

CITY OF RIO GRANDE CITY  
ANNUAL FINANCIAL REPORT  
FOR THE YEAR ENDED SEPTEMBER 30, 2004

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QUALIFIED 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 BOARD OF ALDERMEN  
CITY OF RIO GRANDE CITY  
P.O. BOX 467  
RIO GRANDE CITY, TEXAS 78582

Members of the Board:

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 September 30, 2004 and for the year ended 2004, 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 an opinion on these financial statements based on our audit.

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

The City ending balances for all its Property, Plant and Equipment did not agree with a physical inventory taken by a research company. The variance between the two is considered material. The City did not adjust its fixed asset balances.

In our opinion, except for the variance amounts between the general ledger and the physical inventory of the City's Property, Plant and Equipment, 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, 2004, and the respective changes in financial position and cash flows, where applicable, thereof, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Management's discussion and analysis is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 17, 2006, on our consideration of the City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Governmental Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

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

The accompanying supplementary information, such as the, combining and individual nonmajor fund financial statements, are presented for purposes of additional analysis and are not a required part of the basic financial statements. The supplementary information, such as the combining and individual nonmajor fund financial statements 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.

Luis C. Orozco  
Certified Public Accountant

February 17, 2006

Management's Discussion and Analysis  
THE CITY OF RIO GRANDE CITY

**MANAGEMENT'S DISCUSSION AND ANALYSIS**

In this section of the Annual Financial and Compliance Report, we, the managers of THE CITY OF RIO GRANDE CITY (CITY), discuss and analyze the CITY's financial performance for the fiscal year ended September 30, 2004. Please read it in conjunction with our independent auditors' report on and the CITY's Basic Financial Statements.

**FINANCIAL HIGHLIGHTS**

- The City's assets exceeded its liabilities by \$13,840,938 (net assets) for the fiscal year reported.
- Total Net Assets are comprised of the following:
  - Capital Assets, net of related debt, of \$9,073,186 include property and equipment, net of accumulated depreciation, and reduced for outstanding debt related to the purchase or construction of capital assets.
  - Net Assets of \$117,070 are restricted by constraints imposed outside the City.
  - Unrestricted Net Assets of \$4,650,682 represent the portion available to maintain the City's continuing obligations to citizens and creditors.
- The City's governmental funds reported total ending fund balance of \$3,607,277 this year, all of which is unreserved.
- Total liabilities of the City equal to \$4,067,626 during the fiscal year. There were no general obligations or revenue bonds issued for capital improvements during the fiscal.

**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. 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.

The City's basic financial statements consist of three components; 1) the MD&A, 2) fund financial statements, and 3) notes to the financial statements. Because the CITY is a special-purpose government, the financial statements are presented in accordance with paragraph 138 of GASB Statement No. 34. In addition to the financial statements, this report contains other supplemental information that will enhance the reader's understanding of the financial condition of the CITY. Due to the CITY's required adoption of Governmental Accounting Standards Board Statements No. 34, 37 and 38 during the fiscal year, comparative year financial statements are not presented. Future reports will contain comparative financial data allowing for more comparison and analysis.

Fund financial statements 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 departments within the CITY or to external customers and how the sales revenues covered the expenses of the goods or services.

The notes to the financial statements provide narrative explanations or additional data needed for full disclosure in the government-wide statements or the fund financial statements.

The combining statements for nonmajor funds contain even more information about the CITY's individual funds. These are not required by HUD. The sections labeled Required Schedules and Federal Awards Section contain data used by monitoring or regulatory agencies for assurance that the CITY is using funds supplied in compliance with the terms of grants.

### ***The Statement of Net Assets and the Statement of Activities***

The analysis of the CITY's overall financial condition and operations begins with Statement of Net Assets. 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 nonfinancial factors as well, such as its 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 the administrative, public safety, debt service, and other general expenses.

Business-type activities—The CITY charges fees for water and sewer services and late charges to help it cover all or most of the cost of services it provides in the Low-Rent program.

### **Reporting the CITY's Most Significant Funds**

#### ***Fund Financial Statements***

The fund financial statements provide detailed information about the most significant funds—not the CITY

as a whole. Laws and contracts require the CITY to establish some funds from the U.S. Department of Housing and Urban Development and other grantors. The CITY's administration establishes many 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. The internal service funds (the other category of proprietary funds) report activities that provide supplies and services for the CITY's other programs and activities—such as the CITY's self-insurance programs, the print shop, and transportation.

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 in thousands						
	Governmental Activities		Business-type Activities		Total	
	2004	2003	2004	2003	2004	2003
Current and other assets	519	0	1,890	0	2,409	0
Capital assets	4,209	0	11,290	0	15,499	0
Total assets	4,728	0	13,180	0	17,908	0
Current liabilities	124	0	391	0	515	0
Other liabilities	997	0	2,556	0	3,553	0
Total liabilities	1,121	0	2,947	0	4,068	0
Net Assets:						
Invested in capital assets, net of	3,607	0	5,466	0	9,073	0
Restricted	0	0	117	0	117	0
Unrestricted	0	0	4,651	0	4,651	0
Total Net Assets	3,607	0	10,234	0	13,841	0

Table II						
THE CITY OF RIO GRANDE CITY						
CHANGES IN NET ASSETS						
in thousands						
	Governmental Activities		Business-type Activities		Total	
	2004	2003	2004	2003	2004	2003
<b>Revenues:</b>						
General and Sales Tax	1,869	0	0	0	1,869	0
Franchise Taxes	442					
Other Taxes	64					
Grants and Contributions	272	0	0	0	272	0
Investment Earnings	4	0	0	0	4	0
Miscellaneous	1,191	0	100	0	1,291	0
Water and Sewer Charges			2,451			
<b>Total Revenues</b>	<b>3,842</b>	<b>0</b>	<b>2,551</b>	<b>0</b>	<b>6,393</b>	<b>0</b>
<b>Expenses:</b>						
General Government	1,579	0	0	0	1,579	0
Judicial	103	0	0	0	103	0
Public Safety	1,404	0	0	0	1,404	0
Code Enforcement	54	0	0	0	54	0
Economic Development	231	0	0	0	231	0
Public Works	1,065	0	0	0	1,065	0
	0	0	0	0	0	0
Charges for Services	0	0	2,513	0	2,513	0
	0	0	0	0	0	0
<b>Total Expenses</b>	<b>4,436</b>	<b>0</b>	<b>2,513</b>	<b>0</b>	<b>6,949</b>	<b>0</b>
Increase in Net Assets before transfers and special items	(594)	0	38	0	(556)	0
Transfers	468		(140)			
Special Items						
Increase in Net Assets	(126)	0	(102)	0	(556)	0
Net assets at 10/01/03	6,340		10,336		16,676	
Prior Period Adjustment	(2,607)		0		(2,607)	
Net assets at 09/30/04	3,607	0	10,234	0	13,513	0

**ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES**

The City's elected and appointed officials considered many factors when setting the fiscal-year 2005 budget. While the 2005 budget maintains basic public services, our residents continue to demand additional services. The City's financial security should be a major priority as we begin our second decade as a municipality. Only through diversifying our revenue base through a property tax can we properly secure our future.

While the issue of becoming a taxing entity was thoroughly discussed, no property tax rate was set for 2005. Therefore, no major new programs or initiatives were added to the 2005 budget.

The 2005 budget provides for \$6.7 million for financing current service levels for all municipal operations, based on an expected growth in revenues of approximately 5%. If these estimates are

realized, the City's budgetary General Fund balance is expected to increase modestly by the close of 2005. However, the increase still would not be sufficient to overcome the negative fund balance situation in the General Fund.

In terms of long-term debt, the City will continue to amortize existing revenue bonds in the Enterprise Fund. However, the City will not assume any new bonded debt for 2005.

#### 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 business office, at THE CITY OF RIO GRANDE CITY, 101 S. Washington St, Rio Grande City, Texas 78582.

