

CITY OF RIO GRANDE CITY, TEXAS

ANNUAL FINANCIAL REPORT

FOR THE YEAR ENDED SEPTEMBER 30, 2006

City of Rio Grande City, Texas
Annual Financial Report
For The Year Ended September 30, 2006

TABLE OF CONTENTS

	<u>Page</u>	<u>Exhibit</u>
 FINANCIAL SECTION		
Independent Auditor's Report on Financial Statements.....	1	
Management's Discussion and Analysis (Required Supplementary Information).....	3	
 <u>Basic Financial Statements</u>		
Government-wide Financial Statements:		
Statement of Net Assets.....	18	A-1
Statement of Activities.....	19	A-2
Fund Financial Statements:		
Balance Sheet - Governmental Funds.....	21	A-3
Reconciliation of the Governmental Funds		
Balance Sheet to the Statement of Net Assets.....	23	A-4
Statement of Revenues, Expenditures, and Changes in		
Fund Balances - Governmental Funds.....	24	A-5
Reconciliation of the Statement of Revenues, Expenditures, and Changes in		
Fund Balances of Governmental Funds to the Statement of Activities.....	26	A-6
Statement of Net Assets - Enterprise Fund.....	27	A-7
Statement of Revenues, Expenses, and Changes in		
Fund Net Assets - Enterprise Fund.....	28	A-8
Statement of Cash Flows - Proprietary Funds.....	29	A-9
Notes to the Financial Statements	30	
 <u>Required Supplementary Information:</u>		
Budgetary Comparison Schedules:		
General Fund.....	44	B-1
Economic Development Corporation Fund.....	47	B-2
 <u>Combining Statements as Supplementary Information:</u>		
Special Revenue Funds:		
Combining Balance Sheet - Nonmajor Special Revenue Funds.....	48	C-1
Combining Statement of Revenues, Expenditures and Changes		
in Fund Balances - Nonmajor Special Revenue Funds.....	51	C-2

City of Rio Grande City, Texas
Annual Financial Report
For The Year Ended September 30, 2006

TABLE OF CONTENTS

Page Exhibit

OTHER SUPPLEMENTARY INFORMATION SECTION

Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	54	
Report on Compliance with Requirements Applicable To each Major Program and Internal Control over Compliance In Accordance With OMB Circular A-133.....	56	
Schedule of Findings and Questioned Costs	58	
Summary Schedule of Prior Audit Findings	59	
Corrective Action Plan.....	60	
Schedule of Expenditures of Federal Awards	61	D-1
Notes to the Schedule of Expenditures of Federal Awards.....	62	

Financial Section

RAUL HERNANDEZ
Certified Public Accountant
301A N. King Str. Suite 109 Alice, Tx 78332
Office (361) 668-8810 Fax (361) 668-3900

Independent Auditor's Report on Financial Statements

City Council
City of Rio Grande City, Texas
101 S. WASHINGTON
Rio Grande City, Texas 78582

Members of the City Council:

I 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, Texas as of and for the year ended September 30, 2006, which collectively comprise the City of Rio Grande City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of City of Rio Grande City, Texas's management. My responsibility is to express opinions on these financial statements based on my audit.

I conducted my 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 I 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. I believe that my audit provides a reasonable basis for my opinions.

In my 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, Texas as of September 30, 2006, 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.

In accordance with *Government Auditing Standards*, I have also issued my report dated January 3, 2007, on my consideration of City of Rio Grande City, Texas's internal control over financial reporting and on my 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 my 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 *Government Auditing Standards* and should be read in conjunction with this report in considering the results of my audit.

The Management's Discussion and Analysis and the budgetary information identified as Required Supplementary Information in the table of contents 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. I 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, I did not audit the information and express no opinion on it.

My audit was performed for the purpose of forming opinions on the financial statements which collectively comprise the City of Rio Grande City, Texas's basic financial statements. The accompanying schedule of expenditures of federal awards required by U. S. Office of Management and Budget Circular A-133, *Audits*

of States, Local Governments and Non-Profit Organizations and the combining financial statements and supporting schedules listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. This information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in my opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Respectfully submitted,

RAUL HERNANDEZ, CPA

January 3, 2007

CITY OF RIO GRANDE CITY

MANAGEMENT'S DISCUSSION AND ANALYSIS

The Management's Discussion and Analysis (MD&A) offers readers of the City financial statements a narrative overview and analysis of the City's financial activities for the fiscal year ended September 30, 2006. Readers are encouraged to consider the information presented here in conjunction with additional information furnished in the financial statements and notes to the financial statements (which immediately follow this discussion). The implementation of the new financial reporting requirements of GASB Statement No. 34 (Basic Financial Statements-and Management's Discussion and Analysis-for State and Local Governments) makes the City's September 30, 2006 Annual Financial Report significantly different than those of previous years. New sections include this Management's Discussion and Analysis, the Government-wide Statement of Net Assets, the Government-wide Statement of Activities, the concept of major fund reporting, and the reporting of infrastructure capital assets and long term debt liabilities in the governmental activities. These concepts are explained throughout this discussion and analysis.

FINANCIAL HIGHLIGHTS

- The assets of the City of Rio Grande exceeded its liabilities at the close of the most recent fiscal year by \$19,904,454 (net assets), of which \$173,396 is restricted for debt service.
- As of the close of the current fiscal year, the City of Rio Grande governmental funds reported combined ending fund balances of \$1,447,593, which represents a favorable unreserved fund balance.
- The City of Rio Grande City's total debt decreased by \$493,994 during the current fiscal year. The key factors in this decrease include \$224,621 for capital lease payments and \$193,000 for revenue bond principle payments.

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of three parts—*management's discussion and analysis* (this section), the *basic financial statements*, and *required supplementary information*. The basic financial statements include two kinds of statements that present different views of the City:

- The first two statements are *government-wide financial statements* that provide both *long-term* and *short-term* information about the City's overall financial status.
- The remaining statements are *fund financial statements* that focus on *individual parts* of the government, reporting the City's operations in more detail than the government-wide statements.
- *The governmental funds* statements tell how *general government* services were financed in the *short term* as well as what remains for future spending.
- *Proprietary fund* statements offer *short- and long-term* financial information about the activities the government operates *like businesses*. The City maintains one type of proprietary fund, a public utility system. The public utility system, which is an enterprise fund, is used to account for the City's water, sewer and sanitation operations.

CITY OF RIO GRANDE CITY

- *Fiduciary fund* statements provide information about the financial relationships in which the City acts solely as a *trustee or agent* for the benefit of others, to whom the resources in question belong. The City did not have any fiduciary fund financial statements at September 30, 2006

The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data. The statements are followed by a section of *required supplementary information* that further explains and supports the information in the financial statements.

The City of Rio Grande City adopts an annual appropriated budget for its general fund and Economic Development Corporation fund. A budgetary comparison statement has been provided for both funds to demonstrate compliance with these budgets.

Figure A-1 summarizes the major features of the City's financial statements, including the portion of the City government they cover and the types of information they contain. The remainder of this overview section of management's discussion and analysis explains the structure and contents of each of the statements.

Figure A-1 Major Features of the City's Government-wide and Fund Financial Statements

Type of Statements	Government-wide	Governmental Funds	Proprietary Funds	Fiduciary Funds
<u>Scope</u>	Entire City Government (except Fiduciary funds) and the City's component units	The activities of the City that are not proprietary or fiduciary	Activities of City similar to private business; self insurance	Instances in which City or agent for else's resources
<u>Required Financial Statements</u>	Statement of Net assets Statement of Activities	Balance Sheet Statement of revenues, expenditures & changes in fund balances Statement of cash flows	Statement of net assets Statement of rev, exp, & changes in net assets Statement of flows	Statement of fiduciary net assets Statement of in fiduciary net assets
<u>Accounting basis and measurement focus</u>	Accrual accounting and economic resources focus	Modified accrual accounting and current financial	Accrual accounting and economic focus	Accrual accounting economic resources focus

CITY OF RIO GRANDE CITY

Government-wide Statements

The two government-wide statements report the City's net assets and how they have changed. Net assets—the difference between the City's assets and liabilities—is one way to measure the City's financial health or *position*.

- Over time, increases or decreases in the City's net assets are an indicator of whether its financial health is improving or deteriorating, respectively.
- To assess the overall health of the City, one needs to consider additional nonfinancial factors such as changes in the City's tax base

The government-wide financial statements of the City include the *Governmental activities and Business-type activities*. Most of the City's basic services are included here, such as general government, public safety, streets and lighting, public works, sanitation, sewer and water, economic development, culture and recreation, and interest on long-term debt. General Sales taxes, water, sewer and sanitation revenues and grants finance most of these activities.

Fund Financial Statements

The fund financial statements provide more detailed information about the City's most significant *funds*—not the City as a whole. Funds are accounting devices that the City uses to keep track of specific sources of funding and spending for particular purposes.

- Some funds are required by State law and by bond covenants.
- The City Council establishes other funds to control and manage money for particular purposes or to show that it is properly using certain taxes and grants.

The City has the following kinds of funds:

- *Governmental funds*—Most of the City's basic services are included in governmental funds, which focus on (1) how *cash and other financial assets* that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental fund statements provide a detailed *short-term* view that helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs. Because this information does not encompass the additional long-term focus of the government-wide statements, we provide additional information at the bottom of the governmental funds statement, or on the subsequent page, that explain the relationship (or differences) between them.

CITY OF RIO GRANDE CITY

- *Proprietary funds*— The City maintains one proprietary fund. Enterprise funds are used to report the same functions presented as *business-type activities* in the government-wide financial statements. The City uses the enterprise fund to account for its Water, Sewer and Sanitation operation. Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the PUD fund, which considered to be a major fund of the City.

Condensed Financial Information

Prior year balances have been restated for the effects of prior period adjustments discussed in the notes to the financial statements

CITY OF RIO GRANDE CITY

FINANCIAL ANALYSIS OF THE CITY AS A WHOLE

Net Assets. The City's combined net assets were \$19,904,454 at September 30, 2006 (See Table A-1)

Table A-1
City's Net Assets

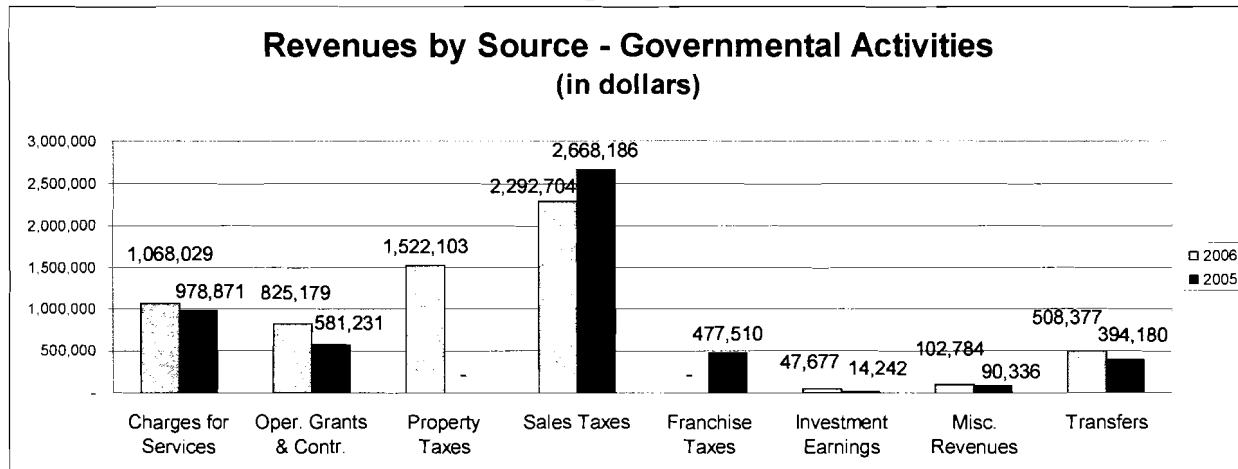
	Governmental Activities		Business--type Activities		Total Primary Government	
	2006	2005	2006	2005	2006	2005
Current assets:						
Cash/Cash equivalents	\$ 1,691,466	\$ 1,022,774	\$ 970,710	\$ 396,225	\$ 2,662,176	\$ 1,418,999
Taxes Receivables (net)	174,839	75,094	9,871	9,338	184,710	84,432
Accounts Receivable	424,944	558,762	685,809	649,765	1,110,753	1,208,527
Intergovernmental Receivable	9,717	-	-	-	9,717	-
Internal Balances	(103,264)	(107,275)	103,264	107,275	-	-
Inventories	-	-	19,012	24,445	19,012	24,445
Prepaid Items	2,158	-	340	1,133	2,498	1,133
Deferred Charges	-	-	24,192	25,716	24,192	25,716
Total current assets:	2,199,860	1,549,355	1,813,198	1,213,897	4,013,058	2,763,252
Non-current assets:						
Restricted Assets:						
Cash	-	-	211,466	179,453	211,466	179,453
Investment	-	-	410,630	372,687	410,630	372,687
Capital Assets	9,536,514	9,266,914	12,868,372	12,868,372	22,404,885	22,135,286
Less Accumulated Depreciation	(1,219,209)	(1,047,808)	(1,841,911)	(1,760,914)	(3,061,120)	(2,808,722)
Total non-current assets:	8,317,305	8,219,106	11,648,557	11,659,598	19,965,861	19,878,704
Total Assets	10,517,165	9,768,461	13,461,755	12,873,495	23,978,919	22,641,956
Current Liabilities						
Accounts payable and other current liabilities	516,208	326,999	135,757	111,648	651,965	438,647
Accrued Interest Payable	-	-	23,649	25,811	23,649	25,811
Due to Other Government Agencies	7,122	13,860	-	-	7,122	13,860
Unearned Revenue	67,894	91,155	8,255	8,255	76,149	99,410
Liabilities Payable from Restricted Assets	-	-	188,416	162,987	188,416	162,987
Deferred Revenues	-	-	-	-	-	-
Notes Payable - Current	-	-	-	-	-	-
Other Current Liabilities	-	-	-	-	-	-
Total current liabilities	591,224	432,014	356,077	308,701	947,301	740,715
Long-term liabilities:						
Due within one year	727,941	793,110	215,000	208,694	942,941	1,001,804
Due in more that one year	253,225	364,335	1,931,000	2,146,000	2,184,225	2,510,335
Total Liabilities	1,572,390	1,589,459	2,502,077	2,663,395	4,074,467	4,252,854
Net Assets:						
Invested in capital assets	8,317,306	7,061,662	11,026,461	8,752,763	19,343,767	15,814,425
Restricted For:						
Debt Service	-	-	173,396	143,760	173,396	143,760
Unrestricted	627,470	1,117,341	(240,179)	1,313,576	387,291	2,430,917
Total Net Assets	\$ 8,944,776	\$ 8,179,003	\$ 10,959,678	\$ 10,210,099	\$ 19,904,454	\$ 18,389,102

CITY OF RIO GRANDE CITY

The \$387,291 unrestricted net assets represent resources available to fund the programs of the City next year.

