECURITY			
Passed through Texas Department of Homeland Security			
State Homeland Security Program	97.067	EMW-2011-SS-00019	\$ 38,987
State Homeland Security Program	97.067	2010-SS-TO-0008	\$ 93,960
Total Passed though Texas Department of Homeland Security			<u>\$ 132,947</u>
Passed through Governor's Division of Emergency Management			
Homeland Security Grant Program	97.067	2010-SS-TO-0008	\$ 38,021
Total Passed though Governor's Division of Emergency Management			<u>\$ 38,021</u>
Total Department of Homeland Security			<u>\$ 170,968</u>
TOTAL FEDERAL AWARDS			<u><u>\$ 4,933,417</u></u>
			State Expenditures
STATE GRANTS			
Texas Department of Public Safety			
Texas Ranger Division-Local Border Security Program FY11	---	LBSP-11-0040	\$ 20,841
Texas Department of Parks and Wildlife			
Local Park Grant Program	---	TPWD 50-000431	\$ 760,000
TOTAL STATE AWARDS			<u><u>\$ 780,841</u></u>

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

CITY OF RIO GRANDE CITY
NOTES ON ACCOUNTING POLICIES FOR FEDERAL AWARDS
YEAR ENDED SEPTEMBER 30, 2012

- 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.