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CITY OF RIO GRANDE CITY  
STATEMENT OF NET ASSETS  
SEPTEMBER 30, 2004

EXHIBIT A-1

Data Control Codes	Primary Government			
	Governmental Activities	Business Type Activities	Total	
<b>ASSETS</b>				
1010	Cash and Cash Equivalents	\$ 255,173	\$ 430,431	\$ 685,604
1030	Investments - Current	-	116,830	116,830
1150	Receivables (net of allowance for uncollectibles)	331,538	616,328	947,866
1300	Internal Balances	(68,383)	66,836	(1,547)
1410	Inventories	-	17,478	17,478
1430	Prepaid Items	1,375	-	1,375
1440	Deferred Charges	-	27,240	27,240
Capital Assets:				
1710	Land	724,070	38,500	762,570
1730	Buildings, net	203,536	337,283	540,819
1740	Improvements other than Buildings, net	2,018,959	-	2,018,959
1750	Machinery and Equipment, net	800,801	16,210,439	17,011,240
1760	Capital Assets, net	-	(5,296,264)	(5,296,264)
1780	Construction in Progress	461,075	-	461,075
1990	Other Assets	-	615,323	615,323
1000	Total Assets	<u>4,728,143</u>	<u>13,180,424</u>	<u>17,908,567</u>
<b>LIABILITIES</b>				
2020	Accounts Payable and other current liabilities	55,230	210,534	265,764
2070	Intergovernmental Payable	21,513	-	21,513
2140	Accrued Interest Payable	-	27,735	27,735
2200	Deferred Revenues	-	8,255	8,255
2220	Deferred Revenues	46,887	-	46,887
2240	Notes Payable - Current	-	13,719	13,719
2270	Other Current Liabilities	-	130,526	130,526
Noncurrent Liabilities				
2501	Due Within One Year	-	2,555,993	2,555,993
2502	Due in More Than One Year	997,234	-	997,234
2000	Total Liabilities	<u>1,120,864</u>	<u>2,946,762</u>	<u>4,067,626</u>
<b>NET ASSETS</b>				
3200	Invested in Capital Assets, Net of Related Debt	3,607,277	5,465,909	9,073,186
3810	Restricted for	-	117,070	117,070
3900	Unrestricted Net Assets	-	4,650,682	4,650,682
3000	Total Net Assets	<u>\$ 3,607,277</u>	<u>\$ 10,233,661</u>	<u>\$ 13,840,938</u>

The accompanying notes are an integral part of this statement.

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CITY OF RIO GRANDE CITY  
STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED SEPTEMBER 30, 2004

Data Control Codes	Expenses	<u>Program Revenues</u>  Charges for Services
<b>Primary Government:</b>		
GOVERNMENTAL ACTIVITIES:		
10 General Government	\$ 1,579,430	\$ -
12 Judicial	103,016	-
20 Public Safety	1,403,884	-
25 Code Enforcement	54,145	-
30 Public Works	1,065,070	-
65 Economic Development and Assistance	230,781	-
80 Capital Outlay	-	-
Total Governmental Activities:	4,436,326	-
BUSINESS-TYPE ACTIVITIES:		
701 Water and Sewer Fund	2,512,437	2,450,687
Total Business-Type Activities:	2,512,437	2,450,687
<b>TOTAL PRIMARY GOVERNMENT:</b>	\$ 6,948,763	\$ 2,450,687
Data Control Codes	General Revenues:  Taxes: 5120 Sales Taxes 5170 Franchise Taxes 5180 Other Taxes 5600 Grants and Contributions Not Restricted 5700 Miscellaneous Revenue 5800 Investment Earnings 5800 Transfers In (Out)  Total General Revenues and Transfers  Change in Net Assets  Net Assets--Beginning Prior Period Adjustment Net Assets--Ending	

The accompanying notes are an integral part of this statement.

Net (Expense) Revenue and Changes in Net Assets		
Primary Government		
Governmental Activities	Business-type Activities	Total
\$ (1,579,430)	\$ -	\$ (1,579,430)
(103,016)	-	(103,016)
(1,403,884)	-	(1,403,884)
(54,145)	-	(54,145)
(1,065,070)	-	(1,065,070)
(230,781)	-	(230,781)
-	-	-
(4,436,326)	-	(4,436,326)
-	(61,750)	(61,750)
-	(61,750)	(61,750)
(4,436,326)	(61,750)	(4,498,076)
1,868,970	-	1,868,970
441,849	-	441,849
63,976	-	63,976
272,235	-	272,235
1,191,460	99,755	1,291,215
3,780	-	3,780
468,745	(140,000)	328,745
4,311,015	(40,245)	4,270,770
(125,311)	(101,995)	(227,306)
6,339,736	10,330,654	16,670,390
(2,607,149)	5,000	(2,602,149)
\$ 3,607,275	\$ 10,233,659	\$ 13,840,934

CITY OF RIO GRANDE CITY  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
SEPTEMBER 30, 2004

Data Control Codes	10 General Fund	RGC EDC FUND	Other Funds	Total Governmental Funds
<b>ASSETS</b>				
1010 Cash and Cash Equivalents	\$ (42,486)	\$ 111,273	\$ 186,386	\$ 255,173
1050 Taxes Receivable	60,208	-	6,121	66,329
1150 Receivables (net of allowance for uncollectibles)	245	-	-	245
1260 Intergovernmental Receivables	167,300	47,332	50,332	264,964
1300 Due from Other Funds	49,266	41,700	163,567	254,533
1430 Prepaid Items	1,375	-	-	1,375
1000 Total Assets	<u>\$ 235,908</u>	<u>\$ 200,305</u>	<u>\$ 406,406</u>	<u>\$ 842,619</u>
<b>LIABILITIES AND FUND BALANCES</b>				
Liabilities:				
2010 Accounts Payable	\$ 33,604	\$ 21,019	\$ -	\$ 54,623
2020 Wages and Salaries Payable	(877)	1,484	-	607
2070 Intergovernmental Payable	21,513	-	-	21,513
2080 Due to Other Funds	271,881	-	51,035	322,916
2220 Deferred Revenues	46,887	-	-	46,887
2000 Total Liabilities	<u>\$ 373,008</u>	<u>\$ 22,503</u>	<u>\$ 51,035</u>	<u>\$ 446,546</u>
Fund Balances:				
Unreserved and Undesignated:				
3600 Reported in the General Fund	\$ (137,101)	\$ -	\$ -	\$ (137,101)
3610 Reported in the Special Revenue Fund	-	177,802	355,371	533,173
3000 Total Fund Balances	<u>\$ (137,101)</u>	<u>\$ 177,802</u>	<u>\$ 355,371</u>	<u>\$ 396,072</u>
4000 Total Liabilities and Fund Balances	<u>\$ 235,907</u>	<u>\$ 200,305</u>	<u>\$ 406,406</u>	<u>\$ 842,618</u>

The accompanying notes are an integral part of this statement.

CITY OF RIO GRANDE CITY  
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE  
GOVERNMENTAL FUNDS  
FOR THE YEAR ENDED SEPTEMBER 30, 2004

Data Control Codes	10 General Fund	RGC EDC FUND	Other Funds	Total Governmental Funds
<b>REVENUES:</b>				
Taxes:				
5120 General Sales and Use Taxes	\$ 1,245,980	\$ 622,990	\$ -	\$ 1,868,970
5170 Franchise Tax	441,849	-	-	441,849
5180 Other Taxes	257	-	63,719	63,976
5200 Licenses and Permits	89,461	-	-	89,461
5300 Intergovernmental Revenue and Grants	225,518	-	19,736	245,254
5400 Charges for Services	91,249	-	-	91,249
5610 Investment Earnings	84	2,031	1,665	3,780
5700 Other Revenue	795,057	7,287	235,387	1,037,731
5020 Total Revenues	<u>2,889,455</u>	<u>632,308</u>	<u>320,507</u>	<u>3,842,270</u>
<b>EXPENDITURES:</b>				
Current:				
0010 General Government	1,339,237	-	190,976	1,530,213
0012 Judicial	129,871	-	-	129,871
0020 Public Safety	1,215,460	-	282,505	1,497,965
0025 Code Enforcement	51,306	-	-	51,306
0030 Public Works	1,052,411	-	5,000	1,057,411
Conservation and Development				
0065 Economic Development and Assistance	-	604,636	-	604,636
Capital Outlay:				
0080 Capital Outlay	-	-	14,693	14,693
6030 Total Expenditures	<u>3,788,285</u>	<u>604,636</u>	<u>493,174</u>	<u>4,886,095</u>
1100 Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>(898,830)</u>	<u>27,672</u>	<u>(172,667)</u>	<u>(1,043,825)</u>
<b>OTHER FINANCING SOURCES (USES):</b>				
7911 Capital-related Debt Issued (Regular Bonds)	(79,502)	-	-	(79,502)
7913 Proceeds from Capital Leases	328,984	-	-	328,984
7914 Non-Current Loans	-	70,833	-	70,833
7915 Transfers In	458,995	30,000	140,000	628,995
8911 Transfers Out (Use)	(1,160)	(120,000)	(39,090)	(160,250)
7080 Total Other Financing Sources (Uses)	<u>707,317</u>	<u>(19,167)</u>	<u>100,910</u>	<u>789,060</u>
1200 Net Change in Fund Balances	(191,513)	8,505	(71,757)	(254,765)
0100 Fund Balance - October 1 (Beginning)	<u>54,411</u>	<u>169,296</u>	<u>427,128</u>	<u>650,835</u>
3000 Fund Balance - September 30 (Ending)	<u>\$ (137,102)</u>	<u>\$ 177,801</u>	<u>\$ 355,371</u>	<u>\$ 396,070</u>

The accompanying notes are an integral part of this statement.