Revenues. The City's total revenues for governmental activities were \$6,366,853. A significant portion, 36.01 percent, of the City's revenue comes from sales taxes. 16.77 percent comes from charges for services and 23.91 percent relates to property taxes. (See Figure A-2 and Table A-2)

Figure A-2

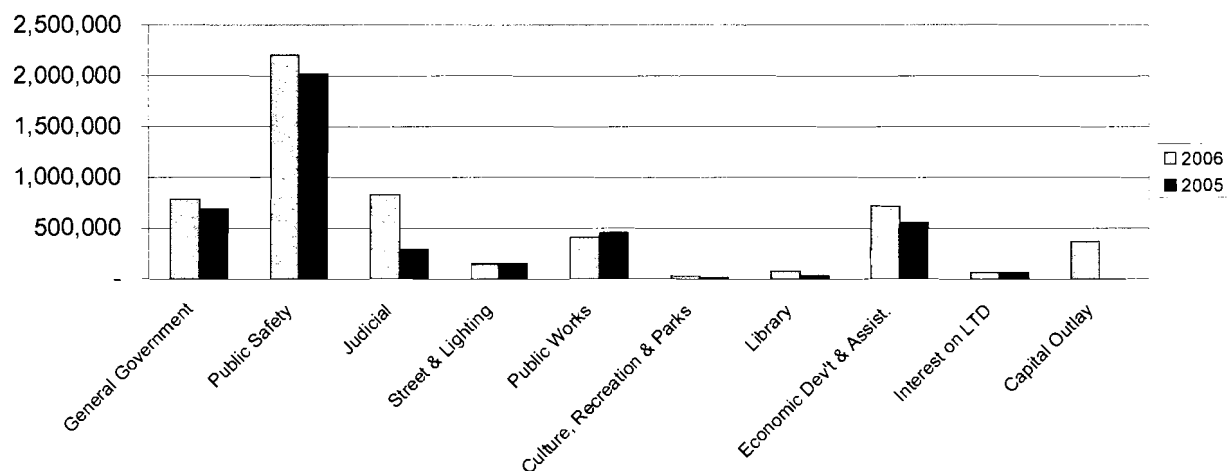


Governmental Activities

- Sales taxes for the year totaled \$2,292,704.
- Charges for services for the year totaled \$1,068,029.
- Grant revenues & contributions for the year totaled \$825,179.

Figure A-3

Cost of Services - Governmental Activities

(in dollars)


CITY OF RIO GRANDE CITY

Table A-2
Rio Grande City's Changes in Net Assets

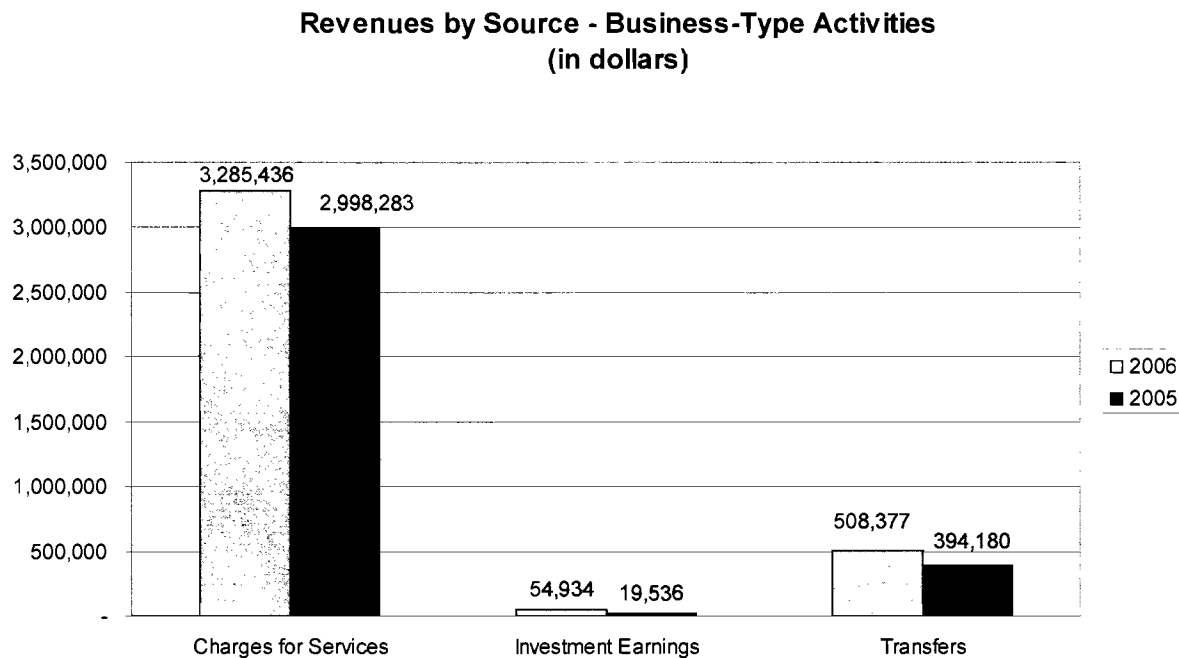
	Governmental Activities		Business-type Activities		Total Primary Government	
	2006	2005	2006	2005	2006	2005
Revenues:						
Program:						
Charges for services	\$ 1,068,029	\$ 978,871	\$ 3,285,436	\$ 2,998,283	\$ 4,353,465	\$ 3,977,154
Operating Grants and Contributions	825,179	581,231	-	-	825,179	581,231
General:						
Property Taxes	1,522,103	-	-	-	1,522,103	-
Sales Taxes	2,292,704	2,668,186	-	-	2,292,704	2,668,186
Franchise Taxes	-	477,510	-	-	-	477,510
Investment Earnings	47,677	14,242	54,934	19,536	102,611	33,778
Miscellaneous Revenues	102,784	90,336	-	-	102,784	90,336
Transfers	508,377	394,180	(508,377)	(394,180)	-	-
Total Revenues	6,366,853	5,204,556	2,831,993	2,623,639	9,198,846	7,828,195
Cost of Services:						
General Government	786,927	689,488	-	-	786,927	689,488
Public Safety	2,214,776	2,025,790	-	-	2,214,776	2,025,790
Judicial	829,241	294,000	-	-	829,241	294,000
Streets and Lighting	148,890	157,306	-	-	148,890	157,306
Public Works	413,048	458,651	-	-	413,048	458,651
Culture, Recreation & Parks	36,929	21,596	-	-	36,929	21,596
Library	75,933	31,519	-	-	75,933	31,519
Economic Development and Assistance	716,582	562,311	-	-	716,582	562,311
Interest on Long-term Debt	71,439	59,469	-	-	71,439	59,469
Capital Outlay	370,862	-	-	-	370,862	-
Water, Sewer, & Sanitation	-	-	2,082,414	1,912,939	2,082,414	1,912,939
Total Cost of Services	5,664,627	4,300,130	2,082,414	1,912,939	7,747,041	6,213,069
Change in net assets	702,226	904,426	749,579	710,700	1,451,805	1,615,126
Net assets - beginning	8,179,003	3,607,275	10,210,099	10,233,659	18,389,102	13,840,934
Prior Period Adjustment	64,920	3,667,302	-	(734,260)	64,920	2,933,042
Net assets - ending	\$ 8,946,149	\$ 8,179,003	\$ 10,959,678	\$ 10,210,099	\$ 19,905,827	\$ 18,389,102

Tables A-2 and Figure A-3 present the cost of each of the City's largest functions.

- The Cost of all governmental activities this year was \$5,664,627.
- However, the amount that our taxpayers paid for these activities through Property & Sales Taxes was approximately \$1,522,103 and \$2,292,704, respectively.
- \$2,214,776 of these costs were for public safety, which increased by \$188,986, from the prior year.

CITY OF RIO GRANDE CITY

Figure A-4

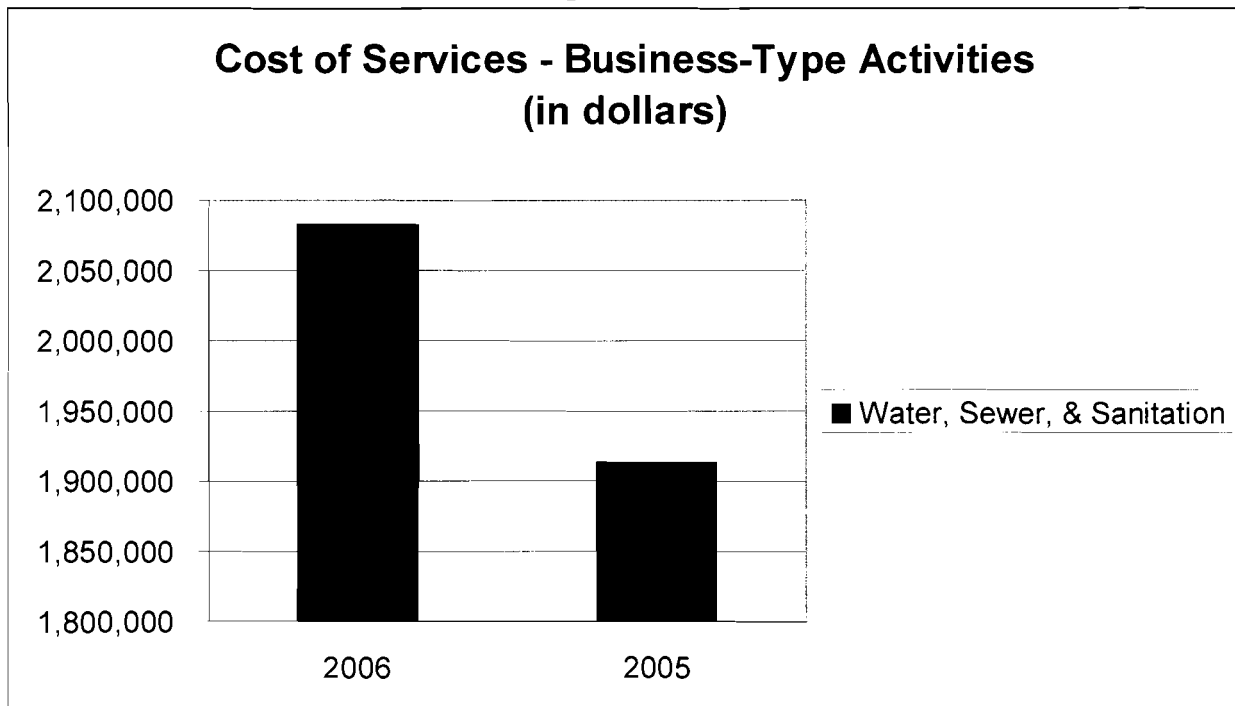


Business-type activities. Business type activities increased for the City's net assets by \$749,579. Key elements of this increase are as follows:

- Charges for services for the year totaled \$3,285,436. The increase was due primarily resulted from a combination of a modest increase in demand and of the addition of new customers and increased usage on the part of several of the largest current customers.
- Other services included investment earnings of \$54,934
- Expenses for the City's enterprise fund totaled \$2,082,414, with the majority of the costs charges to water, sewer, and sanitation expenses.

CITY OF RIO GRANDE CITY

Figure A-5



FINANCIAL ANALYSIS OF GOVERNMENTAL FUNDS

As noted earlier, the City uses *fund accounting* to ensure and demonstrate compliance with finance-related legal requirements. Fund accounting and budget controls has been the framework of the City's strong fiscal management and accountability

Governmental funds. The general government functions are reported in the General and Special Revenue Funds. The focus of the *City's governmental funds* is to provide information on near-term inflows, outflows, and balances of *spendable* resources. Such information is useful in assessing the City's annual financing and budgeting requirements. In particular, *unreserved fund balance* may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$1,447,593, an increase of \$330,250 compared with the prior year. As shown on page 30 the general funds' unreserved fund balance resulted in a positive of \$430,835. The *unreserved fund balance*, used as a management and budgetary tool, is available for spending at the City's discretion. A major factor in causing the significant decrease to fund balance was due to the retirement of a principle for debt during the year in the amount of \$257,831.

The General fund is the chief operating fund of the City. At the end of the current fiscal year, unreserved fund balance of the General Fund was increased to \$430,835 in contrast to a negative

CITY OF RIO GRANDE CITY

(\$298,837) in the prior year. As a measure of the general fund's liquidity, we compare both unreserved fund balance and total fund balance to total fund expenditures.

