City of Rio Grande City, Texas

FINANCIAL STATEMENTS

September 30, 2016





City of Rio Grande City, Texas City Officials September 30, 2016

COMPREHENSIVE ANNUAL FINANCIAL REPORT

Council – Manager Form of Government

MAYOR Joel Villarreal

COUNCIL MEMBERS Hernan R. Garza, III

Flor E. Flores Rey Ramirez

Dave "Chachi" Jones

CITY MANAGER Alberto Perez

FINANCE DIRECTOR Leonel Cantu

CITY SECRETARY Lyzette Pena



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INDEPENDENT AUDITORS' REPORT

To the Honorable Mayor, City Council
And City Manager of City of Rio Grande City, Texas

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Rio Grande City, Texas (the "City") as of and for the year ended September 30, 2016, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the City's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Basis for Qualified Opinion

As more fully described in Note 1 to the financial statements, the City does not have a complete property control ledger for its capital assets. Furthermore, as discussed in Note 1 to the financial statements, the City was unable to determine the correct depreciation expense and related accumulated depreciation for the audit year, and thus, incorrectly recorded these for the capital assets in governmental, business-type activities and water, sewer and sanitation fund. Accounting principles generally accepted in the United States of America requires that these capital assets be depreciated and a gain/(loss) reported upon the disposition of a capital asset, which would decrease the assets and net position and increase expenses of governmental and business-type activities. The amount by which this departure would affect the assets and expenses and net position of governmental activities and business-type activities is not reasonably determinable.

Qualified Opinion

In our opinion, except for the effects of such adjustment, if any, as might have been determined to be necessary had we been able to determine the valuation of capital assets and the related accumulated depreciation and depreciation expense associated therewith, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, business-type activities, and water, sewer and sanitation fund of the City of Rio Grande City, Texas as of September 30, 2016, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Unmodified Opinions

In addition, in our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the general fund, economic development corporation and the aggregate remaining fund information of the City of Rio Grande City as of September 30, 2016, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 14 to the financial statements, the City restated its beginning fund balance and net position as a result of corrections of errors. Our opinions are not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis and Budgetary Comparison Schedule, Schedule of Changes in Net Pension Liability and Related Ratios-Texas Municipal Retirement System (TMRS), Schedule of City's Contributions-TMRS, and Notes to Required Supplementary Information as listed on the table of contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited

procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The introductory section, and combining and individual nonmajor fund financial statements, as listed in the table of contents, are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining and individual nonmajor fund financial statements are the responsibility of management, and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining and individual nonmajor fund financial statements are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

The introductory has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

Prior Period Financial Statements

The financial statements of the City of Rio Grande City as of and for the year ended September 30, 2015, were audited by other auditors' whose report dated April 13, 2017, expressed an unmodified opinion on those statements.

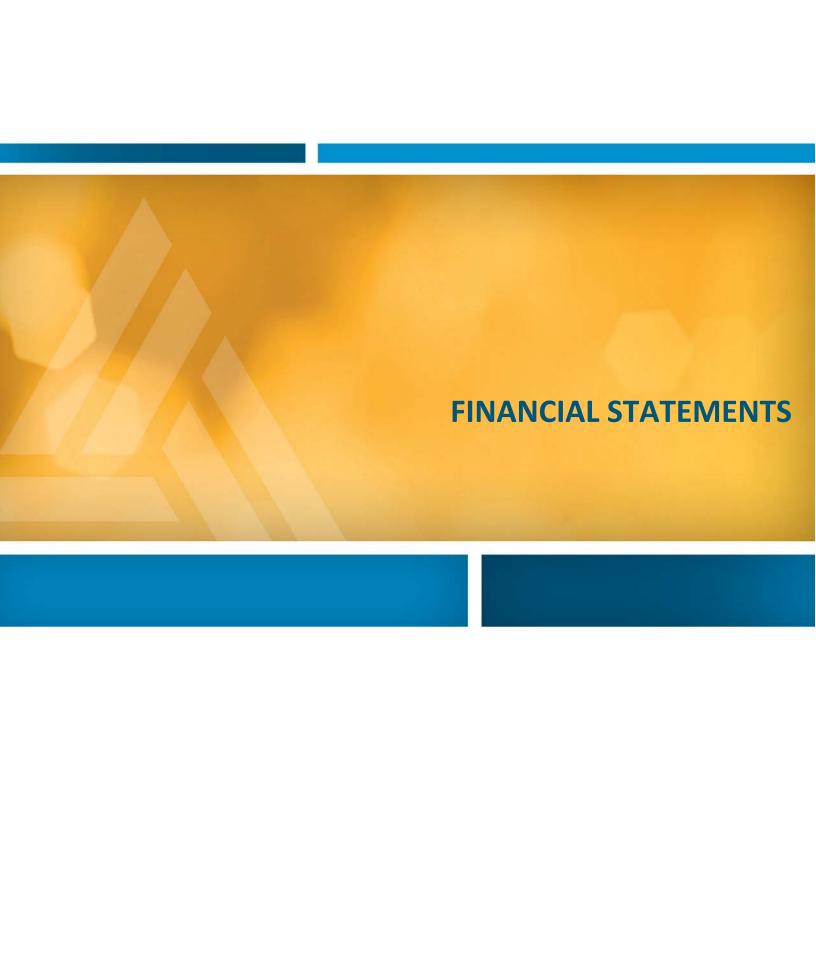
Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 21, 2018, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.

Cau, Rigge & Ingram, L.L.C.

McAllen, Texas November 21, 2018







Management's Discussion and Analysis

Our discussion and analysis of the City's financial performance provides and overview of the City's financial activities for the fiscal year ended September 30, 2016. Please read it in conjunction with the City's financial statements, which follow this section.

Financial Highlights

- The City's total net position increased by \$1,657,012 for the year, which is a change of 7%. The governmental activities increase was \$859,368 and the business-type activities showed an increase of \$797,644.
- Last year's decrease in sales tax revenues of (\$76,649) was followed by an additional decrease in sales tax revenues of (\$109,025) for 2016.
- There were a few changes in both revenues and certain expenses of the general fund and utility fund.
 General governmental charges for service revenues increased by \$253,254, but overall revenues decreased by (\$1,048,973). In addition, general government expenses decreased by (\$89,841) and total governmental expenses decreased by (\$223,453). Utility operating revenues had an increase of \$2,797,865 and an increase in the utility fund expenses of \$1,889,135.
- The City added approximately \$2,300,612 to capital assets during the year. Capital additions include purchases of new vehicles, completion of water and sewer line projects, completion of parks (Skate Park & Alto Vista Park) and the purchase of water meters. Depreciation expense of \$1,302,819 was also recorded for the year.
- The City had \$231,955 in business-type construction in progress at the end of the prior year. The full amount was capitalized as infrastructure in the current year and \$159,944 were added in the business-type activities construction in progress. Additionally, during the current year, the City added \$56,971 as construction in progress in the governmental activities.