CITY OF RIO GRANDE CITY  
STATEMENT OF NET ASSETS  
PROPRIETARY FUNDS  
SEPTEMBER 30, 2004

	Business-Type Activities
	PUBLIC UTILITY FUND
<b>ASSETS</b>	
Current Assets:	
Cash and Cash Equivalents	\$ 430,431
Investments - Current	116,830
Interest Receivable - Investments	316
Taxes Receivable	8,255
Accounts Receivable-Net of Uncollectible Allowance	607,757
Due from Other Funds	66,836
Inventories	17,478
Deferred Charges	27,240
Total Current Assets	<u>1,275,143</u>
Noncurrent Assets:	
Capital Assets:	
Land Purchase and Improvements	38,500
Buildings	337,283
Machinery and Equipment	16,210,439
Capital Assets	64,427
Accumulated Depreciation - Capital Assets	(5,360,691)
Other Assets	615,323
Total Noncurrent Assets	<u>11,905,281</u>
Total Assets	<u>13,180,424</u>
<b>LIABILITIES</b>	
Current Liabilities:	
Accounts Payable	191,725
Wages and Salaries Payable	389
Compensated Absences Payable	18,420
Accrued Interest Payable	27,735
Deferred Revenue	8,255
Notes Payable - Current	13,719
Revenue Bonds Payable	2,543,000
Capital Leases Payable - Current	12,993
Other Current Liabilities	130,526
Total Liabilities	<u>2,946,762</u>
<b>NET ASSETS</b>	
Investments in Capital Assets, Net of Debt	5,465,909

The accompanying notes are an integral part of this statement.

CITY OF RIO GRANDE CITY  
STATEMENT OF NET ASSETS  
PROPRIETARY FUNDS  
SEPTEMBER 30, 2004

	Business-Type Activities
	PUBLIC UTILITY FUND
Restricted for	117,070
Unrestricted Net Assets	4,650,682
Total Net Assets	\$ 10,233,661

The accompanying notes 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, 2004

EXHIBIT D-2 (Cont'd)

		Business-Type Activities
		PUBLIC UTILITY FUND
<b>OPERATING REVENUES:</b>		
Charges for Water Services	\$	1,596,952
Charges for Sewerage Service		827,046
Charges for Sanitation Service		26,689
Investment Earnings		5,295
Other Revenue		94,460
Total Operating Revenues		2,550,442
<b>OPERATING EXPENSES:</b>		
Administration		
Personal Services - Salaries and Wages		426,325
Personal Services - Employee Benefits		32,051
Purchased Professional & Technical Services		65,519
Purchased Property Services		15,025
Other Operating Expenses		27,928
Supplies		24,325
Total Administration		591,173
Billings and Collections		
Personal Services - Salaries and Wages		59,712
Personal Services - Employee Benefits		23,437
Purchased Property Services		821
Other Operating Expenses		2,091
Supplies		27,852
Total Billings and Collections		113,913
Water System		
Personal Services - Salaries and Wages		229,498
Personal Services - Employee Benefits		73,572
Purchased Professional & Technical Services		12,967
Purchased Property Services		300,017
Other Operating Expenses		142,459
Supplies		109,093
Total Water System		867,606
Sewer System		
Personal Services - Salaries and Wages		57,059
Personal Services - Employee Benefits		18,166
Purchased Professional & Technical Services		9,676
Purchased Property Services		142,425
Other Operating Expenses		146,445
Supplies		20,883
Total Sewer System		394,654
Depreciation		351,291
Interest Expense		192,276
Total Operating Expenses		2,510,913
Operating Income		39,529

The accompanying notes 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, 2004

EXHIBIT D-2

	Business-Type Activities
	PUBLIC UTILITY FUND
<hr/>	
NON-OPERATING REVENUES (EXPENSES):	
Bond Issuance Cost	(1,524)
Total Non-operating Revenue (Expenses)	(1,524)
Income Before Transfers	38,005
Transfers Out	(140,000)
Change in Net Assets	(101,995)
Total Net Assets - October 1 (Beginning)	10,330,654
Capital Contribution	5,000
Total Net Assets - September 30 (Ending)	\$ 10,233,659

The accompanying notes are an integral part of this statement.

CITY OF RIO GRANDE CITY  
STATEMENT OF CASH FLOWS  
PROPRIETARY FUNDS  
FOR THE YEAR ENDED SEPTEMBER 30, 2004

	Business-Type Activities
	PUBLIC UTILITY FUND
<u>Cash Flows from Operating Activities:</u>	
Cash Received from User Charges	\$ 2,450,687
Cash Received from Other Resources	99,755
Cash Payments to Employees for Services	(919,820)
Cash Payments for Suppliers	(728,603)
Cash Payments for Other Operating Expenses	(677,378)
Net Cash Provided by Operating Activities	<u>224,641</u>
<u>Cash Flows from Non-Capital Financing Activities:</u>	
Increase(decrease) in Bond Issuance Cost	(1,524)
Operating Transfer Out	(140,000)
Contributions from Other Funds	5,000
Net Cash Provided by (Used for) Non-Capital Financing Activities	<u>(136,524)</u>
<u>Cash Flows from Capital &amp; Related Financing Activities:</u>	
Acquisition of Capital Assets	(83,824)
Debt Service Payments	(188,741)
Acquisition of Water Rights	(51,960)
Net Cash Provided by (Used for) Capital & Related Financing Activities	<u>(324,525)</u>
Net Increase(Decrease) in Cash and Cash Equivalents	(236,408)
Cash and Cash Equivalents at Beginning of the Year:	<u>783,669</u>
Cash and Cash Equivalents at the End of the Year:	<u>\$ 547,261</u>
<u>Reconciliation of Operating Income to Net Cash Provided By Operating Activities:</u>	
Operating Income:	\$ 39,529
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:	
Depreciation	351,291
Amortization	1,524
Effect of Increases and Decreases in Current Assets and Liabilities:	
Decrease (increase) in Receivables	(57,074)
Decrease (increase) in Inventories	(617)
Increase (decrease) in Accounts Payable	22,750
Increase (decrease) in Payroll Deductions	(1,525)
Increase (decrease) in Interfunds	(141,595)
Increase (decrease) in Interest Payable	(1,883)
Increase (decrease) in Customer Deposits	12,241

The accompanying notes are an integral part of this statement.

CITY OF RIO GRANDE CITY  
STATEMENT OF CASH FLOWS  
PROPRIETARY FUNDS  
FOR THE YEAR ENDED SEPTEMBER 30, 2004

	Business-Type Activities
	PUBLIC UTILITY FUND
Net Cash Provided by Operating Activities	<u>\$ 224,641</u>

The accompanying notes are an integral part of this statement.

CITY OF RIO GRANDE CITY, TEXAS  
NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS  
SEPTEMBER 30, 2004

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

The financial statements of City of Rio Grande City, Texas have been prepared in conformity with Generally Accepted Accounting Principles (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard- setting body for establishing governmental accounting and financial reporting principles. The more significant of the government's accounting policies are described below.

A. Reporting Entity

The citizens of Rio Grande City, Texas (the "City") voted on May 1, 1993 to incorporate the city of Rio Grande City. The City operates under a Mayor-Board of Aldermen 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 of Rio Grande City, Texas. 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.

In evaluating how to define the City for financial reporting purposes, management has considered all potential component units. The decision to include a potential component unit in the reporting entity was made by applying the criteria set forth in GAAP. The basic-but not the only-criterion for including a potential component unit within the reporting entity is the governing body's ability to exercise oversight responsibility. The most significant manifestation of this ability is financial interdependency. Other manifestations of the ability to exercise oversight responsibility include, but are not limited to, the selection of governing authority, the designation of management, the ability to significantly influence operations, and accountability for fiscal matters. A second criterion used in evaluating potential component units is the scope of public service. Application of this criterion involves considering whether the activity benefits the government and/or its citizens, of whether the activity is conducted within the geographic boundaries of the government and is generally available to its citizens. A third criterion used to evaluate potential component units for inclusion or exclusion is the existence of special financing relationships, regardless of whether the government is able to exercise oversight responsibilities.

For financial reporting purposes, City of Rio Grande City, Texas includes all funds and the account groups that are controlled by, or dependent on, the City. Control by or dependence on the City was determined on the basis of budget adoption, taxing authority, outstanding debt secured by revenues or general obligations of the city to finance any deficits that may occur, or receipt of significant subsidies from the City, and the ability to significantly influence operation. Based upon the application of the above criteria, no component units were identified.

## B. Fund Accounting

The accounts of the City are organized on the basis of funds and account groups, each of which is considered a separate accounting entity. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions of activities.

A fund is a separate accounting entity with a self-balancing set of accounts. An account group, on the other hand, is a financial reporting device designed to provide accountability for certain assets and liabilities that are not recorded in the funds because they do not directly affect net expendable available financial resources.

The City's funds are classified into two categories: governmental and proprietary. Each category, in turn, is divided into separate generic "fund types".

## GOVERNMENTAL FUND TYPES

### 1. General Fund

The General Fund is the general operating fund of the City. It is used to account for all financial resources traditionally associated with governments which are not required to be accounted for in another fund.