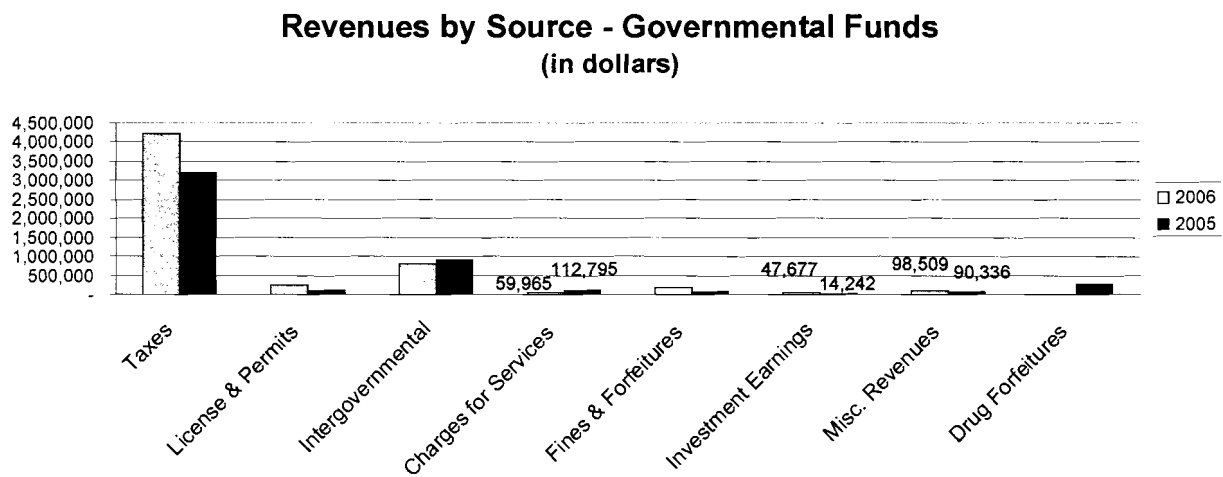
FINANCIAL ANALYSIS OF THE CITY'S FUNDS

Revenues

Revenues from governmental fund types totaled \$5,693,156, an increase of 15.51% over the preceding year. The most significant portion in governmental fund revenue sources was derived from general property, sales & use taxes, which totaled \$3,642,375. This was primarily due to the City's increased effort to collect current year taxes. The most significant increase in actual revenues was also from general sales & use taxes.

The City's primary source of revenue consists of taxes, which comprise 74.5% of the City's total revenues. In addition, general property, sales & use taxes and intergovernmental revenues comprise 63.98% and 14.46% of total revenues, respectively. The City departments that charge for services include park & recreational, public safety, streets & lighting, and public works, which are all an important part of the City's revenues. They are an integral part of the City's ability to provide the services to which citizens have become accustomed. (See Figure A-6 and Table A-3)

Figure A-6



CITY OF RIO GRANDE CITY

Table A-3
Governmental Funds – Revenues by Source

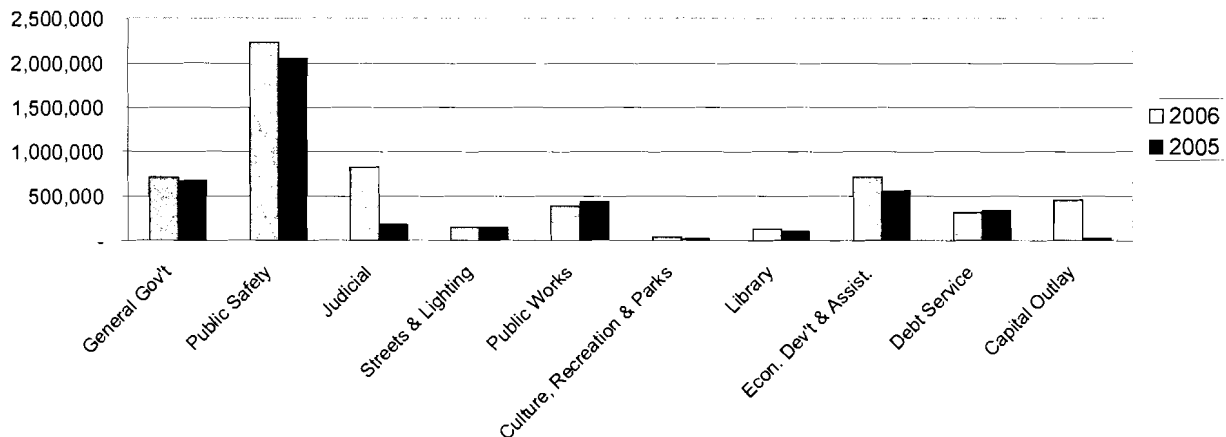
	FY 2006	FY 2005	Increase (Decrease)
Taxes:			
General Property, Sales and Use Taxes	\$ 3,653,763	\$ 2,668,186	\$ 985,577
Hotel Occupancy Taxes	89,756	50,348	39,408
Other Taxes – Franchise Taxes	498,156	477,510	20,646
License & Permits	235,804	118,907	116,897
Intergovernmental	823,806	918,363	(94,557)
Charges for Services	59,965	112,795	(52,830)
Fines and Forfeitures	184,347	88,372	95,975
Investment Earnings	47,677	14,242	33,435
Miscellaneous Revenues	102,784	90,336	12,448
Drug Forfeitures	-	271,317	(271,317)
Total Revenues	\$ 5,696,058	\$ 4,810,376	\$ 885,682

Expenditures

The increase in public safety was the result of monies spent for law enforcement forfeiture funds and fire safety. The City's primary expenditures were for public safety, judicial, and economic development & assistance. Public safety now accounts for over 37.34% of total expenditures. Judicial accounts for 13.87% of revenue, while 11.99% is a part of economic development & assistance. (See Figure A-7 and Table A-4)

Figure A-7

Expenditures by Function - Governmental Funds (in dollars)



CITY OF RIO GRANDE CITY

Table A-4
Governmental Funds – Expenditures by Function

	<u>FY 2006</u>	<u>FY 2005</u>	<u>Increase (Decrease)</u>
Current:			
General Government	\$ 713,229	\$ 677,354	\$ 35,875
Public Safety	2,230,735	2,049,512	181,223
Judicial	828,818	182,887	645,931
Streets and Lighting	148,890	157,306	(8,416)
Public Works	391,640	438,265	(46,625)
Culture, Recreation & Parks	36,929	21,596	15,333
Library	137,194	101,280	35,914
Economic Development and Assistance	716,582	562,311	154,271
Debt Service:			
Principal	254,228	279,168	(24,940)
Interest and Fiscal Charges	61,237	59,469	1,768
Capital Outlay:			
Capital Outlay	454,703	31,552	423,151
Total Expenditures	<u>\$ 5,974,185</u>	<u>\$ 4,560,700</u>	<u>\$ 1,413,485</u>

Other financing sources from the City came from:

Table A-5
Other Financing Resources

	<u>FY 2006</u>	<u>FY 2005</u>	<u>Increase (Decrease)</u>
Operating Transfers In	\$ 648,795	\$ 584,948	\$ 63,847
Operating Transfers Out	(140,418)	(190,768)	50,350
Loan Proceeds	100,000	6,972	93,028
Capital Leases	-	70,442	(70,442)
	<u>\$ 608,377</u>	<u>\$ 471,594</u>	<u>\$ 136,783</u>

Proprietary Fund. The City's proprietary fund provides the same type of information found in the government-wide financial statements, but in more detail.

Unrestricted net assets of the PUD at the end of the year amount to \$10,066,339 and net assets restricted for debt service amount to \$143,760. The total growth for the fund was \$710,700. Other factors concerning the finances of the fund have been addressed note O in the notes to the financial statements

CITY OF RIO GRANDE CITY

General Fund Budgetary Highlights

The final budget was adopted with total General Fund revenues of \$3,336,600 and expenditures of \$3,323,811, which both include transfers.

The following are significant variations between the final budget and actual amount.

- Actual revenues (before transfers) were higher than budgeted figures by \$106,681. Of this amount, general sales and use taxes provided a favorable variance of \$62,640.
- Actual expenditures (before transfers) were (\$255,723) above final budget amounts. This unfavorable variance resulted from over expenditures in Street lighting and Library departments. City departments were encouraged to hold line on expenditures to support the overall City budget since the City was incurring higher costs of items such as medical insurance, utilities, and public safety.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At the end of 2006, the City had invested \$22,404,885 in a broad range of capital assets, including land, construction in progress, infrastructure, buildings, and equipment. (See Table A-6.)

The capital assets of the City are those assets (land, construction in progress, infrastructure, buildings, and equipment), which are used in the performance of the City's functions including infrastructure assets. At September 30, 2006 net capital assets of the governmental activities totaled \$8,219,105, while net capital assets of business-type activities totaled \$11,026,461. Depreciation on capital assets is recognized in the Government-wide financial statements. Accumulated depreciation for infrastructure, buildings, improvements, and equipment totaled \$1,047,808 for governmental activities and \$1,841,911 for business-type activities. More detailed information about the City's capital assets is presented in the notes to the financial statements on page 39.

CITY OF RIO GRANDE CITY

Table A-6
City's Capital Assets

	Governmental Activities		Business-type Activities		Total Primary Government	
	2006	2005	2006	2005	2006	2005
Land	\$ 851,810	\$ 851,810	\$ 339,036	\$ 339,036	\$ 1,190,846	\$ 1,190,846
Construction in Progress	-	530,834	-	-	-	530,834
Infrastructure	5,284,055	5,284,055	11,682,840	11,682,840	16,966,895	16,966,895
Buildings	1,186,762	594,667	599,223	599,223	1,785,985	1,193,890
Equipment	2,144,981	2,005,547	247,273	247,273	2,392,254	2,252,820
Prior Year Adjustment	68,905	-	-	-	68,905	-
Total at historical cost	9,536,513	9,266,914	12,868,372	12,868,372	22,404,885	22,135,285
Total Accumulated Depreciation	1,047,808	1,047,808	1,841,911	1,760,914	2,889,719	2,808,723
Net Capital Assets	\$ 8,488,705	\$8,219,105	\$ 11,026,461	\$11,107,457	\$ 19,515,166	\$19,326,563

Long Term Debt

At year-end the City had \$981,166 in capital leases obligations, and other long-term liabilities outstanding in governmental activities as shown in Table A-7. The City also had \$2,146,000 in revenue bonds payable, and capital leases under business-type activities. Under governmental activities, the City's total debt decreased by \$(176,280) from 2005. Under business-type activities, the City's total debt also decreased by \$(208,694). More detailed information about the City's debt is presented in the notes to the financial statements on page 41.

Table A-7
Long Term Debt

	2006	2005	Increase (Decrease) 2005-2004
Governmental Activities:			
Capital Leases	\$ 351,512	\$ 587,116	\$ (235,604)
Notes	629,654	570,330	59,324
Total governmental activities	\$ 981,166	\$ 1,157,446	\$ (176,280)
Business-type Activities:			
Revenue bonds payable	\$ 2,146,000	\$ 2,350,000	\$ (204,000)
Capital leases	-	4,694	(4,694)
Total business-type activities	\$ 2,146,000	\$ 2,354,694	\$ (208,694)

CITY OF RIO GRANDE CITY

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

- On September 29, 2005 the City Council of Rio Grande City levied a \$.029 tax rate on a 100 assessed valuation for the purpose of maintenance and operations of the general government for the year ended December 31, 2005.
- General operating fund spending in the 2006 budget is expected to have a moderate increase as compared to 2005.

There were several factors that led to the decrease in spending. There was a change in administration that led to a more conservative fiscal policy, and all departments were encouraged to make do with less, without sacrificing basic services. Based on the results of the 2004 audit, staffing increases and salary adjustments were not made as per the 2006 budget, and capital outlay expenditures were drastically reduced in comparison to what had been budgeted.

As for the increase in revenue, the main factor was an actual growth rate of about 9.6% in the sales tax revenue, compared to the conservative 5% growth that had been budgeted for 2006. Sales tax comprises about 50% of the general fund revenues.

If these estimates and projections are realized, the City's general fund balance is expected to recover appreciably by the close of 2006.

The Public Utilities Department has experienced a healthy surplus for 2005 and is expected to continue this trend for 2006. This increase in fund balance will be available for local match funds that may be needed for the water and wastewater projects that are vital to our continued growth and development.

In terms of long-term debt, the City will continue to amortize existing revenue bonds in the Public Utilities Department, and will not be assuming any new bonded debt in the 2006 fiscal year.

Expenditures are budgeted to rise to experience a moderate increase. The largest increments are increased staffing, and salary schedule adjustments. These competitive salary schedule adjustments allowed the City to open the 2006 City year with few vacancies.

These indicators were taken into account when adopting the general fund budget for 2006. The City will use these increases in revenues to finance the 2006 negative unreserved fund balance and to fund other programs we currently offer.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, investors, and creditors with a general overview of the City's finances and to demonstrate the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Finance Director at 101 S. Washington St, Rio Grande City, Texas 78582.