Overview of the Final Statements

The basic financial statements consist of government-wide financial statements, fund financial statements, and notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements.

Government-Wide Financial Statements

The Statement of Net position and the Statement of Activities are government-wide financial statements. The government-wide financial statements provide information about the activities of the City as a whole and present a longer-term view of the City's finances. These statements include all assets and liabilities of the City, and the statements are presented on the accrual basis of accounting, which is similar to the accounting used by most private-sector companies.

Activities of the City as a whole include governmental activities, and business-type activities. Governmental activities are those activities which are financed primarily through taxes and grants.

Most of the City's basic services are reported as governmental activities. Business-type activities are those activities which are intended to recover all or a significant portion of their costs through user fees and charges. Utility system operations are a common example of business-type activities. The City has no component units. Component units are legally separate organizations for which the City is financially accountable. Whenever a City is financially accountable for activities of a legally separate organization, those activities are reported in the government-wide financial statements as component unit activities.

The accrual basis of accounting used for the government-wide financial statements recognizes revenues when earned and expenses when incurred regardless of when cash is received or paid.

Fund Financial Statements

Fund financial statements are used to present more detailed information about the City's most significant funds. Separate fund financial statements are prepared for the City's governmental and proprietary funds, as opposed to the government-wide statements which reflect the City as a whole.

Fund financial statements are prepared using the measurement focus and basis of accounting applicable to each broad fund category. Governmental fund financial statements are presented on a spending or "financial flow" measurement focus using the accrual basis of accounting. Because the proprietary fund financial statements are presented using the same measurement focus and basis of accounting as the government-wide financial statements, the totals from the proprietary fund financial statements flow directly into the business-type activities column of the government-wide financial statements. For the governmental funds, reconciliation is presented to describe the differences between the net position, and change in net position reported in the governmental activities column of the government-wide financial statements.

Notes to the Financial Statements

The notes provide additional information that is essential to a complete understanding of the information provided in the government-wide and fund financial statements.

Condensed Financial Information

Condensed financial information is presented in the following tables in a comparative format which allows for the comparison of current and prior year information.

Government-Wide Net Position

	Governmental Activities		Business-Type Activities			Total				
	2016		2015*	2016		2015	2016		2015*	
Current and other assets	\$ 8,462,835	\$	7,794,001	\$ 2,821,770	\$	2,659,387	\$	11,284,605	\$	10,453,388
Capital assets	14,897,456		15,045,768	32,113,894		30,982,829		47,011,350		46,028,597
Total assets	23,360,291		22,839,769	34,935,664		33,642,216		58,295,955		56,481,985
Deferred Outflows of Resources	488,857		265,641	151,612		70,613		640,469		336,254
Long-term liabilities	7,407,007		8,248,549	22,108,387		21,479,115		29,515,394		29,727,664
Otherliabilities	2,568,780		1,862,359	696,357		774,062		3,265,137		2,636,421
Total Liabilities	9,975,787		10,110,908	22,804,744		22,253,177		32,780,531		32,364,085
Deferred Outflows of Resources	456,691		437,200	141,453		116,217		598,144		553,417
Net Position										
Invested in capital assets,										
net of related debt	7,490,449		6,797,219	10,005,507		9,503,714		17,495,956		16,300,933
Restricted	4,028,517		2,439,515	-		-		4,028,517		2,439,515
Assigned	-		2,143,360	-		-		-		2,143,360
Unrestricted	1,897,704		1,177,208	2,135,572		1,839,721		4,033,276		3,016,929
Total net position	\$ 13,416,670	\$	12,557,302	\$ 12,141,079	\$	11,343,435	\$	25,557,749	\$	23,900,737

The City's governmental activities showed an increase in net position of \$1,657,012. Capital assets for governmental activities decreased by (\$148,312).

More detailed information relating to the change in net position, the change in capital assets, and the change in long-term liabilities is discussed in the pages to follow.

Government-Wide Changes in Net Position

	Government	al Activities	Business-ty	pe Activities	Total		
	2016	2015	2016	2015	2016	2015	
Change in net assets							
Total revenues	\$ 8,928,546	\$ 9,977,519	\$ 6,679,427	\$ 3,877,583	\$ 15,607,973	\$ 13,855,102	
Total expenses	(9,000,704)	(9,224,157)	(5,233,392)	(3,344,257)	(14,234,096)	(12,568,414)	
Change before transfers	(72,158)	753,362	1,446,035	533,326	1,373,877	1,286,688	
Transfers	1,635,889	751,952	(1,635,889)	(751,952)	-		
Change in net position	1,563,731	1,505,314	(189,854)	(218,626)	1,373,877	1,286,688	
Net position - beginning	12,476,665	12,249,579	11,343,435	12,739,530	23,820,100	24,989,109	
Reclass of beginning net position	(623,726)	(1,197,591)	987,498	(1,177,469)	363,772	(2,375,060)	
Net position - ending	\$ 13,416,670	\$ 12,557,302	\$ 12,141,079	\$ 11,343,435	\$ 25,557,749	\$ 23,900,737	

The specific changes in revenues and expenses are shown in the tables that follow, along with a discussion of the events giving rise to those changes.

	Governmen	tal Activities	Business-ty	pe Activities	Total		
	2016	2015	2016	2015	2016	2015	
Revenues							
Program revenues							
Charges for services	\$ 1,182,103	\$ 1,435,357	\$ 6,672,487	\$ 3,874,622	\$ 7,854,590	\$ 5,309,979	
General revenues							
Maintenance and							
operations taxes	2,260,132	3,050,484	-	-	2,260,132	3,050,484	
Debt service taxes	451,091	451,922	-	-	451,091	451,922	
Grants	870,294	658,872	-	-	870,294	658,872	
Sales Tax	4,090,597	4,199,622	-	-	4,090,597	4,199,622	
Investment earnings	11,399	5,306	6,940	2,961	18,339	8,267	
Miscellaneous	62,930	175,956	-	-	62,930	175,956	
Total Revenues	\$ 8,928,546	\$ 9,977,519	\$ 6,679,427	\$ 3,877,583	\$ 15,607,973	\$ 13,855,102	

Last year's decrease in sales tax of (\$76,649) was followed by an additional decrease in sales tax revenues of (\$109,025) for 2016. The decrease in the sales tax was due to changes in the economical conditions in the City of Rio Grande City.

There were a few changes in both revenues and certain expenses of the general fund and utility fund. General government charges for service revenues increased by \$253,254. In addition, general government expenses decreased by (\$89,841).

Utility operating revenues had an increase of \$2,797,865 for operating revenues. There was an increase in the utility fund expenses of \$1,889,135.