## 2. Special Revenue Funds

Special Revenue Funds are used to account for specific revenues (other than major capital projects) that are legally restricted to expenditure for particular purposes. These funds are usually required by statute, grant provisions, or City's orders to finance particular functions or activities of government.

### PROPRIETARY FUND TYPE

#### 1. Enterprise Fund

Enterprise funds are used to account for operations that are financed and operated in a manner similar to private business enterprises where the intent of the government's governing body is that the costs of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or where the government's governing body has decided that periodic determination of net income is appropriate for accountability purposes.

### ACCOUNT GROUPS

Account groups are used to establish accounting control and accountability for the City's general fixed assets and general long-term debt. The following are the City's account groups:

## 1. General Fixed Assets Account Group

Fixed assets used in governmental fund type operations (general fixed assets) are accounted for in the General Fixed Assets Account group rather than in governmental funds.

## 2. General Long-Term Debt Account Group

This account group is used to account for all long-term debt of the City and for those long-term liabilities to be liquidated with resources to be provided in future periods.

## C. Basis of Accounting

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All governmental funds are accounted for by using a current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. Operating statements of these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in net current assets.

The proprietary fund is accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operation of this fund are included on the balance sheet. Fund equity of the proprietary fund (i.e., total assets net of total liabilities) is segregated into contributed capital and retained earnings components. Proprietary fund-type operating statements present increases (e.g., revenues) and decreases (e.g., expenses) in net total assets (i.e., total assets net of total liabilities).

All governmental fund types use the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual (i.e., when they become both measurable and available). "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period.

Expenditures are recorded when the related fund liability is incurred. Principal and interest on general long-term debt are recorded as fund liabilities when due or when amounts have been accumulated in the debt service fund for payments to be made early in the following year.

Those revenues susceptible to accrual are charges for services. Fines, permits, and licenses are not susceptible to accrual because generally they are not measurable until received in cash.

The proprietary fund type utilizes the accrual basis of accounting. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred.

Deferred revenues arise when potential revenue does not meet both the "measurable" and "available" criteria for recognition in the current period. Deferred revenues also arise when the government receives resources before it has a legal claim to them, as when grant monies are received prior to the incurrence of qualifying expenditures. In subsequent periods, when both revenue recognition criteria are met, or when the government has a legal claim to the resources, the liability for deferred revenue is removed from the combined balance sheet and revenue is recognized.

#### D. Statement of Cash Flows - Proprietary Fund

For the purpose of the Statement of Cash Flows, the Enterprise Fund considers all highly liquid investments (including restricted assets) with an original maturity of three months or less to be cash equivalents.

#### E. Cash and Cash Equivalents

Cash includes amounts in demand deposits and short-term certificates of deposit. Interest income pertaining to these bank deposits is recorded in the accounts periodically.

#### F. Accounts Receivable

The financial statements of the Enterprise fund reflect the uncollected balance of the billings for services for 2004 and all prior year billings. The estimated uncollectible is recorded based on historical experience of collections. At September 30, 2004, the allowance for uncollectible account receivable was \$142,323.

#### G. Short-Term Interfund Receivables/Payables

During the course of operations, numerous transactions occur between individual funds for goods provided or services rendered. These receivables and payables are classified as "due from other funds" or "due to other funds" on the balance sheet.

#### H. Due from Other Governments

Due from other governments includes amounts receivable from grantors of grants for specific programs. Program grants are recorded in the Special Revenue Fund as receivables and revenues at the time reimbursable project costs are incurred. Revenue received in advance of project costs being incurred is deferred.

#### I. General Fixed Assets

Assets are recorded as expenditures in the governmental funds and capitalized at cost in the General Fixed Assets Account Group. Donated fixed assets are recorded in general fixed assets at the estimated fair value on the date donated.

Public domain ("infrastructure") general fixed assets consisting of certain improvements other than buildings, including roads, bridges, curbs and gutters, streets and sidewalks, and lighting systems, are capitalized along with other general fixed assets. No depreciation has been provided on general fixed assets.

#### J. Property and Equipment - Proprietary Fund

Property and equipment acquired by the Enterprise Fund are valued at historical cost or estimated historical cost if actual historical is not available. Donated fixed assets are valued at their estimated fair value on the date donated. Depreciation of all exhaustible fixed assets is charged as an expense against current operations. Accumulated depreciation is reported in the Proprietary Fund balance sheet. Depreciation has been provided over the estimated useful lives using the straight-line method. The estimated lives range from 5 to 15 years for equipment, 30 to 50 years for infrastructure and improvements, and 40 years for buildings.

Contributions of funds from federal and state grants for the purpose of acquiring or constructing property and equipment are recorded as equity contributions when they are earned and measurable. Depreciation on contributed assets is recorded as an expense in the statement of operations and then charged to the related contributed capital account.

#### K. Inventories

Inventories are valued at cost using the first in/first-out (FIFO) method.

#### L. Bond Issuance Costs

The cost of issuance of revenue bonds is being amortized, using the straight-line method, over the term of the related bonds.

#### M. Long-term Obligations

Long-term debt is recognized as a liability of a governmental fund when due or when resources have been accumulated in the debt service fund for payment early in the following year. For other long-term obligations, only that portion expected to be financed from expendable available financial resources is reported as a fund liability of a governmental fund. The remaining portion of such obligations is reported in the General Long-Term Debt Account Group.

#### N. Interfund Transactions

Quasi-external transactions are accounted for as revenues or expenditures. Transactions that constitute reimbursements to a fund for expenditures initially made from it that are properly applicable to another fund, are recorded as expenditures in the reimbursing fund and as reductions of expenditures in the fund that is reimbursed.

All other interfund transactions, except quasi-external transactions and reimbursements, are reported as transfers. Nonrecurring or nonroutine permanent transfers of equity are reported as residual equity

transfers. All other interfund transfers are reported as operating transfers.

O. Local Match

Contributions to grant programs by the City are recognized as revenue when grant expenditures are incurred and are recorded as other/miscellaneous revenues in the Special Revenue Fund.

P. In-Kind Contributions

Local contributions, which may include contributed services provided by City's management, private organizations and local governments, are used to match federal or state grants. Contributed services are therefore reflected as revenue and expenditures in accordance with legal requirements of the individual grants. Contributed services are recorded as expenditure with an equivalent amount recorded as revenue. The amounts of such services are recorded in the accompanying financial statements at their estimated fair values at date of receipt.

Q. Budget

On **September 29, 2003**, the **City Administrator** submitted to the Mayor and City Aldermen the proposed budgets for fiscal year beginning **October 1, 2003**. The operating budget includes proposed expenditures and the means of financing them. A public hearing was conducted to obtain taxpayer comments and thereafter the budget was legally enacted through the passage of an ordinance.

The budget for the General Fund is adopted on a basis consistent with Generally Accepted Accounting Principles (GAAP). A budget for the Enterprise Fund, although not a requirement for GAAP financial statements, is also adopted on a basis consistent with GAAP except that note and bond principal payments are treated as expenses. The budget for the Special Revenue Fund is based on the grant budgets, terms, and conditions on a grant-by-grant basis. These terms and conditions usually specify the period during which costs may be incurred and outline restrictions or allowances. The adopted budget included the following Special Revenue Funds; Rio Grande City Economic Development Corporation Fund, Hotel Occupancy Fund, Historic Preservation and Revolving Loan Fund.

R. Encumbrances

The City does not employ 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.

S. Memorandum Only - Total Columns

Total columns on the general purpose financial statements are captioned "Memorandum Only" to indicate that they are presented only to facilitate financial analysis. Data in these columns do not present financial position in conformity with Generally Accepted Accounting Principles. Neither are such data comparable to a consolidation. Interfund elimination has not been made in the aggregation of this data.

T. Comparative Data

Comparative total data for the prior year have been presented in the accompanying financial statements in order to provide an understanding of changes in the City's financial position and operations. Comparative totals have not been presented for all statements. Some prior year balances have been reclassified to conform to the current year presentation.

NOTE 2 - CASH:

Deposits

The City keeps petty cash on hand in the amount of \$795. At year end, the carrying amount of the City's deposits was \$801,311 and the bank balance was \$966,309. The entire balance was covered by the aggregate of federal depository insurance and by collateral pledged by the financial institution and held in the City's name. The market value of securities pledged and FDIC coverage was \$1,464,573.

Several short-term certificates of deposit included in the caption "Cash and Cash Equivalents" on the Combined Balance Sheet, as well as within the Restricted Assets section. Their fair value which is equal to cost, is as follows:

General Fund	\$	-
Special Revenue Fund		104,407
Enterprise Fund		46,798
Total Certificates of Deposit	\$	151,205

There is also money market investments included within the Restricted Asset section of the Enterprise Fund with a fair market value of \$337,558.

Investments

In accordance with Government Accounting Standards Board Statement No. 3, a city's investments are categorized as either (1) securities insured or registered in the name of the City or held by the City or by its agent in the City's name; (2) securities uninsured and unregistered and held by the counter party's trust department or by its agent in the City's name; or (3) securities uninsured and unregistered and held by the counter party, or its trust department or its agent but not held in the City's name.