Basic Financial Statements

CITY OF RIO GRANDE CITY, TEXAS**STATEMENT OF NET ASSETS**

SEPTEMBER 30, 2006

	Governmental Activities	Business-type Activities	Total
ASSETS:			
<i>Cash and Cash Equivalents</i>	\$ 1,691,466	\$ 970,710	\$ 2,662,176
<i>Taxes Receivables (net of allowances for uncollectibles):</i>	174,839	9,871	184,710
<i>Accounts Receivable</i>	424,944	685,809	1,110,753
<i>Intergovernmental Receivable</i>	9,717	--	9,717
<i>Internal Balances</i>	(103,264)	103,264	--
<i>Inventories</i>	--	19,012	19,012
<i>Prepaid items</i>	2,158	340	2,498
<i>Deferred Charges</i>	--	24,192	24,192
<i>Restricted Assets:</i>			
<i>Cash</i>	--	211,466	211,466
<i>Investment</i>	--	410,630	410,630
<i>Capital Assets (net of accumulated depreciation):</i>			
<i>Land</i>	851,810	339,036	1,190,846
<i>Buildings and System</i>	910,929	599,223	1,510,152
<i>Machinery and Equipment</i>	1,270,512	247,273	1,517,785
<i>Infrastructure</i>	5,284,055	9,840,929	15,124,984
Total Assets	10,517,166	13,461,755	23,978,921
LIABILITIES:			
<i>Accounts Payable and Other Current Liabilities</i>	516,208	135,757	651,965
<i>Accrued Interest Payable</i>	--	23,649	23,649
<i>Due to Other Government Agencies</i>	7,122	--	7,122
<i>Unearned Revenue</i>	67,894	8,255	76,149
<i>Liabilities Payable from Restricted Assets</i>	--	188,416	188,416
<i>Noncurrent Liabilities-</i>			
<i>Due within one year</i>	727,941	215,000	942,941
<i>Due in more than one year</i>	253,225	1,931,000	2,184,225
Total Liabilities	1,572,390	2,502,077	4,074,467
NET ASSETS			
<i>Invested in Capital Assets</i>	7,336,140	8,880,461	16,216,601
<i>Restricted For:</i>			
<i>Debt Service</i>	--	173,396	173,396
<i>Unrestricted</i>	1,608,636	1,905,821	3,514,457
Total Net Assets	\$ 8,944,776	\$ 10,959,678	\$ 19,904,454

The accompanying notes are an integral part of this statement.

CITY OF RIO GRANDE CITY, TEXAS

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED SEPTEMBER 30, 2006

Functions/Programs	Expenses	Program Revenues	
		Charges for Services	Operating Grants and Contributions
PRIMARY GOVERNMENT:			
Governmental Activities:			
General Government	\$ 786,927	\$ 793,925	\$ --
Public Safety	2,214,776	89,379	823,806
Judicial	829,241	94,969	--
Streets and Lighting	148,890	--	--
Public Works	413,048	--	--
Culture, Recreation & Parks	36,929	--	--
Library	75,933	--	--
Economic Development and Assistance	716,582	89,756	--
Interest on Long-term Debt	71,439	--	--
Capital Outlay	370,862	--	--
Total Governmental Activities	5,664,627	1,068,029	823,806
Business-type Activities:			
Water, Sewer, & Sanitation	2,082,414	3,285,436	--
Total Primary Government	\$ 7,747,041	\$ 4,353,465	\$ 823,806
General Revenues:			
Property Taxes			
Sales Taxes			
Investment Earnings			
Miscellaneous Revenues			
Transfers			
Total General Revenues			
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

<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
\$ 6,998		\$ 6,998
(1,301,591)		(1,301,591)
(734,272)		(734,272)
(148,890)		(148,890)
(413,048)		(413,048)
(36,929)		(36,929)
(75,933)		(75,933)
(626,826)		(626,826)
(71,439)		(71,439)
(370,862)		(370,862)
<u>(3,772,792)</u>		<u>(3,772,792)</u>
--	\$ 1,203,022	1,203,022
<u>(3,772,792)</u>	<u>1,203,022</u>	<u>(2,569,770)</u>
1,522,103	--	1,522,103
2,292,704	--	2,292,704
47,677	54,934	102,611
102,784	--	102,784
508,377	(508,377)	--
<u>4,473,645</u>	<u>(453,443)</u>	<u>4,020,202</u>
700,853	749,579	1,450,432
8,179,003	10,210,099	18,389,102
64,920	--	64,920
<u>\$ 8,944,776</u>	<u>\$ 10,959,678</u>	<u>\$ 19,904,454</u>

CITY OF RIO GRANDE CITY, TEXAS

BALANCE SHEET - GOVERNMENTAL FUNDS

SEPTEMBER 30, 2006

	General Fund	Special Litigation Fund
ASSETS AND OTHER DEBITS		
Assets:		
<i>Cash and Cash Equivalents</i>	\$ 548,909	\$ 439
<i>Receivables (net of allowances for uncollectibles):</i>	406,650	--
<i>Due from Other Funds</i>	67,046	--
<i>Prepaid Items</i>	2,158	--
Restricted Assets:		
Total Assets and Other Debits	<u>\$ 1,024,763</u>	<u>\$ 439</u>
LIABILITIES AND FUND BALANCES:		
Liabilities:		
<i>Accounts Payable</i>	\$ 82,265	\$ 70,647
<i>Claims and Judgments Payable</i>	--	300,000
<i>Due to Other Funds</i>	275,603	
<i>Due to Other Governmental Agencies</i>	7,122	
<i>Deferred Revenue</i>	228,938	--
Total Liabilities	<u>593,928</u>	<u>370,647</u>
Fund Balances:		
Reserved Fund Balances:		
Unreserved	430,835	
Unreserved, reported in nonmajor:		
<i>Special Revenue Funds</i>	--	(370,208)
Total Fund Balance	<u>430,835</u>	<u>(370,208)</u>
Total Liabilities and Fund Balance	<u>\$ 1,024,763</u>	<u>\$ 439</u>

The accompanying notes are an integral part of this statement.

EXHIBIT A-3

Economic Development Corp Fund	Other Governmental Funds	Total Governmental Funds
\$ 866,731 63,766 37,482 --	\$ 275,387 139,084 134,856 --	\$ 1,691,466 609,500 239,384 2,158
\$ <u>967,979</u>	\$ <u>549,327</u>	\$ <u>2,542,508</u>
\$ 2,547 -- <u>2,547</u>	\$ 60,748 -- 67,045 -- -- <u>127,793</u>	\$ 216,207 300,000 342,648 7,122 228,938 <u>1,094,915</u>
965,432		1,396,267
<u>965,432</u>	<u>421,534</u> <u>421,534</u>	<u>51,326</u> <u>1,447,593</u>
\$ <u>967,979</u>	\$ <u>549,327</u>	\$ <u>2,542,508</u>

CITY OF RIO GRANDE CITY, TEXAS**RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET ASSETS
SEPTEMBER 30, 2006**

Total fund balances - governmental funds balance sheet	\$ 1,447,593
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets used in governmental activities are not reported in the funds.	8,317,305
Property taxes receivable unavailable to pay for current period expenditures are deferred in the funds.	161,044
Payables for capital leases which are not due in the current period are not reported in the funds.	(351,512)
Payables for notes which are not due in the current period are not reported in the funds.	<u>(629,654)</u>
Net assets of governmental activities - statement of net assets	<u>\$ 8,944,776</u>

The accompanying notes are an integral part of this statement.

CITY OF RIO GRANDE CITY, TEXAS

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS FOR THE YEAR ENDED SEPTEMBER 30, 2006

	General Fund	Special Litigation Fund
Revenue:		
Taxes:		
General Property Taxes	\$ 1,349,671	\$ --
General Sales and Use Taxes	1,528,469	--
Hotel Occupancy Taxes	--	--
Other Taxes - Franchise Taxes	498,156	--
Penalty and Interest on Delinquent Taxes	11,388	--
License and Permits	235,804	--
Intergovernmental	190,398	--
Charges for Services	59,965	--
Fines and Forfeitures	94,969	--
Investment Earnings	12,347	477
Miscellaneous Revenues	75,864	--
Total revenues	<u>4,057,031</u>	<u>477</u>
Expenditures:		
Current:		
General Government	713,229	
Public Safety	1,898,223	--
Judicial	105,492	723,326
Streets and Lighting	148,890	--
Public Works	391,640	--
Culture, Recreation & Parks	36,929	--
Library	137,194	--
Economic Development and Assistance	--	--
Debt Service:		
Principal	244,026	--
Interest and Fiscal Charges	59,843	--
Capital Outlay:		
Capital Outlay	--	
Total Expenditures	<u>3,735,466</u>	<u>723,326</u>
Excess (Deficiency) of Revenues		
Over (Under) Expenditures	<u>321,565</u>	<u>(722,849)</u>
Other Financing Sources (Uses):		
Operating Transfers In	312,877	295,500
Operating Transfers Out	(9,045)	--
Loan Proceeds	100,000	--
Sale of Capital Assets	4,275	--
Total Other Financing Sources (Uses)	<u>408,107</u>	<u>295,500</u>
Net Change in Fund Balances	729,672	(427,349)
Fund Balances - Beginning	(363,757)	57,141
Increase (Decrease) in Fund Balance	64,920	--
Fund Balances - Ending	<u>\$ 430,835</u>	<u>\$ (370,208)</u>

The accompanying notes are an integral part of this statement.

EXHIBIT A-5

Economic Development Corp Fund	Other Governmental Funds	Total Governmental Funds
\$ --	\$ --	\$ 1,349,671
764,235	--	2,292,704
	89,756	89,756
		498,156
		11,388
	--	235,804
--	634,781	825,179
--	--	59,965
--	89,378	184,347
21,140	13,713	47,677
21,020	1,625	98,509
<u>806,395</u>	<u>829,253</u>	<u>5,693,156</u>
	--	713,229
--	332,512	2,230,735
--	--	828,818
--	--	148,890
		391,640
		36,929
--	--	137,194
227,258	490,697	717,955
--	10,202	254,228
--	1,394	61,237
	454,703	454,703
<u>227,258</u>	<u>1,289,508</u>	<u>5,975,558</u>
<u>579,137</u>	<u>(460,255)</u>	<u>(282,402)</u>
30,000	9,045	647,422
(100,000)	(30,000)	(139,045)
--	--	100,000
--		4,275
<u>(70,000)</u>	<u>(20,955)</u>	<u>612,652</u>
509,137	(481,210)	330,250
456,295	902,744	1,052,423
--		64,920
<u>\$ 965,432</u>	<u>\$ 421,534</u>	<u>\$ 1,447,593</u>

CITY OF RIO GRANDE CITY, TEXAS

*RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2006*

Net change in fund balances - total governmental funds	\$ 330,250
Amounts reported for governmental activities in the statement of activities ("SOA") are different because:	
Capital outlays are not reported as expenses in the SOA.	200,695
The depreciation of capital assets used in governmental activities is not reported in the funds.	(167,416)
Certain property tax revenues are deferred in the funds. This is the change in these amounts this year.	161,044
Repayment of capital lease principal is an expenditure in the funds but is not an expense in the SOA.	235,604
Repayment of loan principal is an expenditure in the funds but is not an expense in the SOA.	40,676
Proceeds of notes do not provide revenue in the SOA, but are reported as current resources in the funds.	<u>(100,000)</u>
Change in net assets of governmental activities - statement of activities	\$ <u>700,853</u>

The accompanying notes are an integral part of this statement.

CITY OF RIO GRANDE CITY, TEXAS

STATEMENT OF NET ASSETS

ENTERPRISE FUND

SEPTEMBER 30, 2006

	Enterprise Fund
	Water, Sewer & Sanitation Fund
ASSETS:	
Current Assets:	
<i>Cash and Cash Equivalents</i>	\$ 970,710
<i>Interest Receivables</i>	1,616
<i>Receivables (net of allowances for uncollectibles):</i>	694,064
<i>Due from other funds</i>	103,264
<i>Inventories</i>	19,012
<i>Prepaid items</i>	340
<i>Deferred Charges</i>	24,192
Total Current Assets	<u>1,813,198</u>
Noncurrent Assets:	
Restricted Cash, Cash Equivalents and Investments-	
<i>Cash</i>	211,466
<i>Investments</i>	410,630
Capital Assets: (net of accumulated depreciation)	
<i>Land</i>	339,036
<i>Infrastructure</i>	9,840,929
<i>Buildings</i>	599,223
<i>Machinery and Equipment</i>	247,273
Total Noncurrent Assets	<u>11,648,557</u>
Total Assets	<u>\$ 13,461,755</u>
LIABILITIES:	
Current Liabilities:	
<i>Accounts payable</i>	\$ 135,757
<i>Accrued interest payable</i>	23,649
<i>Deferred revenue</i>	8,255
Total Current Liabilities	<u>167,661</u>
Current Liabilities Payable from Restricted Assets-	
<i>Customer Deposits</i>	188,416
Total Current Liabilities Payable	
From Restricted Assets	<u>188,416</u>
Noncurrent Liabilities:	
<i>Due within one year</i>	215,000
<i>Due in more than one year</i>	1,931,000
Total Noncurrent Liabilities	<u>2,334,416</u>
Total Liabilities	<u>2,502,077</u>
NET ASSETS:	
<i>Investment in Capital Assets, Net of Related Debt</i>	8,880,461
<i>Restricted for Debt Service</i>	173,396
<i>Unrestricted</i>	1,905,821
Total Net Assets	<u>\$ 10,959,678</u>

CITY OF RIO GRANDE CITY, TEXAS

STATEMENT OF REVENUES, EXPENSES, AND CHANGES
IN FUND NET ASSETS - ENTERPRISE FUND
FOR THE YEAR ENDED SEPTEMBER 30, 2006

	Enterprise Fund Water, Sewer & Sanitation Fund
OPERATING REVENUES:	
Charges for Sales and Services:	
<i>Water Sales</i>	\$ 2,138,581
<i>Sewer Charges</i>	995,291
<i>Sanitation Charges</i>	29,811
<i>Other Services</i>	147,659
Total Operating Revenues	3,311,342
OPERATING EXPENSES:	
Billings and Collections	
<i>Personal Services - Salaries and Wages</i>	73,997
<i>Personal Services - Employee Benefits</i>	24,863
<i>Other Purchased Services</i>	5,712
<i>Supplies</i>	34,390
Total Billings and Collections	138,962
Water System	
<i>Personal Services - Salaries and Wages</i>	275,624
<i>Personal Services - Employee Benefits</i>	85,875
<i>Purchased Professional and Technical Services</i>	29,786
<i>Other Purchased Services</i>	347,501
<i>Supplies</i>	253,485
Total Water System	992,271
Sewer System	
<i>Personal Services - Salaries and Wages</i>	60,629
<i>Personal Services - Employee Benefits</i>	14,817
<i>Purchased Professional and Technical Services</i>	61,956
<i>Other Purchased Services</i>	244,611
<i>Supplies</i>	168,775
Total Sewer System	550,788
Depreciation Expense	80,996
Total Operating Expenses	1,969,051
Operating Income	1,342,291
NON-OPERATING REVENUES (EXPENSES):	
<i>Intergovernmental Revenue</i>	29,028
<i>Interest Expense</i>	(113,363)
Total Non-operating Revenues (Expenses)	(84,335)
Income before Transfers	1,257,956
<i>Interfund Operating Transfers In</i>	--
<i>Interfund Operating Transfers Out</i>	(508,377)
Change in Net Assets	749,579
Total Net Assets - Beginning	10,210,099
Total Net Assets - Ending	\$ 10,959,678

The accompanying notes are an integral part of this statement.