	Governmental Activities		Business-ty _l	pe Activities	Total		
	2016	2015	2016	2015	2016	2015	
Expenses							
General government	\$ 1,998,846	\$ 2,088,687	\$ -	\$ -	\$ 1,998,846	\$ 2,088,687	
Judicial	157,501	147,506	-	-	157,501	147,506	
Public Safety	3,756,559	4,100,902	-	-	3,756,559	4,100,902	
Public Works	904,419	665,882	-	-	904,419	665,882	
Highways and streets	153,057	174,169	-	-	153,057	174,169	
Culture and recreation	423,688	383,294	-	-	423,688	383,294	
Libraries	289,183	300,733	-	-	289,183	300,733	
Economic development	1,022,873	798,502	-	-	1,022,873	798,502	
Bond interest	265,503	564,482	-	-	265,503	564,482	
Fiscal agent fees	29,075	-	-	-	29,075	-	
Utility fund		-	5,233,392	3,344,257	5,233,392	3,344,257	
Total Expenses	\$ 9,000,704	\$ 9,224,157	\$ 5,233,392	\$ 3,344,257	\$ 14,234,096	\$ 12,568,414	

In 2016, the City's transfers consisted of moving unassigned and unrestricted funds within the General Fund, Economic Development Fund, Other Governmental Funds, and Water, Sewer and Sanitation Funds for the purposes of capital asset purchases, finance payroll, special projects and for the funding of principal and interest loan payments.

Financial Analysis of the City's Funds

The City has experienced a decrease in sales tax revenue due to current economic conditions. We attribute some of this loss in local sales to the lay-off of pipe liners.

The city has maintained the same tax rate for the past three fiscal years, and adopted a conservative budget for 2016-2017.

Regarding the other governmental funds, the debt service fund levied taxes sufficient to cover the governmental debt service requirements as well as a portion of the utility fund debt service (which was transferred to the utility fund) and ended the year with a \$2,082,757 fund balance. The debt service fund has a fund balance greater than the annual debt service requirement of the governmental debt.

As discussed above, the utility fund's operations ended the year with an \$797,644 increase in net position. The utility fund has a net position of \$12,141,079 at the end of the year. However, \$10,005,507 is restricted for investment in capital assets, net of related debt. Unrestricted net position of \$2,135,572 represents over 3 months in terms of the utility system's annual expenses including net transfers out.

General Fund Budgetary Highlights

Over the course of the year, the City's revenues had a positive variance of \$92,442. Expenditures had an increase of \$331,966 during the year.

Capital Asset and Debt Administration

Capital Assets

The following capital asset information is presented net of depreciation. Detailed information can be found on Note 7 of the notes to the financial statements.

	Governmen	tal Activities	Business-typ	e Activities	Total			
	2016	2015*	2016	2015	2016	2015*		
Land	\$ 2,292,630	\$ 2,292,630	\$ 339,036	\$ 339,036	\$ 2,631,666	\$ 2,631,666		
Infrastructure	13,118,021	12,752,929	34,338,634	34,037,081	47,456,655	46,790,010		
Buildings	3,463,704	3,450,198	1,600,173	1,600,173	5,063,877	5,050,371		
Machinery and equipment	5,532,756	5,532,756	2,288,067	667,606	7,820,823	6,200,362		
Accumulated Depreciation	(9,566,626)	(8,982,745)	(6,611,960)	(5,893,022)	(16,178,586)	(14,875,767)		
Construction in progress	56,971	-	159,944	231,955	216,915	231,955		
Total assets	\$ 14,897,456	\$ 15,045,768	\$ 32,113,894	\$ 30,982,829	\$47,011,350	\$46,028,597		

^{*}Restated accumulated depreciation balance.

The City added approximately \$2,300,612 to capital assets during the year. Capital additions include purchases of new vehicles, completion of water and sewer line projects, completion of parks (Skate Park & Alto Vista Park) and the purchase of water meters. Depreciation expense of \$1,302,819 was recorded for the year. Additionally, a restatement of accumulated depreciation for \$80,637 was made for the prior year. Please refer to note 14 for additional information.

Debt

More detailed information on the City's debt can be found be on Note 8 of the notes to the financial statements.

	Governmental Activities			Business-type Activities				Total			
		2016		2015	2016		2015		2016		2015
General obligation debt	\$	6,675,000	\$	7,171,003	\$ 20,562,000	\$	21,340,000	\$	27,237,000	\$	28,511,003
Capital leases payable		732,007		1,077,546	1,546,387		139,115		2,278,394		1,216,661
Total debt	\$	7,407,007	\$	8,248,549	\$ 22,108,387	\$	21,479,115	\$	29,515,394	\$	29,727,664

The City's general obligation bond rating is A+ as assigned by the national rating agency Standard and Poor's. There is no direct debt limitation in the City Charter or under state law. The Texas Constitution does limit the maximum tax rate for all City purposes to \$2.50 per \$100 of assessed valuation. Administratively, the Attorney General allows the allocation of \$1.50 of the \$2.50 maximum tax rate to the payment of debt service. The actual amount of debt the City might be able to fund with that tax rate depends on the term over which the debt is to be repaid, the interest rate on the debt, and the amount of taxes which are not collected. The City's current debt service tax rate is \$0.103.

Economic Factors and Next Year's Budgets and Rates

Fiscal year 2015-2016 was a year to strengthen and create city services, creating a positive economic environment for existing and new businesses.

The increase in the collection of property tax and permits helped to minimize the impact of the significant decrease in sales tax revenue. The City Council did not increase the tax rate, but we still had an increase in tax revenue due to a small growth in the tax base. The quality of life projects included the Kelsey Bass Museum and a Skate Park to rival the larger neighboring cities, and the Fordyce Trails continue to gain popularity.

Within the year, the change from analog to digital water meters decreased the water loss and increased accountability and collection of water and sewer fees. A major wastewater collection line was upgrade along the business corridor to sustain increase commercial development.

The City provided incentives to two separate organizations to develop new affordable rental homes, thus creating housing opportunities for our residents and an increase in the tax base.

In May 2016, the City created a Sanitation Department to provide solid waste collection services. This department would be self-sustaining by means of the service fees. A Brush Grabber was purchased to enhance the brush collection service.