		Categories			Carrying Amount	Market Value
		1	2	3		
Certificates of Deposit	\$	151,205	0	0	\$ 151,205	\$ 151,205
Money Market Funds		337,558	0	0	337,558	337,558
Total Certificates of Deposit	\$	488,763	0	0	\$ 488,763	\$ 488,763

NOTE 3 - DUE FROM/TO OTHER GOVERNMENTS:

Amounts due from other governments include sales tax revenue collected for the last month of the fiscal year, but not deposited in the City's bank account until the first month of the following fiscal year. Also included are amounts that represent expenditure reimbursements from various grantor agencies pertaining to the City's federal and state grants.

Amounts due to other governments are composed of amounts collected by the City on behalf of the State of Texas for court costs, interest accrued in special revenue fund accounts, and overpayments on grant disbursements.

The due from and due to other governments were as follows:

	Due from Other Governments	Due to Other Governments
<u>General Fund</u>		
Due from State Comptroller	\$ 142,101	\$
Due to State Treasurer		21,513
Total General Fund	\$ 142,101	\$ 21,513
<u>Special Revenue Fund</u>		
Due from State Comptroller	\$ 47,332	\$
Due from HIDTA	48,641	
Total Special Revenue Fund	\$ 95,973	\$ 0
Total Due From/To Other Governments	\$ 238,074	\$ 21,513

**NOTE 4 - TRANSFERS, RECEIVABLES, AND PAYABLES WITHIN THE REPORTING ENTITY:**

Transfers and Interfund Receivables and Payables for the year ended September 30, 2004, were as follows:

	Due from Other Funds	Due to Other Funds
<u>Interfunds</u>		
<u>General Fund</u>		
Due from/to General Fund	\$ 0	\$ 0
Due from/to Special Revenue Fund	49,266	205,045
Due from/to Enterprise Fund	0	66,836
Total General Fund	\$ 49,266	\$ 271,881
<u>Special Revenue Fund</u>		
Due from/to General Fund	\$ 205,045	\$ 49,266
Due from/to Special Revenue Fund	0	0
Due from/to Enterprise Fund	0	
Total Special Revenue Fund	\$ 205,045	\$ 49,266
<u>Enterprise Fund</u>		
Due from/to General Fund	\$ 66,836	\$ 0
Due from/to Special Revenue Fund	0	0
Due from/to Enterprise Fund	0	0
Total Enterprise Fund	\$ 66,836	\$ 0
TOTAL INTERFUNDS	\$ 321,146	\$ 321,146

NOTE 5 - FIXED ASSETS:

The following is a summary of general fixed assets for the year ended September 30, 2004.

The following is a summary of general fixed assets for the year ended September 30, 2004:				
	Beginning Balance	Additions	Deletions	Ending Balance
Land	\$ 675,000	\$ 49,070	\$ 0	\$ 724,070
Building	233,675	0	0	233,675
Monuments and Collectibles	12,989	0	0	12,989
Computer Equipment	133,381	36,428	8,017	161,792
Office Equipment	73,995	4,713	0	78,708
Automotive Equipment	1,393,424	1,500	27,700	1,367,224
Other Equipment	756,439	43,049	3,750	795,738
Improvement Projects	2,409,997	9,840	0	2,419,837
Construction in Progress	0	461,075	0	461,075
	<u>\$ 5,688,900</u>	<u>\$ 605,674</u>	<u>\$ 39,467</u>	<u>\$ 6,255,107</u>

Investment in General Fixed Assets are from the following fund sources:

General Fund Revenues	\$ 3,574,182
Special Revenue Funds	2,680,925
<b>Total Investment in Fixed Assets</b>	<u>\$ 6,255,107</u>

A summary of Enterprise Fund property and equipment for the year ended September 30, 2004 is as follows:

	Beginning Balance	Additions	Deletions	Ending Balance
Water Distribution System	\$ 1,837,642	\$ 0	\$ 0	\$ 1,837,642
Water System Improvements	7,041,842	915,549	0	7,957,391
Sewage Disposal System	299,488	0	0	299,488
Sewage System Improvements	5,615,172	6,700	0	5,621,872
Transportation Equipment	185,329	0	0	185,329
Maintenance Equipment	243,683	53,160	0	296,843
Buildings	337,283	0	0	337,283
Land	38,500	0	0	38,500
Furniture and Fixtures	54,317	10,110	0	64,427
Ice Plant and Equipment	11,873	0	0	11,873
Construction in Progress	901,696	5,000	906,696	0
Intangible Assets-				
Water Rights & Easements	563,363	51,960	0	615,323
<b>Total</b>	<u>\$ 17,130,188</u>	<u>\$ 1,042,479</u>	<u>\$ 906,696</u>	<u>\$ 17,265,971</u>

NOTE 6 - GENERAL LONG-TERM DEBT:

Ten lease purchase obligations and three long-term notes payable are reflected in the General Long-Term Debt Account Group of the City. Assets acquired by governmental funds are accounted for in the General Fixed Assets Account Group.

Capital lease obligations payable at September 30, 2004 are as follows:

Capital lease payable to Federal Signal Corporation dated 10-02-95, payable in 10 annual installments of \$27,440 including interest at 6.39%, secured by E-one pumper truck	\$	50,034
Capital lease payable to Federal Signal Corporation dated 11-10-95, in 10 annual installments of \$9,687, including interest at 6.39%, secured by Mini-pumper truck	\$	17,764
Capital lease payable to Motorola Credit Corporation dated 07-08-99, payable in 47 monthly installments of \$8,721, including interest at 5.79%, secured by a communications system	\$	204,523
Capital lease payable to Schertz Bank & Trust dated 02-03-00, payable in 5 annual installments of \$6,522, including interest at 6.94%, secured by rescue tools	\$	6,041
Capital lease payable to Ford Motor Credit dated 12-19-01, payable in 48 monthly installments of \$1,658, including interest at 5.3%, secured by two police vehicles	\$	22,458
Capital lease payable to Ford Motor Credit dated 11-26-02, payable in 48 monthly installments of \$551, including interest at 6.25%, secured by one police vehicle	\$	12,880
Capital lease payable to Southside Bank dated 04-15-03, payable in 120 monthly installments of \$3,888 including interest of 4.711%, secured by (1) pumper truck and (1) tanker truck	\$	370,626
Capital lease payable to Ford Motor Credit dated 04-20-04, payable in 36 monthly installments of \$847 including interest of 4.8%, secured by (1) unmarked police vehicle	\$	23,145
Capital lease payable to Hale County State Bank dated 02-20-04, payable in 36 monthly installments of \$784 including interest of 4.0%, secured by municipal court software	\$	22,734
Capital lease payable to First State Bank of Shallowater dated 06-09-04, payable in 36 monthly installments of \$351 including interest of 4.1%, secured by municipal court computer hardware	\$	11,190
Total Capital Lease Obligations Payable	\$	741,395

Notes payable in the General Long –Term Debt Account Group are as follows:

Renewal note payable to Texas State Bank dated 10-05-02, payable in eleven monthly installments of \$1,052, including interest at 4.28%, with remaining unpaid balance due at maturity, secured by real estate	\$	96,007
Renewal note payable to Texas State Bank dated 02-24-03, payable in eleven monthly installments of \$2,253, including interest at 3.82%, with remaining unpaid balance due at maturity, secured by real estate	\$	207,533
Line of credit from Texas State Bank dated 11-19-03, currently open with interest of 3.6%, secured by real estate	\$	293,028
<b>Total Notes Payable</b>	<b>\$</b>	<b>596,568</b>
<b>TOTAL LONG-TERM DEBT PAYABLE FROM GENERAL FUND REVENUES</b>	<b>\$</b>	<b>1,337,963</b>

The following is a schedule of future minimum payments for the capital leases and notes payable, and the present value of the net minimum payments at September 30, 2004:

Year Ending September 30,	Capital Lease Obligation	Notes Payable	General Long-Term Debt
2005	\$ 245,231	\$ 610,506	\$ 855,737
2006	222,128	0	222,128
2007	69,214	0	69,214
2008	46,652	0	46,652
2009 and thereafter	244,924	0	244,924
<b>Total minimum payments</b>	<b>828,149</b>	<b>610,506</b>	<b>1,438,655</b>
<b>Less amount toward interest</b>	<b>86,854</b>	<b>13,938</b>	<b>100,792</b>
<b>Present value of payments</b>	<b>\$ 741,295</b>	<b>\$ 596,568</b>	<b>\$ 1,337,863</b>

Changes in long-term debt are as follows:

	General Long-Term Debt
Payable at 10-01-03	\$ 844,419
New debt added in current period	740,447
Principal payments	(247,002)
Payable at 09-30-04	<b>\$ 1,337,864</b>

**NOTE 7 - LONG-TERM LIABILITIES - ENTERPRISE FUND:**

Capital leases payable at September 30, 2004 are comprised of the following:

Capital leases payable at September 30, 2004 are comprised of the following:			
Capital lease payable to Ford Motor Credit dated 04-15-03, payable in 12 quarterly installments of \$2,260, including interest at 6.65%, secured by one pick-up truck		\$	12,802
Note payable to James Deavenport dated 01-01-04, payable in 8 quarterly installments of \$4,256 at no interest, for purchase of water rights		\$	13,719
Total Capital Leases Payable		\$	<u>26,521</u>

Revenue bonds payable at September 30, 2004 are comprised of the following:

\$600,000 1989 Waterworks and Sewer System Revenue Serial Bonds due in annual installments ranging from \$25,000 to \$60,000 from 07-10-00 through 2012, interest at 7.5% to 8.5%		\$	395,000
\$2,100,000 1991 Waterworks and Sewer System Revenue Serial Bonds due in annual installments ranging from \$110,000 to \$170,000 from 07-10-00 through 2012, interest at 3.3%		\$	1,165,000
\$210,000 1992 Waterworks and Sewer System Revenue Serial Bonds due in annual installments ranging from \$10,000 to \$15,000 from 07-10-00 through 2012, interest at 5.5%		\$	105,000
\$173,000 1996 Waterworks and Sewer System Revenue Serial Bonds due in annual installments ranging from \$5,000 to \$15,000 from 07-10-00 through 2016, interest ranging from 5.69% to 6.74%		\$	128,000
\$811,000 1996A Waterworks and Sewer System Revenue Serial Bonds due in annual installments ranging from \$8,000 to \$46,000 from 07-10-00 through 2035, interest at 5.125%		\$	750,000
Total Revenue Bonds Payable		\$	<u>2,543,000</u>
Total Long Term Liabilities-Enterprise Fund		\$	<u>2,569,521</u>

The following is a summary of the changes in long-term debt payable for the period ended September 30, 2004:

	Revenue	Capital	Notes	
	Bonds	Leases	Payable	Total
		Payable	Payable	
Payable at 10-01-03	\$ 2,730,000	\$ 28,453	\$ 0	\$ 2,758,453
New debt added	0	0	35,000	35,000
Principal payments	187,000	15,651	21,281	223,932
Payable at 09-30-04	\$ 2,543,000	\$ 12,802	\$ 13,719	\$ 2,569,521

The annual requirements to retire all long-term debt including interest are as follows:

Year Ending	Revenue	Capital	Notes	
September 30,	Bonds	Leases	Payable	Totals
		Payable	Payable	
2005	\$ 317,468	\$ 9,038	\$ 13,719	\$ 340,225
2006	319,523	4,519	0	324,042
2007	321,133	0	0	321,133
2008	321,957	0	0	321,957
2009 and thereafter	2,456,699	0	0	2,456,699
Total minimum payments	3,736,780	13,557	13,719	3,764,056
Less amount toward interest	1,193,780	755	0	1,194,535
Principal Payable	\$ 2,543,000	\$ 12,802	\$ 13,719	\$ 2,569,521

**NOTE 8 - RESTRICTED ASSETS:**

Restricted assets of the Enterprise Fund at September 30, 2004 represent certain resources set aside for the repayment of revenue bonds under the terms of outstanding bond covenants. Related earnings have been reserved for the excess of restricted assets over related liabilities.

Restricted assets of the Enterprise Fund as of September 30, 2004, were comprised of the following:

Enterprise Fund		
Cash - Customer Deposits		\$ 98,993
Certificates of Deposit - Customer Deposits		46,798
Water Rights		50,122
Money Market Funds - I & S Fund		70,032
Money Market Funds - Reserve Fund		267,526
Accrued Interest Receivable - Debt Service		247
Total Restricted Assets		\$ 533,718

**NOTE 9 - DEFERRED REVENUE:**

General Fund- Deferred revenue in the General Fund at September 30, 2004 were as follows:

Abandoned motor vehicle auction proceeds	\$	9,431
Parkland Dedication Fee		34,711
CERT Grant		91
Total Deferred Revenues-General Fund	\$	44,233

Special Revenue Funds- Deferred revenues in the Special Revenue Funds are composed of local matching revenues received before the revenue recognition criteria have been met, or grant revenues drawn down prior to the qualifying expenditures being made. Deferred revenues in the Special Revenue Funds were \$0 and were as follows:

Local Law Enforcement Block Grant (Grant#2001-LB-BX-0487)	\$	0
Total Deferred Revenues-Special Revenue Funds	\$	0

**NOTE 10 - SIGNIFICANT BOND RESOLUTION LEGAL REQUIREMENTS AND RESERVES:**

Per bond ordinances, the following reserves are required at September 30, 2004:

	Required Reserves	Amount On Hand	Over (Under) Funded
Interest and Sinking Fund	\$ 79,367	\$ 70,032	\$ (9,335)
Bond Reserve Fund	319,081	267,526	(51,555)

The bond orders require that amounts sufficient to pay the next maturing principal and the next interest payment due on all outstanding debt be deposited monthly in equal installments to the credit on the Interest and Sinking Fund. For the period ended September 30, 2004 the City's Interest and Sinking Fund was under-funded by \$9,335.

The amount required in the Reserve Fund is to be accumulated over the 60 month period immediately following the issuance of the 1996 Series Bonds. For the period ended September 30, 2004, the City's Reserve fund was under-funded by \$51,555.

The bond ordinances require that the annual budget be adopted at least 30 days before the beginning of the fiscal year. The budget for the City's 2003-2004 fiscal year was adopted on **September 29, 2003**.

**NOTE 11 – HEALTH INSURANCE COVERAGE:**

During the year ended September 30, 2004 employees of the City were covered by a health insurance plan. The City paid the employees' portion of the premium and the employee could, at their option, authorize payroll withholdings to pay contributions for their dependents. Employees also have the option on obtaining additional health and disability coverage, which is paid completely through payroll deductions. The City does not expend any funds for these additional optional plans.

NOTE 12 – COMPENSATED ABSENCES POLICY:

Regular full-time employees of the City accrue annual leave at a rate commensurate with their years of service. From date of employment to their five-year anniversary, employees accrue ten days of annual leave. From their five-year anniversary to their ten-year anniversary, employees accrue fifteen days of annual leave. From their ten-year anniversary on, employees accrue twenty days of annual leave. No more than the amount of annual leave days attributable to one and a half years of service may be accumulated. Upon voluntary or involuntary termination, employees will be paid for accrued annual leave up to the aforementioned limit.

NOTE 13 – RISK MANAGEMENT:

In the normal course of operation, the City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. In order to reduce the City's liability as a result of these risks, the City participates in the Texas Municipal League Intergovernmental Risk Pool (TML), a public risk pool currently operating as a common risk management and insurance program for several political subdivisions across the state. TML operates a Worker's Compensation Fund to allow employer members to provide worker's compensation benefits to their employees. It also operates a Property-Liability Fund which permits members to provide liability coverage for themselves, their employees in their official capacities, and municipal property coverage. The City pays an annual contribution for its participation in the pool. For types and amounts coverage, refer to the separate Schedule of Insurance Coverage in the Other Schedules section of this report. Settled claims have not exceeded this coverage in the past years.

NOTE 14 - LITIGATION:

The City is presently a party to various claims and lawsuits. While the City plans to vigorously defend itself, legal counsel for the City cannot assess the loss, if any, that might result from unfavorable judgments against the City. As such, there has been no accrual recorded for contingent liabilities. On one particular case not covered by insurance, the risk of monetary loss is material to the financial statements of the City. The City legal council is unable to offer an opinion as to the outcome at this time.

NOTE 15 - PRIOR PERIOD ADJUSTMENTS AND CAPITAL CONTRIBUTIONS:

Contributed Capital at September 30, 2004 were as follows:

Enterprise Fund:			
Public Utility Fund	Grant Contribution	\$	5,000

NOTE 16 – PENSION PLAN:

**Plan Description**

The City provides pension benefits for all of its full-time employees (any exceptions such as firefighters would be inserted here by the City) through a non-traditional, joint contributory, hybrid defined benefit plan in the stat-wide Texas Municipal Retirement System (TMRS), one of 794 administered by TMRS, an agent multiple-employer public employee retirement system.

Benefits depend upon the sum of the employee's contributions to the plan, with interest, and the City-financed monetary credits, with interest. At the date the plan began, the City granted monetary credits for service rendered before the plan began of a theoretical amount equal to two times what would have been contributed by the employee, with interest, prior to establishment of the plan. Monetary credits for service since the plan began are a percent (100%, 150%, or 200%) of the employee's accumulated contributions. In addition, the City can grant, as often as annually, another type of monetary credit referred to as an updated service credit which is a theoretical amount which, when added to the employee's accumulated contributions and the monetary credits for service since the plan began, would be the total monetary credits and employee always been in existence and if the employee's salary had always been the average of his salary in the last three years that are one year before the effective date. At retirement, the benefit is calculated as if the sum of the employee's accumulated contributions with interest and the employer-financed monetary credits with interest were used to purchase an annuity.