CITY OF RIO GRANDE CITY, TEXAS

STATEMENT OF CASH FLOWS

PROPRIETARY FUNDS

FOR THE YEAR ENDED SEPTEMBER 30, 2006

Business-type Activities

Enterprise Fund

Water, Sewer

& Sanitation

Fund

Cash Flows from Operating Activities:

Cash Received from Customers	\$ 3,278,776
Cash Payments to Employees for Services	(535,805)
Cash Payments to Other Suppliers for Goods and Services	(1,322,552)
Net Cash Provided (Used) by Operating Activities	<u>1,420,419</u>

Cash Flows from Non-capital Financing Activities:

Proceeds (Payments) from (for) Borrowings	(267,601)
Transfers From (To) Other Funds	(508,377)
Net Cash Provided (Used) by Non-capital Financing Activities	<u>(775,978)</u>

Cash Flows from Capital and Related Financing Activities:

Proceeds from Issuance of Long-term Debt	
Acquisition or Construction of Capital Assets	--
Net Cash Provided (Used) for Capital & Related Financing Activities	<u>--</u>

Cash Flows from Investing Activities:

Interest and Dividends on Investments	
Net Cash Provided (Used) for Investing Activities	<u>--</u>

Net Increase (Decrease) in Cash and Cash Equivalents	644,441
Cash and Cash Equivalents at Beginning of Year	948,365
Cash and Cash Equivalents at End of Year	<u>1,592,806</u>

Reconciliation of Operating Income to Net Cash**Provided by Operating Activities:**

Operating Income (Loss)	1,342,291
Adjustments to Reconcile Operating Income to Net Cash	
Provided by Operating Activities	
Depreciation	80,997
Change in Assets and Liabilities:	
Decrease (Increase) in Receivables	(36,577)
Decrease (Increase) in Inventories	5,433
Decrease (Increase) in Prepaid Expenses	793
Increase (Decrease) in Accounts Payable	24,109
Increase (Decrease) in Due to From Other Funds	4,011
Increase (Decrease) in Deferred	1,524
Increase (Decrease) in Interest payable	(2,162)
Total Adjustments	<u>78,128</u>
Net Cash Provided (Used) by Operating Activities	<u>1,420,419</u>

The accompanying notes are an integral part of this statement.

CITY OF RIO GRANDE CITY, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2006

A. Summary of Significant Accounting Policies

The combined financial statements of City of Rio Grande City, Texas (the "City of Rio Grande 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.

1. Reporting Entity

The City of Rio Grande City's basic financial statements include the accounts of all its operations. The City of Rio Grande City evaluated whether any other entity should be included in these financial statements. The criteria for including organizations as component units within the City of Rio Grande 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 of Rio Grande City holds the corporate powers of the organization
- the City of Rio Grande City appoints a voting majority of the organization's board
- the City of Rio Grande City is able to impose its will on the organization
- the organization has the potential to impose a financial benefit/burden on the City of Rio Grande City
- there is fiscal dependency by the organization on the City of Rio Grande City
- the exclusion of the organization would result in misleading or incomplete financial statements

The City of Rio Grande 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 which 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 of Rio Grande City, its component units or its constituents; and 2) The City of Rio Grande 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 of Rio Grande City.

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

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-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 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.

2. Basis of Presentation, Basis of Accounting

a. Basis of Presentation

Government-wide Statements: The statement of net assets and the statement of activities include the financial activities of the overall government. Eliminations been made to minimize the double-counting of internal activities. These statements distinguish between the governmental and business-type activities of the City of Rio Grande City. Governmental activities generally are financed through taxes, intergovernmental revenues, and other nonexchange transactions. Business-type activities are financed in whole or in part by fees charged to external parties.

CITY OF RIO GRANDE CITY, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2006

The statement of activities presents a comparison between direct expenses and program revenues for the different business-type activities of the City of Rio Grande City and for each function of the City of Rio Grande City's governmental activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. The City of Rio Grande City does not allocate indirect expenses in the statement of activities. Program revenues include (a) fees, fines, and charges paid by the recipients of goods or services offered by the programs and (b) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues.

Fund Financial Statements: The fund financial statements provide information about the City of Rio Grande City's funds, with separate statements presented for each fund category. The emphasis of fund financial statements is on major governmental and enterprise funds, each displayed in a separate column. All remaining governmental and enterprise funds are aggregated and reported as nonmajor funds. All remaining governmental funds are aggregated and reported as nonmajor funds.

Proprietary fund operating revenues, such as charges for services, result from exchange transactions associated with the principal activity of the fund. Exchange transactions are those in which each party receives and gives up essentially equal values. Nonoperating revenues, such as subsidies and investment earnings, result from nonexchange transactions or ancillary activities.

The City of Rio Grande City reports the following major governmental funds:

General Fund. This is the City of Rio Grande City's primary operating fund. It accounts for all financial resources of the City of Rio Grande City except those required to be accounted for in another fund.

Economic Development Corporation Fund. This fund is a special revenue fund to account for the 1/2 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.

Special Litigation Fund. This fund is a special revenue fund to account for the legal costs associated with attorney fees which the city has approved specifically for such expenditures.

The City of Rio Grande City reports the following major enterprise funds:

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.

b. Measurement Focus, Basis of Accounting

Government-wide and Proprietary Fund Financial Statements: These financial statements are reported using the economic resources measurement focus. The government-wide and proprietary fund financial statements are reported using the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place. Nonexchange transactions, in which the City of Rio Grande City gives (or receives) value without directly receiving (or giving) equal value in exchange, include property taxes, grants, entitlements, and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied.

Governmental Fund Financial Statements: Governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. The City of Rio Grande City considers all revenues reported in the governmental funds to be available if the revenues are collected within sixty days after

CITY OF RIO GRANDE CITY, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2006

year-end. The City of Rio Grande City does not consider revenues collected after its year-end to be available in the current period. Revenues from local sources consist primarily of sales taxes. Revenues and revenues received from the State are recognized under the susceptible-to-accrual concept. 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. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, claims and judgments, and compensated absences, which are recognized as expenditures to the extent they have matured. General capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

When the City of Rio Grande City incurs an expenditure or expense for which both restricted and unrestricted resources may be used, it is the City of Rio Grande City's policy to use restricted resources first, then unrestricted resources

Under GASB Statement No. 20, "Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting," all proprietary funds will continue to follow Financial Accounting Standards Board ("FASB") standards issued on or before November 30, 1989. However, from that date forward, proprietary funds will have the option of either 1) choosing not to apply future FASB standards (including amendments of earlier pronouncements), or 2) continuing to follow new FASB pronouncements unless they conflict with GASB guidance. The City of Rio Grande City has chosen to apply future FASB standards.

3. Financial Statement Amounts

a. Cash and Cash Equivalents

For purposes of the statement of cash flows, highly liquid investments are considered to be cash equivalents if they have a maturity of three months or less when purchased.

b. Inventories and Prepaid Items

Inventories on the balance sheet are stated at weighted average cost. Inventory items are recorded as expenditures when they are consumed.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items.

d. Capital Assets

Purchased or constructed capital assets are reported at cost or estimated historical cost. Donated fixed assets are recorded at their estimated fair value at the date of the donation. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized. A capitalization threshold of \$5,000 is used.

Capital assets are being depreciated using the straight-line method over the following estimated useful lives:

<u>Asset Class</u>	<u>Estimated Useful Lives</u>
Infrastructure	30
Buildings	50
Building Improvements	20
Vehicles	2-15
Office Equipment	3-15
Computer Equipment	3-15

CITY OF RIO GRANDE CITY, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2006

e. Receivable and Payable Balances

The City of Rio Grande City believes that sufficient detail of receivable and payable balances is provided in the financial statements to avoid the obscuring of significant components by aggregation. Therefore, no disclosure is provided which disaggregates those balances.

There are no significant receivables which are not scheduled for collection within one year of year end.

g. Interfund Activity

Interfund activity results from loans, services provided, reimbursements or transfers between funds. Loans are reported as interfund receivables and payables as appropriate and are subject to elimination upon consolidation. Services provided, deemed to be at market or near market rates, are treated as revenues and expenditures or expenses. Reimbursements occur when one fund incurs a cost, charges the appropriate benefiting fund and reduces its related cost as a reimbursement. All other interfund transactions are treated as transfers. Transfers In and Transfers Out are netted and presented as a single "Transfers" line on the government-wide statement of activities. Similarly, interfund receivables and payables are netted and presented as a single "Internal Balances" line of the government-wide statement of net assets.

h. Use of Estimates

The preparation of financial statements in conformity with GAAP requires the use of management's estimates.

B. Compliance and Accountability

1. Deficit Fund Balance or Fund Net Assets of Individual Funds

The City of Rio Grande City did not report any Fund Balance deficits as of September 30, 2006.
such deficits:

C. Deposits and Investments

The City of Rio Grande City's funds are required to be deposited and invested under the terms of a depository contract. The depository bank deposits for safekeeping and trust with the City of Rio Grande City's agent bank approved pledged securities in an amount sufficient to protect City of Rio Grande 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.

Cash Deposits:

At September 30, 2006, the carrying amount of the City of Rio Grande City's deposits (cash, certificates of deposit, and interest-bearing savings accounts included in temporary investments) was \$3,284,272 and the bank balance was \$3,504,859. The City of Rio Grande City's cash deposits at September 30, 2006 and during the year ended September 30, 2006, were not entirely covered by FDIC insurance or by pledged collateral held by the City of Rio Grande City's agent bank in the City of Rio Grande City's name.

CITY OF RIO GRANDE CITY, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2006

In addition, the following is disclosed regarding coverage of combined balances on the date of highest deposit:

- a. Depository: Texas State Bank, Mcallen, Texas
- b. The market value of securities pledged as of the date of the highest combined balance on deposit was \$2,493,700.
- c. The highest combined balances of cash, savings and time deposit accounts amounted to \$2,477,047 and occurred during the month of September, 2006.
- d. Total amount of FDIC coverage at the time of the largest combined balance was \$200,000.

The cash deposits held at financial institutions can be categorized according to three levels of risk. These three levels of risk are as follows:

- Category 1 - Deposits which are insured or collateralized with securities held by the City of Rio Grande City or by its agent in City of Rio Grande City's name.
- Category 2 - Deposits which are collateralized with securities held by the pledging financial institution's trust department or agent in the City of Rio Grande City's name.
- Category 3 - Deposits which are not collateralized or insured.

Based on these three levels of risk, all of the City of Rio Grande City's cash deposits are classified as category 2.

Investments:

The Public Funds Investment Act ("Act") requires an annual audit of investment practices. Audit procedures in this area conducted as a part of the audit of the general purpose financial statements disclosed that in the areas of investment practices, management reports and establishment of appropriate policies, the City of Rio Grande City adhered to the requirements of the Act. Additionally, investment practices of the City of Rio Grande City were in accordance with local policies.

Investments:

The City of Rio Grande City is required by Government Code Chapter 2256, The Public Funds Investment Act, to

The Public Funds Investment Act ("Act") requires an annual audit of investment practices. Audit procedures in this area conducted as a part of the audit of the general purpose financial statements disclosed that in the areas of investment practices, management reports and establishment of appropriate policies, the District adhered to the requirements of the Act. Additionally, investment practices of the District were in accordance with local policies.

The Act determines the types of investments which are allowable for the District. These include, with certain restrictions, (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, and (10) common trust funds.

CITY OF RIO GRANDE CITY, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2006

The City's investments at September 30, 2006 are shown below.

Investment or Investment Type	Maturity	Fair Value
IBC - Certificate of Deposit	11/17/2006	\$ 46,798
JP Morgan-JPM U.S. Govt Money Market	N/A	330,290
JP Morgan-JPM U.S. Govt Money Market	N/A	58,840
Total Investments		<u>\$ 435,928</u>

Analysis of Specific Deposit and Investment Risks:

GASB Statement No. 40 requires a determination as to whether the District was exposed to the following specific investment risks at year end and if so, the reporting of certain related disclosures:

a. Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The ratings of securities by nationally recognized rating agencies are designed to give an indication of credit risk. At year end, the District was not significantly exposed to credit risk.

b. Custodial Credit Risk

Deposits are exposed to custodial credit risk if they are not covered by depository insurance and the deposits are uncollateralized, collateralized with securities held by the pledging financial institution, or collateralized with securities held by the pledging financial institution's trust department or agent but not in the District's name.