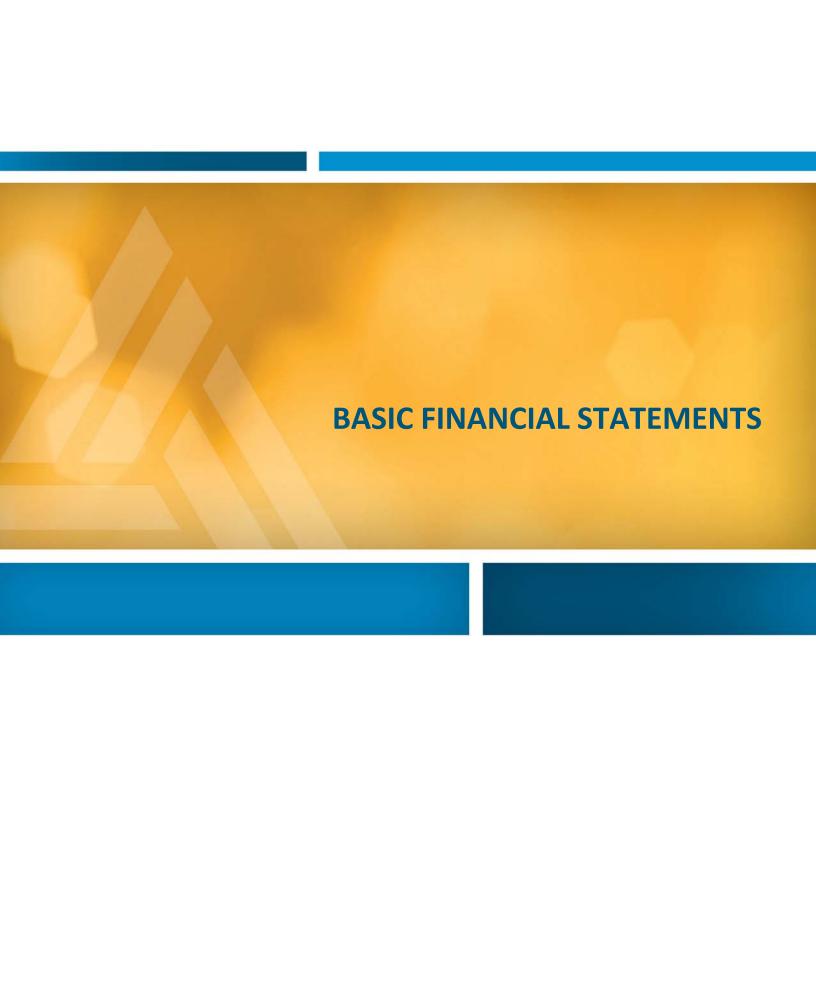
The City passed an Ordinance for Health Inspections for regulated sites within the city, thus adding a source of revenue.

For 2017, the City budgeted \$53,910 from additional property taxes. The City Council decreased the tax rate to .497579 per \$100 valuation. The sales tax revenue was budget conservatively, less than the previous year. A major component of the projected revenues is from the sale of city owned land. On the expense side, the city saw an increase in legal fees related to litigations.

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 show the City's accountability for the money it receives. If you have questions about this report or need additional financial information, please direct your requests to the Director of Finance, City of Rio Grande City, at 5332 E US HWY 83, Rio Grande City, Texas, 78582.







City of Rio Grande City, Texas Statement of Net Position September 30, 2016 Exhibit 1-A

	Governmental	Business-type	
September 30, 2016	Activities	Activities	Total
Assets			
Cash and cash equivalents	\$ 3,236,960	\$ 1,007,577	\$ 4,244,537
Investments-current	1,692,826	1,534,747	3,227,573
Taxes receivables, net	1,756,677	-	1,756,677
Accounts receivable	655,304	1,133,366	1,788,670
Due from other governments	250,561	-	250,561
Internal balances	870,507	(870,507)	-
Inventories	-	16,587	16,587
Capital assets			
Land	2,292,630	339,036	2,631,666
Construction in progress	56,971	159,944	216,915
Other capital assets, net of depreciation	12,547,855	31,614,914	44,162,769
Total assets	23,360,291	34,935,664	58,295,955
Deferred outflows of resources			
Deferred outflows of resources from pensions	488,857	151,612	640,469
Total deferred outflows of resources	488,857	151,612	640,469
Liabilities			
Accounts payable and other current liabilities	35,086	1,198	36,284
Accrued wages payable	54,482	-	54,482
Accrued interest payable	40,758	56,430	97,188
Due to state	1,220,273	-	1,220,273
Customer deposits	3,050	262,361	265,411
Non-current liabilities			
Due within one year	693,925	1,151,402	1,845,327
Due in more than one year	6,713,082	20,956,985	27,670,067
Net pension obligation	1,215,131	376,368	1,591,499
Total liabilities	9,975,787	22,804,744	32,780,531
Deferred inflows of resources			
Deferred inflow related to pensions	456,691	141,453	598,144
Total deferred inflow of resources	456,691	141,453	598,144
Net Position (Deficit)			
Net investments in capital assets, net of related debt	7,490,449	10,005,507	17,495,956
Restricted			
Federal or state funds grant restriction	212,869	-	212,869
Debt service	2,082,757	-	2,082,757
Capital projects	1,732,891	-	1,732,891
Unrestricted	1,897,704	2,135,572	4,033,276
Total net position	\$ 13,416,670	\$ 12,141,079	\$ 25,557,749

For the Year Ended S	eptember 30	. 2016
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For the Year Ended September 30, 2016		Program	Reve	nues
			Ope	rating Grants
		Charges for	and Contributions	
Functions/Programs	Expenses	Services		
Primary Government				
Governmental Activities:				
General government	\$ 1,998,846	\$ 972,452	\$	1,000
Public safety	3,756,559	92,635		663,761
Judicial	157,501	117,016		-
Streets and lighting	153,057	-		-
Public works	904,419	-		-
Culture, recreation and parks	423,688	-		112,533
Library	289,183	-		-
Economic development and assistance	1,022,873	-		-
Interest on long-term debt	265,503	-		-
Fiscal agent fees	29,075	-		-
Total governmental activities	9,000,704	1,182,103		777,294
Business-type Activities:				
Water, sewer, & sanitation	5,233,392	6,672,487		-
Total business-type activities	 5,233,392	6,672,487		-
Total primary government	\$ 14,234,096	\$ 7,854,590	\$	777,294

General Revenues

Taxes Property taxes Sales taxes Grants and contributions Investment earnings Miscellaneous revenues Transfers Total general revenues Change in net position

Net Position - beginning of the year, restated Prior period adjustment

Net Position - beginning of the year as restated

Net Position - end of year

City of Rio Grande City, Texas Statement of Activities Exhibit 1-B

Net (Expense) Revenue and Changes in Net Position

Governmental Activities			Business-type Activities		Total
.	(4.025.204)			<u>,</u>	(4.025.204)
\$	(1,025,394)			\$	(1,025,394)
	(3,000,163)				(3,000,163)
	(40,485)				(40,485)
	(153,057)				(153,057)
	(904,419)				(904,419)
	(311,155)				(311,155)
	(289,183)				(289,183)
	(1,022,873)				(1,022,873)
	(265,503)				(265,503)
	(29,075)				(29,075)
	(7,041,307)		-		(7,041,307)
	-		1,439,095		1,439,095
	-		1,439,095		1,439,095
\$	(7,041,307)	\$	1,439,095	\$	(5,602,212)
\$	2,711,223	\$	-	\$	2,711,223
	4,090,597		-		4,090,597
	93,000		-		93,000
	11,399		6,940		18,339
	62,930		-		62,930
	1,635,889		(1,635,889)		
	8,605,038		(1,628,949)		6,976,089
	1,563,731		(189,854)		1,373,877
	12,476,665		11,343,435		23,820,100
	(623,726)		987,498		363,772
	11,852,939		12,330,933		24,183,872
\$	13,416,670	\$	12,141,079	\$	25,557,749