The plan provisions are adopted by the governing body of the City, within the options available in the state statutes governing TMRS and within the actuarial constraints also in the statutes. Plan provisions for the City were as follows (as of 4-1-04):

Deposit Rate:                   **5%**

Matching Ratio (City to Employee): **1 to 1**

A member is vested after   **5 years**

Members can retire at certain ages, based on the years of service with the City.

The Service Retirement Eligibilities for the city are: **5 yrs/age 60, 20 yrs/any age**

**Contributions**

Under the state law governing TMRS, the actuary annually determines the City contribution rate. This rate consists of the normal cost contribution rate and the prior service cost contribution rate, both of which are calculated to be a level percent of payroll from year to year. The normal cost contribution rate finances the currently accruing monetary credits due to the City matching percent, which are the obligation of the City as of an employee's retirement date, not at the time the employee's contributions are made. The normal cost contribution rate is the actuarially determined percent of payroll necessary to satisfy the obligation of the City to each employee at the time his/her retirement becomes effective. The prior service contribution rate amortizes the unfunded (overfunded) actuarial liability (asset) over the remainder of the plan's 25-year amortization period. The unit credit actuarial cost method is used

for determining the City contribution rate. Both the 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. (i.e. December 31, 2003 valuation is effective for rates beginning January 2005)

City of Rio Grande City			
Schedule of Actuarial Liabilities and Funding Progress			
Actuarial Valuation Date			12/31/04
Actuarial Value of Assets	A		\$304,132
Actuarial Accrued Liability	B		\$671,716
Percentage Funded	C = (A)/(B)		45.30%
Unfunded (Over-Funded) Actuarial Accrued Liability (UAAL)	D = (B) - (A)		\$367,584
Annual Covered Payroll	E		\$2,174,468
UAAL as a percentage of covered payroll	(D)/(E)		16.90%
<b>Net Pension Obligation (NPO) at Beginning of Period</b>			
			\$0
<b>Annual Pension Cost</b>			
Plus: Annual Required Contribution (ARC)	F		\$90,454
Less: Contribution Made	F		\$90,454
<b>NPO at end of Period</b>			
			\$0
<b>General System-wide Actuarial Assumptions:</b>			
Actuarial Cost Method	Unit Credit		
Amortization Method	Level Percent of Payroll		
Remaining Amortization Period	25 Years - Open Period		
Asset Valuation Method	Amortized Cost		
	(To accurately reflect the requirements of GASB Stmt No 25, paragraphs 36e and 138)		
Investment Rate of Return	7%		
Projected Salaries Increases	None		
Includes inflation at	3.5%		
Cost-of-Living Adjustments	None		

CITY OF RIO GRANDE CITY  
 COMBINING BALANCE SHEET  
 NONMAJOR GOVERNMENTAL FUNDS  
 SEPTEMBER 30, 2004

Data Control Codes	200 HOTEL OCCUPANCY TAX FUND	201 SPECIAL LITIGATION FUND	203 FORFEITURE FUND	204 HIDTA
<b>ASSETS</b>				
1010 Cash and Cash Equivalents	\$ 28,410	\$ 3,308	\$ 27,276	\$ 625
1050 Taxes Receivable	6,121	-	-	-
1260 Intergovernmental Receivables	-	-	-	50,332
1300 Due from Other Funds	163,567	-	-	-
1000 Total Assets	<u>\$ 198,098</u>	<u>\$ 3,308</u>	<u>\$ 27,276</u>	<u>\$ 50,957</u>
<b>LIABILITIES AND FUND BALANCES</b>				
2080 Due to Other Funds	\$ -	\$ -	\$ -	\$ 50,957
2000 Total Liabilities	<u>-</u>	<u>-</u>	<u>-</u>	<u>50,957</u>
Fund Balances:				
Unreserved and Undesignated:				
3610 Reported in the Special Revenue Fund	198,098	3,308	27,276	-
3000 Total Fund Balances	<u>198,098</u>	<u>3,308</u>	<u>27,276</u>	<u>-</u>
4000 Total Liabilities and Fund Balances	<u>\$ 198,098</u>	<u>\$ 3,308</u>	<u>\$ 27,276</u>	<u>\$ 50,957</u>

The accompanying notes are an integral part of this statement.

205 HISTORICAL PRESERVATI	206 LLEBG PROGRAM	207 RGC POLICE DEPARTMEN FUND	208 REVOLFING LOAN FUND	210 WATER TOWER 722669	Total Nonmajor Governmental Funds
\$ 9,209	\$ 78	\$ 932	\$ 116,548	\$ -	\$ 186,386
-	-	-	-	-	6,121
-	-	-	-	-	50,332
-	-	-	-	-	163,567
<u>\$ 9,209</u>	<u>\$ 78</u>	<u>\$ 932</u>	<u>\$ 116,548</u>	<u>\$ -</u>	<u>\$ 406,406</u>
\$ -	\$ 78	\$ -	\$ -	\$ -	\$ 51,035
-	78	-	-	-	51,035
9,209	-	932	116,548	-	355,371
9,209	-	932	116,548	-	355,371
<u>\$ 9,209</u>	<u>\$ 78</u>	<u>\$ 932</u>	<u>\$ 116,548</u>	<u>\$ -</u>	<u>\$ 406,406</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, 2004

Data Control Codes	200 HOTEL OCCUPANCY TAX FUND	201 SPECIAL LITIGATION FUND	203 FORFEITURE FUND	204 HIDTA
<b>REVENUES:</b>				
Taxes:				
5180 Other Taxes	\$ 63,719	\$ -	\$ -	\$ -
5300 Intergovernmental Revenue and Grants	-	-	-	-
5610 Investment Earnings	209	8	449	-
5700 Other Revenue	<u>1,836</u>	<u>-</u>	<u>11,945</u>	<u>195,133</u>
5020 Total Revenues	<u>65,764</u>	<u>8</u>	<u>12,394</u>	<u>195,133</u>
<b>EXPENDITURES:</b>				
Current:				
0010 General Government	54,199	136,699	-	-
0020 Public Safety	-	-	73,594	195,133
0030 Public Works	-	-	-	-
Capital Outlay:				
0080 Capital Outlay	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
6030 Total Expenditures	<u>54,199</u>	<u>136,699</u>	<u>73,594</u>	<u>195,133</u>
1100 Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>11,565</u>	<u>(136,691)</u>	<u>(61,200)</u>	<u>-</u>
<b>OTHER FINANCING SOURCES (USES):</b>				
7915 Transfers In	-	140,000	-	-
8911 Transfers Out (Use)	<u>(30,000)</u>	<u>-</u>	<u>(9,090)</u>	<u>-</u>
7080 Total Other Financing Sources (Uses)	<u>(30,000)</u>	<u>140,000</u>	<u>(9,090)</u>	<u>-</u>
1200 Net Change in Fund Balance	(18,435)	3,309	(70,290)	-
0100 Fund Balance - October 1 (Beginning)	<u>216,533</u>	<u>-</u>	<u>97,566</u>	<u>-</u>
3000 Fund Balance - September 30 (Ending)	<u>\$ 198,098</u>	<u>\$ 3,309</u>	<u>\$ 27,276</u>	<u>\$ -</u>

The accompanying notes are an integral part of this statement.

205 HISTORICAL PRESERVATI	206 LLEBG PROGRAM	207 RGC POLICE DEPARTMEN FUND	208 REVOLFING LOAN FUND	210 WATER TOWER 722669	Total Nonmajor Governmental Funds
\$ -	\$ -	\$ -	\$ -	\$ -	\$ 63,719
-	14,736	-	-	5,000	19,736
62	12	8	917	-	1,665
-	-	4,228	22,245	-	235,387
<u>62</u>	<u>14,748</u>	<u>4,236</u>	<u>23,162</u>	<u>5,000</u>	<u>320,507</u>
-	78	-	-	-	190,976
9,885	-	3,893	-	-	282,505
-	-	-	-	5,000	5,000
-	14,693	-	-	-	14,693
<u>9,885</u>	<u>14,771</u>	<u>3,893</u>	<u>-</u>	<u>5,000</u>	<u>493,174</u>
<u>(9,823)</u>	<u>(23)</u>	<u>343</u>	<u>23,162</u>	<u>-</u>	<u>(172,667)</u>
-	-	-	-	-	140,000
-	-	-	-	-	(39,090)
-	-	-	-	-	100,910
(9,823)	(23)	343	23,162	-	(71,757)
<u>19,032</u>	<u>23</u>	<u>589</u>	<u>93,385</u>	<u>-</u>	<u>427,128</u>
<u>\$ 9,209</u>	<u>\$ -</u>	<u>\$ 932</u>	<u>\$ 116,547</u>	<u>\$ -</u>	<u>\$ 355,371</u>

CITY OF RIO GRANDE CITY, TEXAS  
 Schedule of Service Rates and Fees  
 September 30, 2004