Investment securities are exposed to custodial credit risk if the securities are uninsured, are not registered in the name of the government, and are held by either the counterparty or the counterparty's trust department or agent but not in the District's name.

At year end, the District was not exposed to custodial credit risk.

c. Concentration of Credit Risk

This risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. At year end, the District was not exposed to concentration of credit risk.

d. Interest Rate Risk

This is the risk that changes in interest rates will adversely affect the fair value of an investment. At year end, the District was not exposed to interest rate risk.

e. Foreign Currency Risk

This is the risk that exchange rates will adversely affect the fair value of an investment. At year end, the District was not exposed to foreign currency risk.

Investment Accounting Policy

The City of Rio Grande City's general policy is to report money market investments and short-term participating interest-earning investment contracts at amortized cost and to report nonparticipating interest-earning investment contracts using a cost-based measure. However, if the fair value of an investment is significantly affected by the impairment of the credit standing of the issuer or by other factors, it is reported at fair value. All other investments are reported at fair value unless a legal contract exists which guarantees a higher value. The term "short-term" refers to investments which have a remaining term of one year or less at time of purchase. The term "nonparticipating" means that the investment's value does not vary with market interest rate changes. Nonnegotiable certificates of deposit are examples of nonparticipating interest-earning investment contracts.

CITY OF RIO GRANDE CITY, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2006

D. Capital Assets

Capital asset activity for the year ended September 30, 2006, was as follows:

	Beginning Balances	Increases	Decreases	Ending Balances
<i>Capital assets not being depreciated:</i>				
Land	\$ 851,810	\$ --	\$ --	\$ 851,810
Construction in progress	530,833	61,261	592,094	--
Total capital assets not being depreciated	<u>1,382,643</u>	<u>61,261</u>	<u>592,094</u>	<u>851,810</u>
<i>Capital assets being depreciated:</i>				
Infrastructure	5,284,055	--	--	5,284,055
Buildings and improvements	594,667	592,094	--	1,186,761
Equipment	2,005,547	139,434	--	2,144,981
Prior Period Adjustment	--	68,905	--	68,905
Total capital assets being depreciated	<u>7,884,269</u>	<u>800,433</u>	<u>--</u>	<u>8,684,702</u>
Less accumulated depreciation for:				
Infrastructure	--	--	--	--
Buildings and improvements	(159,147)	(10,508)	--	(169,655)
Equipment	(888,659)	(156,908)	--	(1,045,567)
Prior Period Adjustment	--	(3,985)	--	(3,985)
Total accumulated depreciation	<u>(1,047,806)</u>	<u>(171,401)</u>	<u>--</u>	<u>(1,219,207)</u>
Total capital assets being depreciated, net	<u>6,836,463</u>	<u>629,032</u>	<u>--</u>	<u>7,465,495</u>
Governmental activities capital assets, net	<u>\$ 8,219,106</u>	<u>\$ 690,293</u>	<u>\$ 592,094</u>	<u>\$ 8,317,305</u>

Depreciation was charged to governmental functions as follows:

Administration/City Hall	\$ 13,858
Municipal Court	423
Finance Department	116,686
Fire Department	14,415
Police Department	626
Public Works	21,408
	<u>\$ 167,416</u>

	Beginning Balances	Increases	Decreases	Ending Balances
<u>Business-type activities:</u>				
<i>Capital assets not being depreciated:</i>				
Land	\$ 339,035	\$ --	\$ --	\$ 339,035
Total capital assets not being depreciated	<u>339,035</u>	<u>--</u>	<u>--</u>	<u>339,035</u>
<i>Capital assets being depreciated:</i>				
Infrastructure	11,682,840	--	--	11,682,840
Buildings and improvements	599,223	--	--	599,223
Equipment	247,272	--	--	247,272
Total capital assets being depreciated	<u>12,529,335</u>	<u>--</u>	<u>--</u>	<u>12,529,335</u>
Less accumulated depreciation for:				
Infrastructure	(1,653,807)	(64,774)	--	(1,718,581)
Buildings and improvements	(21,275)	(2,869)	--	(24,144)
Equipment	(85,832)	(13,354)	--	(99,186)
Total accumulated depreciation	<u>(1,760,914)</u>	<u>(80,997)</u>	<u>--</u>	<u>(1,841,911)</u>
Total capital assets being depreciated, net	<u>10,768,421</u>	<u>(80,997)</u>	<u>--</u>	<u>10,687,424</u>
Business-type activities capital assets, net	<u>\$ 11,107,456</u>	<u>\$ (80,997)</u>	<u>\$ --</u>	<u>\$ 11,026,459</u>

CITY OF RIO GRANDE CITY, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2006

E. Interfund Balances and Activity

1. Due To and From Other Funds

Balances due to and due from other funds at September 30, 2006, consisted of the following:

<u>Due From Fund</u>	<u>Due to Fund</u>	<u>Amount</u>	<u>Purpose</u>
General Fund	Economic Development Corp	\$ 37,482	Short-term loans
General Fund	Hotel Occupancy Tax Fund	134,856	Short-term loans
General Fund	EF-PUD	103,265	Short-term loans
Economic Development Corp	EF-PUD		Short-term loans
Hotel Occupancy Tax Fund	EF-PUD	--	Short-term loans
HIDTA	General Fund	48,836	Short-term loans
ORCA 724659	General Fund	5,791	Short-term loans
CJD Task Force	General Fund	12,417	Short-term loans
TCF Contract #723242	General Fund	1	Short-term loans
	Total	\$ 342,648	

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.

2. Transfers To and From Other Funds

Transfers to and from other funds at September 30, 2006, consisted of the following:

<u>Transfers To</u>	<u>Transfers From</u>	<u>Amount</u>	<u>Reason</u>
General fund	EF-PUD	\$ 212,877	Supplement other funds sources
General fund	Economic Development Corp	100,000	Supplement other funds sources
General fund	TCF Revolving Loan	1,373	Supplement other funds sources
TCF Contract #723242	General fund	5,400	Supplement other funds sources
Airport fund	General fund	3,645	Supplement other funds sources
Special Litigation Fund	EF-PUD	295,500	Supplement other funds sources
	Total	\$ 618,795	

F. Short-Term Debt Activity

The City of Rio Grande City accounts for short-term debts for maintenance purposes through the General Fund. The proceeds from loans are shown in the financial statements as Other Resources.

CITY OF RIO GRANDE CITY, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2006

G. Long-Term Obligations

1. Long-Term Obligation Activity

Long-term obligations include debt and other long-term liabilities. Changes in long-term obligations for the year ended September 30, 2006, are as follows:

Renewal note payable to Texas State Bank dated 11-04-04, payable in eleven monthly installments of \$1,051, including interest at 4.275%, with remaining unpaid balance due at maturity, secured by real estate	\$ 80,006
Renewal note payable to Texas State Bank dated 01-19-05, payable in eleven monthly installments of \$2,253, including interest at 4.72%, with remaining unpaid balance due at maturity, secured by real estate	175,390
Renewal note payable to Texas State Bank dated 2/10/05, payable in 11 monthly payments of \$2,365 including interest of 4.95%, with remaining balance due at maturity, secured by real estate	278,186
Renewal note payable to Texas State Bank dated 10/17/05, payable in 11 monthly payments of \$788 including interest of 4.95%, with remaining balance due at maturity, secured by real estate	96,072
\$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%	315,000
\$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 5.5%	905,000
\$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%	85,000
\$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%	113,000
\$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%	728,000
Capital Leases (Note H) Payable out of the General Fund	351,512
Total Long-term debt	<u>\$ 3,127,166</u>

CITY OF RIO GRANDE CITY, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2006

The following is a summary of long-term debt activity for September 30, 2006.

	Beginning Balance	Increases	Decreases	Ending Balance	Amounts Due Within One Year
<u>Governmental activities:</u>					
Capital leases	\$ 587,116	\$ --	\$ 235,604	\$ 351,512	98,287
Notes	570,330	100,000	40,676	629,654	629,654
Total governmental activities	<u>\$ 1,157,446</u>	<u>\$ 100,000</u>	<u>\$ 276,280</u>	<u>\$ 981,166</u>	<u>\$ 727,941</u>
<u>Business-type activities:</u>					
Revenue bonds	\$ 2,350,000	\$ --	\$ 204,000	\$ 2,146,000	215,000
Capital leases	4,694	--	4,694	--	--
Total business-type activities	<u>\$ 2,354,694</u>	<u>\$ --</u>	<u>\$ 208,694</u>	<u>\$ 2,146,000</u>	<u>\$ 215,000</u>

2. Debt Service Requirements

Debt service requirements on long-term debt at September 30, 2006, are as follows:

<u>Year Ending September 30.</u>	Governmental Activities		
	Principal	Interest	Total
2007	\$ 727,941	\$ 14,213	\$ 742,154
2008	44,427	11,264	55,691
2009	37,245	9,407	46,652
2010	39,038	7,614	46,652
2011 & thereafter	132,515	11,292	143,807
Totals	<u>\$ 981,166</u>	<u>\$ 53,790</u>	<u>\$ 1,034,956</u>

<u>Year Ending September 30.</u>	Business-type Activities		
	Principal	Interest	Total
2007	\$ 215,000	\$ 106,133	\$ 321,133
2008	226,000	95,957	321,957
2009	233,000	85,353	318,353
2010	243,000	74,289	317,289
2011 & thereafter	1,229,000	592,057	1,821,057
Totals	<u>\$ 2,146,000</u>	<u>\$ 953,789</u>	<u>\$ 3,099,789</u>

H. Capital Leases Payable

The City is obligated under certain lease agreements which have been classified as capital leases. Property under capital leases consists of equipment purchased. Accumulated depreciation has been recorded against the assets under capital lease. The leases are payable out of the general fund and the utility system fund.

Commitments under capitalized lease agreements for facilities and equipment provide for minimum future lease payments as of , 2006, as follows:

<u>Year Ending September 30:</u>	
2007	\$ 104,687
2008	55,691
2009	46,652
2010	46,652
2011	46,652
2012-2014	104,967
	<u>405,301</u>
Less amount representing interest	53,789
Present value of minimum lease payments	<u>\$ 351,512</u>

CITY OF RIO GRANDE CITY, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2006

The effective interest rate on capital leases is 6.390%.

Capital lease obligations at September 30, 2006, are composed of the following:

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	\$ 910
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	307,421
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	5,974
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	4,228
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	17,467
Capital lease payable to Ford Motor Credit dated 12-03-04, payable in 36 monthly installments of \$1,137.32, including interest at 4.2%, secured by (1) police vehicle.	<u>15,512</u>
	<u>\$ 351,512</u>

I. Risk Management

The City of Rio Grande 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 2006, the City of Rio Grande City obtained 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 of Rio Grande City pays an annual premium to TML for its above 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 of Rio Grande 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 fiscal years.

J. Concentrations of Credit Risk

Proprietary fund accounts receivables are concentrated with the geographic service area of the utility system, which is within the City of Rio Grande 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 receivables for the allowance for doubtful accounts and after including estimated amounts for service provided but not yet billed at year end was \$649,765. Utility customer deposits held at year end totaled \$162,987.

CITY OF RIO GRANDE CITY, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2006

K. Pension Plan

1. Plan Description

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

2. Funding Policy

Plan members are required to contribute 5% of their annual covered salary. The City of Rio Grande City is required to contribute at an actuarially determined rate; the current rate is 5% of annual covered payroll. The City of Rio Grande City's contributions to the TMRS for the years ending September 30, 2006, 2005 and 2004 were \$95,500, \$92,415 and \$90,454, respectively, and were equal to the required contributions for each year.

3. Annual Pension Cost

The City of Rio Grande City's annual pension cost of \$95,500 for the Plan was equal to the City of Rio Grande City's required and actual contributions. Under the state law governing TMRS, the actuary annually determines the City of Rio Grande City's contribution rate. This rate consists of the normal cost contribution rate and the prior service contribution rate, both of which are calculated to be a level percent of payroll from year to year. The normal cost contribution rate finances the currently accruing monetary credits due to the City of Rio Grande City matching percent, which are the obligation of the City of Rio Grande 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 of Rio Grande 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. When the City of Rio Grande City periodically adopts updated service credits and increases in annuities in effect, the increased unfunded actuarial liability is to be amortized over a new 25-year period. Currently, the unfunded actuarial liability is being amortized over the 25-year period which began January 1997. The unit credit actuarial cost method is used for determining the City of Rio Grande City's contribution rate. Since the City of Rio Grande City needs to know its contribution rate in advance to budget for it, there is a one-year delay between the actuarial valuation that is the basis for the rate and the calendar year when the rate goes into effect (i.e., December 31, 1997 valuation is effective for rates beginning January 1999). Since the TMRS does not value the assets of individual cities, the actuarial assumptions used to set the required contribution rate of the City of Rio Grande City are based on TMRS as a whole. For the December 31, 1997 valuation date, an 8% investment rate of return was assumed. No assumptions were made for projected salary increases, inflation or cost of living adjustments.

4. Trend Information for the Plan

Fiscal Year Ending	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
September 30, 2004	\$ 90,454	\$ 100%	\$ --
September 30, 2005	92,415	100%	--
September 30, 2006	95,500	100%	--

CITY OF RIO GRANDE CITY, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2006

L. Health Care Coverage

During the year ended September 30, 2006, employees of the City of Rio Grande City were covered by a health insurance plan (the Plan). The City of Rio Grande City paid premiums of \$264 per month per employee to the Plan. Employees, at their option, authorized payroll withholdings to pay premiums for dependents. All premiums were paid to a licensed insurer. **The Plan was authorized by Article 3.51-2, Texas Insurance Code and was documented by contractual agreement.**

The contract between the City of Rio Grande City and the licensed insurer is renewable March 1, 2007, and terms of coverage and premium costs are included in the contractual provisions.