City of Rio Grande City Balance Sheet - Governmental Funds Exhibit 2-A

September 30, 2016		General Fund	Economic Development Corporation		Other Governmental Funds		Total Governmental Funds	
Assets								
Cash and cash equivalents	\$	268,343	\$ 357,784	\$	2,610,833	\$	3,236,960	
Investments		603,703	1,089,123		-		1,692,826	
Receivables, net		2,046,513	-		365,468		2,411,981	
Due from other governements		55,993	-		194,568		250,561	
Due from other funds		1,072,201	145,095		2,136,319		3,353,615	
Total assets		4,046,753	1,592,002		5,307,188		10,945,943	
Liabilities, Deferred Inflows of Resources and Fund Ba	aland	ces						
Liabilities								
Accounts payable		27,420	154		310		27,884	
Accrued wages payable		54,336	-		146		54,482	
Retainage payable		-	7,202		-		7,202	
Due to other funds		1,894,813	13,160		575,135		2,483,108	
Due to other governments		-	-		1		1	
Due to state		1,220,273	-		-		1,220,273	
Customer deposits		2,450	600		-		3,050	
Total liabilities		3,199,292	21,116		575,592		3,796,000	
Deferred Inflows of Resources								
Unavailable revenue - property taxes		1,394,721	-		348,683		1,743,404	
Total deferred inflows of resources		1,394,721	-		348,683		1,743,404	
Fund balances (deficits) Restricted for:								
Federal or state funds grant restriction		-	-		212,869		212,869	
Restricted for debt service		-	-		2,082,757		2,082,757	
Assigned		-	1,570,886		404,012		1,974,898	
Committed								
Construction		-	-		1,732,891		1,732,891	
Unassigned		(547,260)	-		(49,616)		(596,876)	
Total fund balance (deficit)		(547,260)	1,570,886		4,382,913		5,406,539	
Total liabilities, deferred inflows of								
resources and fund balances	\$	4,046,753	\$ 1,592,002	\$	5,307,188	\$	10,945,943	

City of Rio Grande City, Texas Reconciliation of Balance Sheet - Governmental Funds to the Governmental Activities - Statement of Net Position Exhibit 2-B

September 30, 2016

Total fund balances - governmental funds balance sheet:

Amounts reported for governmental activities in the statement of net position ("SNP") are different because:

Capital assets used in governmental activities are not reported in the funds.

Property taxes receivables unavailable to pay for current period expenditures are

deferred in the funds.

Payables for bonds principal which are not due in the current period are not reported in the funds.

Payables for capital leases principal which are not due in the current period are not (732,007)

deferred in the funds.		
Payables for bonds principal which are not due	e in the current period are not reported	(6,675,000)
in the funds.		
Payables for capital leases principal which are	not due in the current period are not	(732,007)
reported in the funds.		
Payables for bond interest which are not due i	n the current period are not reported in	(40,758)
the funds.		
Recognition of the City of Rio Grande City's pro	pportionate share of the net pension	(1,215,131)
liability is not reported in the funds.		
Deferred inflows of resources related to pension	on are not reported in the funds.	(456,691)
Deferred outflows of resources related to pens	sion is not reported in the funds.	488,858
Net position of governmental activities - states	ment of net position	\$ 13,416,670

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City of Rio Grande City, Texas Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds **Exhibit 2-C**

			Economic	Other		Total	
				l Governmental			
For the Year Ended September 30, 2016	Fund		Corporation	Funds		Funds	
Revenues							
Taxes							
General property taxes	\$	1,725,373	\$ -	\$ 451,091	\$	2,176,464	
General sales and use taxes		2,940,387	980,129	170,081		4,090,597	
Beverage taxes		9,790	-	-		9,790	
Other taxes - franchise taxes		708,535	-	14,894		723,429	
Licenses and permits		86,631	-	-		86,631	
Intergovernmental		127,508	-	626,649	ı	754,157	
Charges for services		103,780	-	46,734		150,514	
Fines and forfeitures		117,326	-	92,635		209,961	
Investment earnings		4,213	5,779	1,404		11,396	
Rents and royalties		25,364	3,692	-		29,056	
Miscellaneous revenues		84,189	6,809	10,318		101,316	
Total revenues		5,933,096	996,409	1,413,806		8,343,311	
Expenditures							
Current:							
General government		1,730,962	-	353,399		2,084,361	
Judicial		146,566	-	-		146,566	
Public safety		3,061,469	-	385,785		3,447,254	
Highway and streets		153,057	-	-		153,057	
Public works		842,545	-	-		842,545	
Culture, recreation & parks		390,583	-	-		390,583	
Library		265,111	-	-		265,111	
Economic development and assistance		-	1,028,298	101,332		1,129,630	
Debt service							
Principal		455,178	-	386,365		841,543	
Interest and fiscal charges		18,371	-	268,721		287,092	
Fiscal agent's fees		-	-	29,593		29,593	
Total expenditures		7,063,842	1,028,298	1,525,195		9,617,335	
Excess (deficiency) of revenues							
over (under) expenditures		(1,130,746)	(31,889)	(111,389)	(1,274,024)	
Other Financing Sources (Uses)							
Transfers in		817,853	-	1,730,930	١	2,548,783	
Transfers out		(595,041)	(225,000)	(92,853)	(912,894)	
Total other financing sources (uses)		222,812	(225,000)			1,635,889	
Change in fund balance		(907,934)	(256,889)	1,526,688		361,865	
Fund Balance - as previously stated		1,344,201	1,808,848	2,595,982		5,749,031	
Prior period adjustment		(983,527)	18,927	260,243		(704,357)	
Fund Balance - beginning of year restated		360,674	1,827,775	2,856,225		5,044,674	
Fund Balance - end of year	\$	(547,260)		\$ 4,382,913		5,406,539	

City of Rio Grande City, Texas

Reconciliation of the Statement of Revenues, Expenditures, and **Changes in Fund Balances of Governmental Funds to the Governmental Activities - Statement of Activities Exhibit 2-D**

For the year ended September 30, 2016

Differences in amounts reported for governmental activities in the statement of activities Total net change in fund balances - governmental funds: Amounts reported for governmental activities in the statement of activities ("SOA") are	
different because:	
Capital outlays are not reported as expenses in the SOA.	435,569
The depreciation of capital assets used in governmental activities is not reported in the	(583,881)
funds.	
Certain property tax revenues are deferred in the funds. This is the change in these	426,509
amounts this year.	
Repayment of bond principal is an expenditure in the funds but is not an expense in	345,000
the SOA.	
Repayment of capital lease principal is an expenditure in the funds but is not an	345,540
expense in the SOA.	
Repayment of loan principal is an expenditure in the funds but is not an expense in the	151,003
SOA.	
(Increase) decrease in accrued interest from beginning of period to end of period.	1,234
Pension expense relating to GASB 68 is recorded in the SOA but not in the funds.	80,892
Change in Net Position of Governmental Activities - Statement of Activities	1,563,731