A. Retail Rates:

	Minimum Charge	Minimum Usage	Rate per 1,000 Gallons Over Minimum
As of March 2003			
Water	\$11.00	3,000	\$2.25
Wastewater	9.00	3,000	1.55

B. Connection Fees:

Meter Size	Type	Water Connection Fee	Sewer Connection Fee
5/8" - 3/4"	All	\$450.00	\$400.00
1"	All	720.00	400.00
2"	All	2,400.00	1,200.00
3"	Turbine	3,750.00	1,875.00
3"	Compound	2,625.00	1,312.50
4"	Turbine	7,500.00	3,750.00
4"	Compound	4,500.00	2,250.00
6"	Turbine	0.00	0.00
6"	Compound	9,735.00	4,687.50

C. Connections at September 30, 2004:

At September 30, 2004, the number of retail water and/or wastewater connections within the City were as follows:

Total water connections	4,748
Total wastewater connections	3,822

D. Water Consumption:

Gallons pumped into system:	967,428,000
Gallons billed to customers:	647,938,061

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CITY OF RIO GRANDE CITY, TEXAS

Schedule of Insurance Coverage

September 30, 2004

<u>TYPE OF COVERAGE</u>	<u>FROM</u>	<u>TO</u>	<u>COVERAGE</u>
General Liability	10/01/03	10/01/04	\$1,000,000
Law Enforcement Liability	10/01/03	10/01/04	\$1,000,000
Errors and Omissions Liability	10/01/03	10/01/04	\$1,000,000
Airport Owner and Operator	10/01/03	10/01/04	\$1,000,000
Automobile Liability			
General Liability	10/01/03	10/01/04	\$1,000,000
Auto Physical Damage			Agreed Coverage Value
Medical payments			\$25,000
Real and Personal Property	10/01/03	10/01/04	\$5,764,976
Deputy Collector			
Position Schedule Bond	02/01/03	02/01/04	\$2,500
Notary Bond	03/31/01	03/31/05	\$2,500
Surety Bond	08/03/03	08/03/04	\$25,000

CONTRACT  
NUMBER

NAME OF CARRIER

9319 Texas Municipal League  
Intergovernmental Risk Pool

Western Surety

Western Surety

Hartford Casualty Insurance Co.

**Luis C. Orozco**  
Certified Public Accountant  
204 W. Ferguson, Suite 102  
Pharr, TX 78577-2401  
lco CPA@lco CPA.com

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

Independent Auditor's Report

HONORABLE MAYOR AND BOARD OF ALDERMEN CITY  
OF RIO GRANDE CITY  
P.O. BOX 467  
RIO GRANDE CITY, TEXAS 78582

Members of the Board:

We have audited the financial statements of CITY OF RIO GRANDE CITY as of and for the year ended September 30, 2004, and have issued our report thereon dated February 10, 2006. 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.

Compliance

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 grants, 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 that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered CITY OF RIO GRANDE CITY's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting.

Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material

weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters that we considered to be administrative in nature that we have reported to management on a letter dated February 10, 2006.

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

Luis C. Orozco  
Certified Public Accountant

February 10, 2006

**Luis C. Orozco**  
Certified Public Accountant  
204 W. Ferguson, Suite 102  
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lcocpa@lcocpa.com

**REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR  
PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH  
OMB CIRCULAR A-133**

Independent Auditor's Report

HONORABLE MAYOR AND BOARD OF ALDERMEN CITY  
OF RIO GRANDE CITY  
P.O. BOX 467  
RIO GRANDE CITY, TEXAS 78582

Members of the Board:

Compliance

We have audited the compliance of CITY OF RIO GRANDE CITY with the types of compliance requirements described in the U S. *Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended September 30, 2004. The City's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of CITY OF RIO GRANDE CITY's administrators. Our responsibility is to express an opinion on the City's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about CITY OF RIO GRANDE CITY's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of CITY OF RIO GRANDE CITY's compliance with those requirements.

In our opinion, CITY OF RIO GRANDE CITY complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended September 30, 2004.

### Internal Control Over Compliance

The administration of CITY OF RIO GRANDE CITY is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the City's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

### Schedule of Expenditures of Federal Awards

We have audited the general purpose financial statements of CITY OF RIO GRANDE CITY, TEXAS, as of and for the year ended September 30, 2004, and have issued our report thereon dated February 10, 2004. Our audit was performed for the purpose of forming and opinion on the general purpose financial statements taken as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the general purpose financial statements of CITY OF RIO GRANDE CITY, TEXAS. Such information has been subjected to the auditing procedures applied in the audit of the general purpose financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the general purpose financial statements taken as a whole.

This report is intended for the information of the management and federal awarding agencies and pass-through entities. However, this report is a matter of public record and its distribution is not limited.

Luis C. Orozco  
Certified Public Accountant

February 10, 2006

CITY OF RIO GRANDE CITY  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED SEPTEMBER 30, 2004

**I. Summary of the Auditor's Results:**

- a. The type of report issued on the financial statements of the CITY OF RIO GRANDE CITY was a qualified opinion.
- b. Reportable conditions in internal control were disclosed by the audit of the financial statements. One is considered a material weakness. This is disclosed in the section below.
- c. No instances of noncompliance material to the general purpose financial statements of City of Rio Grande City, which would be required to be reported in accordance with *Government Auditing Standards*, were disclosed during the audit..
- d. No reportable conditions in internal control over major programs were disclosed by the audit.
- e. The report on compliance for major programs expresses an unqualified opinion.
- f. A statement as to whether the audit disclosed any audit findings which the auditor is required to report under Section \_\_\_\_510(a). There were no known questioned costs.
- g. The program tested as major programs included: TDHCA - Community Development Block Grant CFDA 14.228.
- h. The dollar threshold used to distinguish between Type A and Type B programs was \$300,000.
- i. The City of Rio Grande City did not qualify as a low-risk auditee.

**II. Findings Relating to the Financial Statements Which Are Required To Be Reported in Accordance with *Generally Accepted Government Auditing Standards* .**

1. The General Fund had a deficit balance at year-end.
2. As indicated on the opinion letter, the City's property, plant and equipment balances in its general ledger were materially different from the amounts determined by a physical inventory taken. The balances in the City's general ledger were not adjusted.

**III. Findings and Questioned Costs for Federal Awards Including Audit Findings as Described in I.f Above**

None Reported.

CITY OF RIO GRANDE CITY  
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS  
FOR THE YEAR ENDED SEPTEMBER 30, 2004

None reported in prior year.

CITY OF RIO GRANDE CITY  
CORRECTIVE ACTION PLAN  
FOR THE YEAR ENDED SEPTEMBER 30, 2004

No correction plan needed for this audit.

CITY OF RIO GRANDE CITY  
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
 FOR THE YEAR ENDED SEPTEMBER 30, 2004

(1)	(2)	(3)	(4)
FEDERAL GRANTOR/ PASS-THROUGH GRANTOR/ PROGRAM or CLUSTER TITLE	Federal CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
<b><u>GOVERNOR'S DIVISION OF EMERGENCY MANAGEMENT</u></b>			
<b><u>Direct Programs</u></b>			
Community Emergency Response Team	83.565		\$ 4,081
Border Environment Cooperation Commission			76,556
Total Direct Programs			80,637
<b>TOTAL GOVERNOR'S DIVISION OF EMERGENCY MANAGEMENT</b>			80,637
<b><u>OFFICE OF NATIONAL DRUG CONTROL POLICY</u></b>			
<b><u>Direct Programs</u></b>			
HIDTA Starr Cty Task Force			195,133
Total Direct Programs			195,133
<b>TOTAL OFFICE OF NATIONAL DRUG CONTROL POLICY</b>			195,133
<b><u>U.S. DEPARTMENT OF JUSTICE</u></b>			
<b><u>Direct Programs</u></b>			
LLEBG	16.592		14,770
			4,577
Total Direct Programs			19,347
<b>TOTAL U.S. DEPARTMENT OF JUSTICE</b>			19,347
<b><u>U.S. DEPARTMENT OF HOUSING &amp; URBAN DEVELOPMENT</u></b>			
<b><u>Passed Through State Department of Education</u></b>			
Texas Department of Housing and Community Affairs	14.228		5,000
Empowerment Zone			200,000
Total Passed Through State Department of Education			205,000
<b>TOTAL DEPARTMENT OF HOUSING &amp; URBAN DEVELOPMENT</b>			205,000
<b>TOTAL EXPENDITURES OF FEDERAL AWARDS</b>			<b>\$ 500,117</b>

\*Clustered Programs as required by Compliance Supplement March, 2003

CITY OF RIO GRANDE CITY  
NOTES ON ACCOUNTING POLICIES FOR FEDERAL AWARDS  
YEAR ENDED SEPTEMBER 30, 2004

1. For all Federal programs, the City uses the fund types specified in OMB Circular A-133. Special revenue funds are used to account for resources restricted to, or designated for, specific purposes by a grantor. Federal and state financial assistance generally is accounted for in a Special Revenue Fund.
2. 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. 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.

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.

3. 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.