Latest financial statements for the Blue Cross Blue Shield are available for the year ended December 31, 2006, have been filed with the Texas State Board of Insurance, Austin, Texas, and are public records.

M. Commitments and Contingencies

1. Contingencies

The City of Rio Grande City participates in grant programs which are governed by various rules and regulations of the grantor agencies. Costs charged to the respective grant programs are subject to audit adjustments by the grantor agencies; therefore, to the extent that the City of Rio Grande City has not complied with the rules and regulations governing the grants, refunds of any money received may be required and the collectibility of any related receivable may be impaired. In the opinion of the City or Rio Grande City, there are no significant contingent liabilities relating to compliance with the rules and regulations governing the respective grants; therefore, no provision has been recorded in the accompanying basic financial statements for such contingencies.

N. Litigation

Some cases have been filed against the City. The City's 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. Counsel for the City 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.

O. Prior Period Adjustments

The City of Rio Grande City, Texas did not report amounts for property, plant and equipment in the City's financial statements for the fiscal year ended September 30, 2005 in accordance with generally accepted accounting principles. The result was that the ending balances of capital assets and net assets were understated in the prior year for the governmental activities and proprietary funds.

During the current year ended September 30, 2006 the City has correctly reported amounts for capital assets in the financial statements. Beginning balances have been restated to increase capital assets and net assets by \$64,920 in the general fund.

Required Supplementary Information

Required supplementary information includes financial information and disclosures required by the Governmental Accounting Standards Board but not considered a part of the basic financial statements.

CITY OF RIO GRANDE CITY, TEXAS
REQUIRED SUPPLEMENTARY INFORMATION
September 30, 2006

**Schedule of Funding Progress for the Retirement Plan
for the Employees of City of Rio Grande City**

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) -Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Annual Covered Payroll (c)	UAAL as a Percentage of Covered Payroll (b-a)/c
September 30, 2003	\$ 99,535	\$ 455,077	\$ 355,542	21.87%	\$ 2,259,092	15.74%
September 30, 2004	304,132	671,716	367,584	45.28%	2,174,584	16.90%
September 30, 2005	492,481	868,763	376,282	56.69%	2,281,699	16.49%

CITY OF RIO GRANDE CITY, TEXAS
GENERAL FUND
BUDGETARY COMPARISON SCHEDULE
FOR THE YEAR ENDED SEPTEMBER 30, 2006

EXHIBIT B-1
Page 1 of 3

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUE:				
Taxes:				
<i>General Property Taxes</i>	\$ 1,276,953	\$ 1,276,953	\$ 1,349,671	\$ 72,718
<i>General Sales and Use Taxes</i>	1,372,913	1,372,913	1,528,469	155,556
<i>Other Taxes - Franchise Taxes</i>	449,245	449,245	498,156	48,911
<i>Penalty and Interest on Delinquent Taxes</i>	--	--	11,388	11,388
License and Permits	105,522	105,522	235,804	130,282
Intergovernmental	80,000	80,000	190,398	110,398
Charges for Services	110,307	110,307	59,965	(50,342)
Fines and Forfeitures	103,837	103,837	94,969	(8,868)
Investment Earnings	100	100	12,347	12,247
Miscellaneous Revenues	55,600	55,600	75,864	20,264
Total revenues	<u>3,554,477</u>	<u>3,554,477</u>	<u>4,057,031</u>	<u>502,554</u>
EXPENDITURES:				
General Government				
Mayor and Council				
<i>Supplies</i>	500	500	25	475
<i>Other Services and Charges</i>	14,400	14,400	4,890	9,510
Total Mayor and Council	<u>14,900</u>	<u>14,900</u>	<u>4,915</u>	<u>9,985</u>
Administration				
<i>Personal Services</i>	65,430	65,430	35,646	29,784
<i>Supplies</i>	14,470	14,470	21,354	(6,884)
<i>Other Services and Charges</i>	392,996	392,996	257,397	135,599
Total Administration	<u>472,896</u>	<u>472,896</u>	<u>314,397</u>	<u>158,499</u>
City Secretary				
<i>Personal Services</i>	44,667	44,667	43,917	750
<i>Other Services and Charges</i>	8,330	8,330	12,874	(4,544)
Total City Secretary	<u>52,997</u>	<u>52,997</u>	<u>56,791</u>	<u>(3,794)</u>
Finance				
<i>Personal Services</i>	96,149	96,149	88,595	7,554
<i>Supplies</i>	150	150	462	(312)
<i>Other Services and Charges</i>	450	450	992	(542)
<i>Capital Outlay</i>	--	--	24,593	(24,593)
Total Finance	<u>96,749</u>	<u>96,749</u>	<u>114,642</u>	<u>(17,893)</u>
Personnel				
<i>Personal Services</i>	45,233	45,233	45,359	(126)
<i>Other Services and Charges</i>	410	410	74	336
Total Personnel	<u>45,643</u>	<u>45,643</u>	<u>45,433</u>	<u>210</u>
Code Enforcement				
<i>Personal Services</i>	56,279	56,279	50,429	5,850
<i>Supplies</i>	1,270	1,270	1,636	(366)
<i>Other Services and Charges</i>	6,150	6,150	10,533	(4,383)
Total Code Enforcement	<u>63,699</u>	<u>63,699</u>	<u>62,598</u>	<u>1,101</u>
City Administrator				
<i>Personal Services</i>	94,009	94,009	114,450	(20,441)
<i>Other Services and Charges</i>	1,750	1,750	3	1,747
Total City Administrator	<u>95,759</u>	<u>95,759</u>	<u>114,453</u>	<u>(18,694)</u>
Total General Government	<u>842,643</u>	<u>842,643</u>	<u>713,229</u>	<u>129,414</u>

CITY OF RIO GRANDE CITY, TEXAS
GENERAL FUND
BUDGETARY COMPARISON SCHEDULE
FOR THE YEAR ENDED SEPTEMBER 30, 2006

EXHIBIT B-1
Page 2 of 3

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Judicial				
Municipal Court				
Personal Services	108,501	108,501	83,889	24,612
Supplies	3,500	3,500	3,141	359
Other Services and Charges	17,090	17,090	18,462	(1,372)
Total Municipal Court	129,091	129,091	105,492	23,599
Total Judicial	129,091	129,091	105,492	23,599
Public Safety				
Police Department				
Personal Services	1,160,029	1,160,029	970,707	189,322
Supplies	57,050	57,050	80,872	(23,822)
Other Services and Charges	174,145	174,145	196,150	(22,005)
Total Police Department	1,391,224	1,391,224	1,247,729	143,495
Fire Department				
Personal Services	560,990	560,990	486,285	74,705
Supplies	15,250	15,250	78,806	(63,556)
Other Services and Charges	42,600	42,600	54,403	(11,803)
Capital Outlay	43,800	43,800	31,000	12,800
Total Fire Department	662,640	662,640	650,494	12,146
Total Public Safety	2,053,864	2,053,864	1,898,223	155,641
Street Lighting				
Other Services and Charges	60,500	60,500	148,890	(88,390)
Total Street Lighting	60,500	60,500	148,890	(88,390)
Public Works				
Personal Services	357,935	357,935	282,970	74,965
Supplies	78,945	78,945	57,740	21,205
Other Services and Charges	45,805	45,805	43,653	2,152
Capital Outlay	19,250	19,250	7,277	11,973
Total Public Works	501,935	501,935	391,640	110,295
Culture, Recreation & Parks				
Parks Department				
Other Services and Charges	44,700	44,700	36,929	7,771
Total Parks Department	44,700	44,700	36,929	7,771
Total Culture, Recreation & Parks	44,700	44,700	36,929	7,771
Library				
Personal Services	32,471	32,471	31,278	1,193
Supplies	2,075	2,075	10,394	(8,319)
Other Services and Charges	--	--	34,261	(34,261)
Capital Outlay	10,000	10,000	61,261	(51,261)
Total Library	44,546	44,546	137,194	(92,648)
Debt Service:				
Principal	272,888	272,888	244,026	28,862
Interest and Fiscal Charges	63,218	63,218	59,843	3,375
Total Expenditures	4,013,385	4,013,385	3,735,466	277,919
Excess (Deficiency) of Revenues				
Over (Under) Expenditures	(458,908)	(458,908)	321,565	780,473

CITY OF RIO GRANDE CITY, TEXAS

GENERAL FUND

BUDGETARY COMPARISON SCHEDULE

FOR THE YEAR ENDED SEPTEMBER 30, 2006

EXHIBIT B-1

Page 3 of 3

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
OTHER FINANCING SOURCES (USES):				
<i>Transfers In</i>	420,000	420,000	312,877	(107,123)
<i>Transfers Out</i>	(23,300)	(23,300)	(9,045)	(14,255)
<i>Loan Proceeds</i>	96,870	96,870	100,000	(3,130)
<i>Sale of Capital Assets</i>	--	--	4,275	(4,275)
Total Other Financing Sources (Uses)	493,570	493,570	408,107	85,463
Net Change in Fund Balances	34,662	34,662	729,672	695,010
Fund Balances - Beginning	(298,837)	(298,837)	(363,757)	(64,920)
Increase (Decrease) in Fund Balance	--	--	64,920	64,920
Fund Balances - Ending	<u>\$ (264,175)</u>	<u>\$ (264,175)</u>	<u>\$ 430,835</u>	<u>\$ 695,010</u>

CITY OF RIO GRANDE CITY, TEXAS
ECONOMIC DEVELOPMENT CORPORATION FUND
BUDGETARY COMPARISON SCHEDULE
FOR THE YEAR ENDED SEPTEMBER 30, 2006

EXHIBIT B-2

	Budgeted Amounts			Variance with Final Budget Positive (Negative)
	Original	Final	Actual	
REVENUE:				
Taxes:				
<i>General Sales and Use Taxes</i>	\$ 678,652	\$ 678,352	\$ 764,235	\$ 85,883
Investment Earnings	1,000	1,000	21,140	20,140
Miscellaneous Revenues	15,000	15,000	21,020	6,020
Total revenues	<u>694,652</u>	<u>694,352</u>	<u>806,395</u>	<u>112,043</u>
EXPENDITURES:				
Economic Development and Assistance				
<i>Personal Services</i>	40,599	40,599	37,125	3,474
<i>Supplies</i>	6,000	6,000	4,644	1,356
<i>Other Services and Charges</i>	414,965	414,965	185,489	229,476
<i>Total Economic Development and Assistance</i>	<u>461,564</u>	<u>461,564</u>	<u>227,258</u>	<u>234,306</u>
Total Expenditures	<u>461,564</u>	<u>461,564</u>	<u>227,258</u>	<u>234,306</u>
Excess (Deficiency) of Revenues				
Over (Under) Expenditures	<u>233,088</u>	<u>232,788</u>	<u>579,137</u>	<u>346,349</u>
OTHER FINANCING SOURCES (USES):				
<i>Transfers In</i>	30,000	30,000	30,000	--
<i>Transfers Out</i>	<u>(120,000)</u>	<u>(120,000)</u>	<u>(100,000)</u>	<u>(20,000)</u>
Total Other Financing Sources (Uses)	<u>(90,000)</u>	<u>(90,000)</u>	<u>(70,000)</u>	<u>(20,000)</u>
Net Change in Fund Balances	143,088	142,788	509,137	366,349
Fund Balances - Beginning	456,295	456,295	456,295	--
Fund Balances - Ending	<u>\$ 599,383</u>	<u>\$ 599,083</u>	<u>\$ 965,432</u>	<u>\$ 366,349</u>

*Combining Statements and Budget Comparisons
as Supplementary Information*

This supplementary information includes financial statements and schedules not required by the Governmental Accounting Standards Board, nor a part of the basic financial statements, but are presented for purposes of additional analysis.