City of Rio Grande City, Texas **Statement of Net Position Proprietary Fund Exhibit 3-A**

	Enterprise Fund
	Water, Sewer &
September 30, 2016	Sanitation Fund
Assets	
Current assets	
Cash and cash equivalents	\$ 1,007,577
Investments	1,534,747
Receivables (net)	1,133,366
Due from other funds	804,529
Inventories	16,587
Total current assets	4,496,806
Noncurrent assets	
Capital assets	
Land	339,036
Infrastructure	34,338,634
Buildings	1,600,173
Machinery and equipment	2,288,067
Construction in progress	159,944
Less accumulated depreciation	(6,611,960
Total noncurrent assets	32,113,894
Total assets	36,610,700
Deferred Outflows of Resources	
Deferred outflow related to pension plan	151,612
Total deferred outflows of resources	151,612
Total assets and deferred outflows of resources	36,762,312
Liabilities	
Current liabilities	
Accounts payable	1,198
Due to other funds	1,675,036
Accrued interest payable	56,430
Customer deposits	262,361
Total current liabilities	1,995,025
Noncurrent liabilities	
Due within one year	1,151,402
Due in more than one year	20,956,985
Net pension obligation	376,368
Total noncurrent assets	22,484,755
Total liabilities	24,479,780
Deferred Inflows of Resources	
Deferred amounts related to pensions	141,453
Total deferred inflows of resources	141,453
	111,100

Statement of Net Position Proprietary Fund Exhibit 3-A (continued)

	Enterprise Fund
September 30, 2016	Water, Sewer & Sanitation Fund
Net Position (Deficit)	
Net investment in capital assets	\$ 10,005,507
Unrestricted	2,135,572
Total net position	\$ 12,141,079

City of Rio Grande City, Texas Statement of Revenues, Expenses, and Changes in Fund Net Position - Proprietary Fund **Exhibit 3-B**

	Enterprise Fund
	Water, Sewer &
For the Year Ended September 30, 2016	Sanitation Fund
Operating Revenues	
Charges for sales and services	
Water sales	\$ 3,171,991
Sewer charges	1,700,351
Sanitation charges	1,731,417
Other services	81,935
Total Operating Revenues	6,685,694
Operating Expenses	
Administration	
Personal services - salaries and wages	204,918
Other purchased services	300,502
Supplies	5,235
Total Administration	510,655
Billings and Collections	
Personal services - salaries and wages	95,542
Other purchased services	57,342
Supplies	47,842
Total Billings and Collections	200,726
Water System	
Personal services - salaries and wages	235,829
Other purchased services	284,017
Supplies	157,740
Total Water System	677,586
Sewer System	
Personal services - salaries and wages	50,850
Purchased professional and technical services	67,521
Other purchased services	34,205
Total Sewer System	152,576
Water Plant #1	
Personal services - salaries and wages	236,603
Other purchased services	324,854
Supplies	40,649
Total Water Plant #1	602,106
Water Distribution	
Personal services - salaries and wages	265,736
Other purchased services	176,780
Supplies	202,010
Total Water Distribution	644,526

City of Rio Grande City, Texas Statement of Revenues, Expenses, and Changes in Fund Net Position - Proprietary Fund **Exhibit 3-B (Continued)**

	Enterprise Fund
	Water, Sewer &
For the Year Ended September 30, 2016	Sanitation Fund
Sewer Collection	
Personal services - salaries and wages	20,413
Other purchased services	72,536
Supplies	11,541
Total Sewer Collection	104,490
Solid Waste Billing	
Personal services - salaries and wages	107,038
Other purchased services	1,100,874
Supplies	21,394
Depreciation expense	718,939
Total Solid Waste Billing	1,948,245
Total Operating Expenses	4,840,910
Operating Income	1,844,784
Non-Operating Revenues (Expenses)	
Interest expense	(398,749)
Total non-operating revenues (expenses)	(398,749)
Income before transfers	1,446,035
Transfers in (out):	
Transfers in	144,790
Transfers out	(1,780,679)
Total transfer in (out)	(1,635,889)
Change in net position	(189,854)
Net Position - beginning of the year previously stated	11,343,435
Prior period adjustment	987,498
Net Position - beginning of year as restated	12,330,933
Net Position - end of year	\$ 12,141,079



City of Rio Grande City, Texas Statement of Cash Flows Proprietary Fund Exhibit 3-C

	Enterprise Funds			unds	
For the Year Ended September 30, 2016	Major Fund			Totals	
Cash Flows from Operating Activities					
Cash received from user charges	\$	5,669,266	\$	5,669,266	
Cash payments to other suppliers for goods and services		(3,008,368)		(3,008,368)	
Cash payments to employees for services		(1,083,982)		(1,083,982)	
Cash on interest payments		(421,982)		(421,982)	
Other source/(use) of cash		(204,403)		(204,403)	
Net cash provided by operating activities		950,531		950,531	
Cash Flows From Non-Capital Financing Activities					
Transfers from (to) other funds		(1,780,679)		(1,780,679)	
Net cash used by non-capital financing activities		(1,780,679)		(1,780,679)	
Cash Flows from Capital and Related Financing Activities					
Principal and interest paid		(807,473)		(807,473)	
Proceeds from Loans		1,436,745		1,436,745	
Acquisition or construction of capital assets		(49,460)		(49,460)	
Acquisition of capital assets		(301,554)		(301,554)	
Net cash provided for capital & related financing activities		278,258		278,258	
Net decrease in cash and cash equivalents		(551,890)		(551,890)	
Cash and Cash Equivalents - beginning of year		1,559,467		1,559,467	
Cash and Cash Equivalents - end of year	\$	1,007,577	\$	1,007,577	
Para di Maria di Caratti di Lacatti di Nationale					
Reconciliation of Operating Income to Net Cash					
Provided by Operating Activities	,	4 544 020	۲.	4 5 44 0 20	
Operating income	\$	1,541,828	\$	1,541,828	
Adjustments to reconcile operating income to net cash					
provided by operating activities:					
Depreciation		718,939		718,939	
Interest expense		398,749		398,749	
Decrease (Increase) in prior period /other adjustments		(617,613)		(617,613)	
Change in assets and liabilities					
Decrease (increase) in receivables		(1,016,428)		(1,016,428)	
Decrease (increase) in interfund receivables		(442,486)		(442,486)	
Decrease (increase) in pension outflows		(71,339)		(71,339)	
Increase (decrease) in accounts payable		(19,964)		(19,964)	
Increase (decrease) in interfund payables		682,810		682,810	
Increase (decrease) in accrued expenses		(60,387)		(60,387)	
Increase (decrease) in unearned revenue		(83,362)		(83,362)	
Increase (decrease) in pension inflows		(80,216)		(80,216)	
Net cash provided by non-capital operating activities	\$	950,531	\$	950,531	



NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The combined financial statements of the City of Rio Grande City, Texas (the City) have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board ("GASB") is the accepted standard-settling body for establishing governmental accounting and financial reporting principles.