CITY OF RIO GRANDE CITY, TEXAS

COMBINING BALANCE SHEET

NONMAJOR SPECIAL REVENUE FUNDS

SEPTEMBER 30, 2006

	Hotel Occupancy Tax Fund	Forfeiture Fund	HIDTA Task Force Fund
ASSETS AND OTHER DEBITS			
Assets:			
<i>Cash and Cash Equivalents</i>	\$ 124,234	\$ 73,185	\$ --
<i>Receivables (net of allowances for uncollectibles):</i>	11,284	--	48,836
<i>Due from Other Funds</i>	134,856	--	--
Restricted Assets:			
Total Assets and Other Debits	<u>\$ 270,374</u>	<u>\$ 73,185</u>	<u>\$ 48,836</u>
LIABILITIES AND FUND BALANCES:			
Liabilities:			
<i>Accounts Payable</i>	\$ --	\$ --	\$ --
<i>Due to Other Funds</i>	--	--	48,836
Total Liabilities	<u>--</u>	<u>--</u>	<u>48,836</u>
Fund Balances:			
Reserved Fund Balances:			
Unreserved, reported in nonmajor:			
<i>Special Revenue Funds</i>	270,374	73,185	
Total Fund Balance	<u>270,374</u>	<u>73,185</u>	
Total Liabilities and Fund Balance	<u>\$ 270,374</u>	<u>\$ 73,185</u>	<u>\$ 48,836</u>

EXHIBIT C-1

Page 1 of 2

Historical Preservation Fund	Treasury Forfeiture Fund	RGC Police Department Fund	CJD Task Force Grant Fund
\$ 4,997	\$ 72,586	\$ 392	\$ --
--	--	--	12,417
--	--	--	
<u>\$ 4,997</u>	<u>\$ 72,586</u>	<u>\$ 392</u>	<u>\$ 12,417</u>
\$ --	\$ --	\$ --	\$ --
--	--	--	12,417
--	--	--	12,417
4,997	72,586	392	--
<u>4,997</u>	<u>72,586</u>	<u>392</u>	
<u>\$ 4,997</u>	<u>\$ 72,586</u>	<u>\$ 392</u>	<u>\$ 12,417</u>

CITY OF RIO GRANDE CITY, TEXAS

COMBINING BALANCE SHEET

NONMAJOR SPECIAL REVENUE FUNDS

SEPTEMBER 30, 2006

EXHIBIT C-1

Page 2 of 2

	TCF Contract #723242 Fund	ORCA CONTRACT #724659 Fund	Total Nonmajor Special Revenue Funds (See Exhibit A-3)
ASSETS AND OTHER DEBITS			
Assets:			
<i>Cash and Cash Equivalents</i>	\$ 1	\$ (8)	\$ 275,387
<i>Receivables (net of allowances for uncollectibles):</i>	--	66,547	139,084
<i>Due from Other Funds</i>	--	--	134,856
Restricted Assets:			
Total Assets and Other Debits	<u>\$ 1</u>	<u>\$ 66,539</u>	<u>\$ 549,327</u>
LIABILITIES AND FUND BALANCES:			
Liabilities:			
<i>Accounts Payable</i>	\$ --	\$ 60,748	\$ 60,748
<i>Due to Other Funds</i>	1	5,791	67,045
Total Liabilities	<u>1</u>	<u>66,539</u>	<u>127,793</u>
Fund Balances:			
Reserved Fund Balances:			
Unreserved, reported in nonmajor:			
<i>Special Revenue Funds</i>	--	--	421,534
Total Fund Balance	<u>--</u>	<u>--</u>	<u>421,534</u>
Total Liabilities and Fund Balance	<u>\$ 1</u>	<u>\$ 66,539</u>	<u>\$ 549,327</u>

CITY OF RIO GRANDE CITY, TEXAS

COMBINING STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES
NONMAJOR SPECIAL REVENUE FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2006

	Hotel Occupancy Tax Fund	Forfeiture Fund	HIDTA Task Force Fund	Historical Preservation Fund
Revenue:				
Taxes:				
Hotel Occupancy Taxes	\$ 89,756	\$ --	\$ --	\$ --
Intergovernmental	--	--	209,263	--
Fines and Forfeitures	--	64,102	--	--
Investment Earnings	3,787	1,609	--	173
Miscellaneous Revenues	--	1,625	--	--
Total revenues	<u>93,543</u>	<u>67,336</u>	<u>209,263</u>	<u>173</u>
Expenditures:				
Current:				
Public Safety	--	24,512	189,280	--
Economic Development and Assistance	1,022	--	--	--
Debt Service:				
Principal	--	10,202	--	--
Interest and Fiscal Charges	--	1,394	--	--
Capital Outlay:				
Capital Outlay	--	--	19,983	--
Total Expenditures	<u>1,022</u>	<u>36,108</u>	<u>209,263</u>	<u>--</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>92,521</u>	<u>31,228</u>	<u>--</u>	<u>173</u>
Other Financing Sources (Uses):				
Operating Transfers In	--	--	--	--
Operating Transfers Out	(30,000)	--	--	--
Total Other Financing Sources (Uses)	<u>(30,000)</u>	<u>--</u>	<u>--</u>	<u>--</u>
Net Change in Fund Balances	62,521	31,228	--	173
Fund Balances - Beginning	207,853	41,957	--	4,824
Fund Balances - Ending	<u>\$ 270,374</u>	<u>\$ 73,185</u>	<u>\$ --</u>	<u>\$ 4,997</u>

Treasury Forfeiture Fund	RGC Police Department Fund	Revolving Loan Fund	CJD Task Force Grant Fund	TCF Contract #723242 Fund
\$ --	\$ --	\$ --	\$ --	\$ --
--	2,077	--	36,261	--
25,276	--	--	--	--
4,427	37	3,680	--	--
--	--	--	--	--
<u>29,703</u>	<u>2,114</u>	<u>3,680</u>	<u>36,261</u>	<u>--</u>
80,324	2,135	--	36,261	--
--	--	464,312	--	5,400
--	--	--	--	--
--	--	--	--	--
63,858	--	--	--	--
<u>144,182</u>	<u>2,135</u>	<u>464,312</u>	<u>36,261</u>	<u>5,400</u>
<u>(114,479)</u>	<u>(21)</u>	<u>(460,632)</u>	<u>--</u>	<u>(5,400)</u>
--	--	--	--	5,400
--	--	--	--	5,400
<u>--</u>	<u>--</u>	<u>--</u>	<u>--</u>	<u>5,400</u>
(114,479)	(21)	(460,632)	--	--
187,065	413	460,632	--	--
<u>\$ 72,586</u>	<u>\$ 392</u>	<u>\$ --</u>	<u>\$ --</u>	<u>\$ --</u>

CITY OF RIO GRANDE CITY, TEXAS

COMBINING STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES
NONMAJOR SPECIAL REVENUE FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2006

	ORCA CONTRACT #724659 Fund	Airport Fund	Total Nonmajor Special Revenue Funds (See Exhibit A-5)
Revenue:			
Taxes:			
Hotel Occupancy Taxes	\$ --	\$ --	\$ 89,756
Intergovernmental	387,180	--	634,781
Fines and Forfeitures	--	--	89,378
Investment Earnings	--	--	13,713
Miscellaneous Revenues	--	--	1,625
Total revenues	<u>387,180</u>	<u>--</u>	<u>829,253</u>
Expenditures:			
Current:			
Public Safety	--	--	332,512
Economic Development and Assistance	16,318	3,645	490,697
Debt Service:			
Principal	--	--	10,202
Interest and Fiscal Charges	--	--	1,394
Capital Outlay:			
Capital Outlay	370,862	--	454,703
Total Expenditures	<u>387,180</u>	<u>3,645</u>	<u>1,289,508</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>--</u>	<u>(3,645)</u>	<u>(460,255)</u>
Other Financing Sources (Uses):			
Operating Transfers In	--	3,645	9,045
Operating Transfers Out	--	--	(30,000)
Total Other Financing Sources (Uses)	<u>--</u>	<u>3,645</u>	<u>(20,955)</u>
Net Change in Fund Balances	--	--	(481,210)
Fund Balances - Beginning	--	--	902,744
Fund Balances - Ending	<u>\$ --</u>	<u>\$ --</u>	<u>\$ 421,534</u>

Other Supplementary Information

This section includes financial information and disclosures not required by the Governmental Accounting Standards Board and not considered a part of the basic financial statements. It may, however, include information which is required by other entities.

RAUL HERNANDEZ
Certified Public Accountant
301A N. King Str. Suite 109 Alice, Tx 78332
Office (361) 668-8810 Fax (361) 668-3900

Independent Auditor's Report

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

City Council
City of Rio Grande City, Texas
101 S. WASHINGTON
Rio Grande City, Texas 78582

Members of the City Council:

I 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, Texas as of and for the year ended September 30, 2006, which collectively comprise the City of Rio Grande City, Texas's basic financial statements and have issued my report thereon dated January 3, 2007. I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing my audit, I considered City of Rio Grande City, Texas's internal control over financial reporting in order to determine my auditing procedures for the purpose of expressing my opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. My consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable 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 caused by error or fraud 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. I noted no matters involving the internal control over financial reporting and its operation that I considered to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether City of Rio Grande City, Texas's financial statements are free of material misstatement, I 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 my audit, and accordingly, I do not express such an opinion. The results of my 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, others within the organization, the City Council, 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.

Respectfully submitted,

RAUL HERNANDEZ, CPA

January 3, 2007

RAUL HERNANDEZ
Certified Public Accountant
301A N. King Str. Suite 109 Alice, Tx 78332
Office (361) 668-8810 Fax (361) 668-3900

Independent Auditor's Report

Report on Compliance with Requirements Applicable
To each Major Program and Internal Control over Compliance
In Accordance With OMB Circular A-133

City Council
City of Rio Grande City, Texas
101 S. WASHINGTON
Rio Grande City, Texas 78582

Members of the City Council:

Compliance

I have audited the compliance of City of Rio Grande City, Texas 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, 2006. City of Rio Grande City, Texas'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, Texas's management. My responsibility is to express an opinion on City of Rio Grande City, Texas's compliance based on my audit.

I conducted my 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 I 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, Texas's compliance with those requirements and performing such other procedures as I considered necessary in the circumstances. I believe that my audit provides a reasonable basis for my opinion. My audit does not provide a legal determination on City of Rio Grande City, Texas's compliance with those requirements.

In my opinion, City of Rio Grande City, Texas 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, 2006.

Internal Control Over Compliance

The management of City of Rio Grande City, Texas 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 my audit, I considered City of Rio Grande City, Texas's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine my auditing procedures for the purpose of expressing my opinion on compliance and to test and report on the internal control over compliance in accordance with OMB Circular A-133.

My 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 reportable 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 caused by error or fraud 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. I noted no matters involving the internal control over compliance and its operation that I considered to be material weaknesses.

This report is intended solely for the information and use of management, others within the organization, the City Council, 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.

Respectfully submitted,

RAUL HERNANDEZ, CPA

January 3, 2007

CITY OF RIO GRANDE CITY, TEXAS
*SCHEDULE OF FINDINGS AND QUESTIONED COSTS
 FOR THE YEAR ENDED SEPTEMBER 30, 2006*

A. Summary of Auditor's Results

1. Financial Statements

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

Material weakness(es) identified? Yes X No

Reportable condition(s) identified that are not considered to be material weaknesses? Yes X None Reported

Noncompliance material to financial statements noted? Yes X No

2. Federal Awards

Internal control over major programs:

Material weakness(es) identified? Yes X No

Reportable condition(s) identified that are not considered to be material weaknesses? Yes X None Reported

Type of auditor's report issued on compliance for major programs: Unqualified

Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133? Yes X No

Identification of major programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
14.228	U.S. Dept of Housing & Urban Development-O.R.C.A.

Dollar threshold used to distinguish between type A and type B programs: \$300,000

Auditee qualified as low-risk auditee? X Yes No

B. Financial Statement Findings

NONE

C. Federal Award Findings and Questioned Costs

NONE

CITY OF RIO GRANDE CITY, TEXAS
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED SEPTEMBER 30, 2006

<u>Finding/Recommendation</u>	<u>Current Status</u>	<u>Management's Explanation If Not Implemented</u>
None		

CITY OF RIO GRANDE CITY, TEXAS
CORRECTIVE ACTION PLAN
FOR THE YEAR ENDED SEPTEMBER 30, 2006

N/A

CITY OF RIO GRANDE CITY, TEXAS
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED SEPTEMBER 30, 2006

EXHIBIT D-1

<u>Federal Grantor/ Pass-Through Grantor/ Program Title</u>	<u>Federal CFDA Number</u>	<u>Pass-Through Entity Identifying Number</u>	<u>Federal Expenditures</u>
<u>U.S. DEPARTMENT OF HOMELAND SECURITY</u>			
Passed Through Governor's Division of Emergency Management:			
Homeland Security Grant Program	97.074	2004 BIP SHSP	\$ 49,683
Homeland Security Grant Program	97.074	2004 HSGP-62168	30,139
Total Passed Through Governor's Division of Emergency Management			<u>79,822</u>
Passed Through Office of Domestic Preparedness:			
Assistance to Firefighters Grant (Direct Program)	97.044		75,272
Total U.S. Department of Homeland Security			<u>155,094</u>
<u>U. S. ENVIRONMENTAL PROTECTION AGENCY</u>			
Direct Program:			
Border Environment Cooperation Commission	66.931	TAA06-013	29,028
Total U. S. Environmental Protection Agency			<u>29,028</u>
<u>U. S. DEPARTMENT OF THE INTERIOR</u>			
Passed Through Texas Historical Commission:			
Historic Preservation Fund Grants-in-Aid-Certified Local Govt	15.904	TX-05-039	700
Historic Preservation Fund Grants-in-Aid-Certified Local Govt	15.904	TX-05-038	2,000
Total Passed Through Texas Historical Commission			<u>2,700</u>
Total U. S. Department of the Interior			<u>2,700</u>
<u>U. S. DEPARTMENT OF JUSTICE</u>			
Passed Through Office of the Governor-Criminal Justice Division:			
Edward Byrne Memorial Justice Assistance Grant (JAG) Program	16.738	DJ-05-A10-18428-01	36,261
Total U. S. Department of Justice			<u>36,261</u>
<u>U. S. DEPARTMENT OF HOUSING & URBAN DEVELOPMENT</u>			
Passed Through Office of Rural Community Affairs:			
	14.228	724659	387,180
Total U. S. Department of Housing & Urban Development			<u>387,180</u>
<u>OFFICE OF NATIONAL DRUG CONTROL POLICY</u>			
Direct Programs:			
High Intensity Drug Trafficking Area Task Force	07.616	I5PSSP616	123,767
High Intensity Drug Trafficking Area Task Force	07.616	I6PSSP616	85,495
Total Direct Programs			<u>209,263</u>
Total Office of National Drug Control Policy			<u>209,263</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS			<u>\$ 819,526</u>

The accompanying notes are an integral part of this schedule.

CITY OF RIO GRANDE CITY, TEXAS***NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED SEPTEMBER 30, 2006*****Basis of Presentation**

The accompanying schedule of expenditures of federal awards includes the federal grant activity of City of Rio Grande City, Texas and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, AUDITS OF STATES, LOCAL GOVERNMENTS, AND NON-PROFIT ORGANIZATIONS. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the general purpose financial statements.