Reporting Entity

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

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

For the fiscal year ending September 30, 2016, the City adopted the following financial accounting standards issued by the Governmental Accounting Standards Board:

GASB Statement No. 72, Fair Value Measurement and Application. This statement addresses accounting and financial reporting issues related to fair value measurements. More specifically, it provides guidance for determining a fair value measurement for financial reporting purposes and guidance for applying fair value to certain investments and disclosures related to all fair value measurements. GASB Statement No. 72 also contains note disclosure requirements regarding the hierarchy of valuation inputs and valuation techniques that are used in determining fair value measurements. The City has implemented GASB Statement No. 72 in this annual report.

GASB Statement No. 73, Accounting and Financial Reporting for Pensions and Related Assets That Are Not Within the Scope of GASB Statement No. 68, and Amendments to Certain Provisions of GASB Statements 67 and 68. This statement extends the approach to accounting and financial reporting established in GASB 68 to all pensions, with modifications as necessary to reflect that for accounting and financial reporting purposes, any assets accumulated for pensions that are provided through pension plans that are not administered through trusts that meet the criteria specified in Statement 68 should not be considered pension plan assets. It also requires that information similar to that required by Statement 68 be included in notes to financial statements and required supplementary information by all similarly situated employers and nonemployer contributing entities.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

GASB Statement No. 76, The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments. This statement reduces the GAAP hierarchy to two categories of authoritative GAAP and addresses the use of authoritative and non-authoritative literature in the event that the accounting treatment for a transaction or other event is not specified within a source of authoritative GAAP.

GASB Statement No. 79, Certain External Investment Pools and Pool Participants. This statement establishes additional note disclosure requirements for qualifying external investment pools that measure all of their investments at amortized cost for financial reporting purposes and for governments that participate in those pools. Those disclosures for both the qualifying external investment pools and their participants include information about any limitations or restrictions on participant withdrawals. The implementation of this statement requires additional footnote disclosure only.

There was no material impact on the City's financial statements as a result of the implementation of Statements mentioned above.

The accompanying financial statements include financial statements for related organizations in accordance with GASB Statement No. 14, *The Financial Reporting Entity* and GASB Statement No. 39, *Determining Whether Certain Organizations are Component Units*. Organizations are included if they are financially accountable to the City, or the nature and significance of their relationship with the City are such that exclusion would cause the financial statements to be misleading or incomplete. Inclusion is determined on the basis of the City's ability to exercise significant influence. Significant influence or accountability is based primarily on the organization's operational or financial relationship with the City (as distinct from legal relationship).

The City is financially accountable if it appoints a voting majority of an organization's governing body and is able to impose its will on that organization, or there is a potential for the organization to provide specific financial benefits to, or impose specific financial burdens on the City.

Government-wide and Fund Financial Statements

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

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

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

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

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

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

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

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

The City reports the following major governmental funds:

The General Fund – The general fund is the City's primary operating fund. It accounts for all financial resources except those required to be accounted for in another fund.

The Economic Development Corporation Fund –This fund is a special revenue fund to account for the ½ cent sales and use tax for economic and industrial development. Since the sales and use tax is approved specifically for such expenditures, the EDC fund is considered a Special Revenue Fund.

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

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

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

Special Revenue Funds — The City accounts for resources restricted to, or designated for, specific purposes by the City or a grantor in a special revenue fund. Most Federal and some State financial assistance is accounted for in a Special Revenue Fund and sometimes unused balances must be returned to the grantor at the close of specified project periods.

Permanent Funds — The City accounts for donations for which the donor has stipulated that the principal may not be expended and where the income may only be used for purposes that support the City's programs. The City has no Permanent Funds.

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

Debt Service Funds – The City accounts for resources accumulated and payments made for principal and interest on long-term general obligation debt of governmental funds in a debt service fund.

Enterprise Funds — The City's activities for which outside users are charged a fee roughly equal to the cost of providing the goods or services of those activities are accounted for in an enterprise fund. The City's only Enterprise Fund(s) is the Public Utilities Department.

Internal Service Funds – Revenues and expenses related to services provided to organizations inside the City on a cost reimbursement basis are accounted for in an internal service fund. The City has no internal service funds.

Private Purpose Trust Funds – The City accounts for donations for which the donor has stipulated that both the principal and the income may be used for purposes that benefit parties outside the City. The City has no Private Purpose Trust Funds.

Agency Funds – The City accounts for resources held for others in a custodial capacity in agency funds. The City has no Agency Funds.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are payments-in-lieu of taxes and other charges between the government's water and sewer and solid waste management functions and various other functions of the government. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. Operating expenses for enterprise funds and internal service funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

Both the government-wide and proprietary fund financial statements apply all applicable GASB pronouncements.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Assets, deferred outflows of resources, liabilities, deferred inflows of resources and net position or equity

Deposits and investments

The government's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition. For purposes of the statement of cash flows for proprietary funds, the City considers highly liquid investments to be cash equivalents if they have a maturity of three months or less when purchased.

Investments in entities (such as investment pools) that calculate Net Asset Value per Share and follow the requirements of GASB Statement No. 79 are also reported at amortized cost. All other investments are reported at fair value. 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.

The City can legally invest in adequately secured investments in accordance with the Public Funds Investment Act. The City may also participate in any public funds investment pool created under the Interlocal Corporation Act. In general, this policy allows the City to invest in certificates of deposit, repurchase agreements, obligations of the U.S. Government and its agencies or instrumentalities, and state obligations.

Receivables and payables

Lending/borrowing between funds that results in amounts outstanding at the end of the fiscal year are referred to as either "due to/from other funds" or "advances to/from other funds". "Due to/from other funds" represents the current portion of interfund loans. "Advances to/from other funds" represents the non-current portion of interfund loans. With respect to the government-wide financial statements, any residual balances outstanding between the governmental activities and business-type activities are reported as "internal balances."

Advances between funds, reported in the fund financial statements, are classified as non-spendable fund balance in governmental funds to indicate that they are not available for appropriation and are not expendable available financial resources.

Accrued liabilities include amounts accrued for salaries and other payroll-related items.

All trade receivables are shown net of an allowance for uncollectible accounts, as applicable. Included in accounts receivable of the City's Water, Sewer and Sanitation enterprise fund is an estimated amount for services rendered but not billed as of the close of the year. The receivable was estimated by prorating subsequent cycle billings.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property taxes are levied, by October 1, on the assessed value listed as of the prior January 1 for all real and business personal property in the City. Assessed values are an approximation of market values.

Taxes are due upon receipt of the tax bill and are delinquent if not paid before February 1 of the year following the year in which imposed. No discounts are offered. Tax liens attach on January 1 each year. The tax lien is part of a lawsuit for property that can be filed any time after taxes become delinquent. Generally, suits are filed on property after July 1. Collection costs of 15% may be added to all delinquent accounts. Current tax collections for the year ended September 30, 2016, were 85.49% of the tax levy.

Property taxes at the fund level are recorded as receivables and deferred inflows at the time the taxes are levied. Revenues are recognized as the property taxes are collected including those collected 60 days after the end of the year.

Taxes are prorated between general and debt service funds based on rates adopted for the year of the levy.

Inventories and prepaid items

Inventories of proprietary funds, consisting of meters, fuel and parts and supplies, are valued at cost on the first-in, first-out basis. Merchandise inventories are valued at lower of cost or market on the first-in, first-out basis. Inventories are recorded under the consumption method. Under this method, the expenditure is initially recorded as an asset and subsequently expensed upon usage.

Prepaid items consist of payments to vendors for costs applicable to future accounting periods. Prepaid items are recorded under the consumption method. Under this method, the expenditure is initially recorded as an asset and subsequently expensed over the periods service is provided.

Capital Assets

Capital assets, which include land, buildings, furniture and equipment [and infrastructure assets] are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the City as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Capital assets, net of accumulated depreciation, are required to be reported in the government-wide Statement of Net Position. However, the City did not provide accurate depreciation expense and accumulated depreciation of the capital assets used by funds categorized as governmental and business-type activities. Therefore, depreciation expense was not accurately presented in the government-wide Statement of Activities. Consequently, the capital assets in the Statement of Net Position, net of accumulated depreciation, were not accurately presented.

Buildings, furniture and equipment of the City are depreciated using the straight-line method over the following estimated useful lives:

Assets	Useful Lives
Machinery and equipment	3-15 years
Vehicles	2-15 years
Improvements	20 years
Infrastructure	30 years
Buildings	50 years

Long-Term Obligations

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Pension

For purposes of measuring the net pension asset, pension related deferred outflows and inflows of resources, and pension expense, City specific information about its Fiduciary Net Position in the Texas Municipal Retirement System (TMRS) and additions to/deductions from the City's Fiduciary Net Position have been determined on the same basis as they are reported by TMRS. For this purpose, plan contributions are recognized in the period that compensation is reported for the employee, which is when contributions are legally due. Benefit payments and refunds are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value. Information regarding the City's Total Pension Asset is obtained from TMRS through a report prepared for the City by TMRS consulting actuary, Gabriel Roeder Smith & Company, in compliance with Governmental Accounting Standards Board (GASB) Statement No. 68, Accounting and Financial Reporting for Pensions.

Deferred Outflows of Resources and Deferred Inflows of Resources/Other Assets and Liabilities

In addition to assets, the statement of financial position and/or balance sheet will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The City has the following items that qualify for reporting in this category.

Deferred charges on refundings – a deferred charge on refunding results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt.

Pension contributions after measurement date – these contributions are deferred and recognized in the following fiscal year.

Difference in projected and actual earnings on pension assets – this difference is differed and amortized over a closed five year period.

Deferred inflows of resources – an acquisition of net position by the government that is applicable to a future reporting period.

In addition to liabilities, the statement of financial position and/or balance sheet will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The City has the following items that qualify for reporting in this category:

Changes in actuarial assumptions or other inputs and differences between expected or actual experience – there are amortized over the weighted average remaining service lives of all participants determined as of the measurement date.

Receivables for property taxes and other long-term receivables- these are recognized as revenue at the fund level when considered to be measurable and available.

Fund Balance Flow Assumptions

The City will periodically fund outlays for a particular purpose from both restricted and unrestricted resources (the total of committed, assigned, and unassigned fund balance). In order to calculate the amounts to report as restricted, committed, assigned, and unassigned fund balance in the governmental fund financial statements a flow assumption must be made about the order in which the resources are considered to be applied. It is the government's policy to consider restricted fund balance to have been depleted before using any of the components of unrestricted fund balance. Further, when the components of unrestricted fund balance can be used for the same purpose, committed fund balance is depleted first, followed by assigned fund balance. Unassigned fund balance is applied last.

Fund Balance Policies

Fund balance of governmental funds is reported in various categories based on the nature of any limitations requiring the use of resources for specific purposes. The government itself can establish limitations on the use of resources through either a commitment (committed fund balance) or an assignment (assigned fund balance).

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The following is a summary of the different fund balance categories:

- Restricted: fund balances that are constrained by external parties, constitutional provisions, or enabling legislation.
- Committed: includes amounts that can be used only for the specific purpose determined by a formal action of the government's highest level of decision-making authority. The City Council is the highest level of decision-making authority for the City that can, by an adoption of an ordinance prior to the end of the fiscal year, commit fund balance. Once adopted, the limitation imposed by the ordinance remains in place until a similar action is taken such as the adoption of another ordinance to remove or revise the limitation.
- Assigned: includes amounts that are intended to be used by the government for specific purposes
 but do not meet the criteria to be committed. The City Council has not passed any resolution or
 measure designating a specific individual to assign fund balance. Unlike commitments,
 assignments generally only exist temporarily. An additional action does not normally have to be
 taken for the removal of an assignment.
- Unassigned: fund balance of the general fund that is not constrained for any particular purpose.
 The general fund is the only fund that reports a positive unassigned fund balance amount. In
 other governmental funds it is not appropriate to report a positive unassigned fund balance
 amount. However, in governmental funds other than the general fund, if expenditures incurred
 for specific purposes exceed the amounts that are restricted, committed, or assigned to those
 purposes, a negative unassigned fund balance is reported in that fund.
- Non-spendable: fund balances that cannot be spent because they are not expected to be converted to cash or they are legally or contractually required to remain intact. Examples of this classification are prepaid items, inventories, and principal (corpus) of an endowment fund.

Encumbrances

City of Rio Grande City, Texas, employs encumbrance accounting; under which purchase order, contracts, and other commitments for the expenditure of monies are recorded in order to reserve that portion of the applicable appropriation.

Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and reported amounts of revenues and expenditures during the period. Actual results could differ from those estimates.

NOTE 2 - STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

Budgetary Data

The City Council adopts an "appropriated budget" for the General Fund and the Economic Development Corporation (EDC) Special Revenue Fund. Budget information appears in Exhibits 4-A and 5-A.

The following procedures are followed in establishing the budgetary data reflected in the general-purpose financial statements:

- Prior to October 1, the City prepares a budget for the next succeeding fiscal year beginning October 1. The operating budget includes proposed expenditures and the means of financing them.
- A meeting of the City Council is then called for the purpose of adopting the proposed budget. At least ten days' public notice of the meeting must be given.
- Prior to October 1, the budget is legally enacted through passage of an ordinance by the Council. Once a budget is approved, it can only be formally amended by approval of a majority of the members of the Council. Amendments are presented to the Council at its regular meetings. Each amendment must have Council approval. As required by law, such amendments are made before the fact, and are reflected in the official minutes of the Council, and are not made after fiscal year end. During 2016, one approved amendment occurred.
- Budgeted amounts are as amended by the Council. All budget appropriations lapse at year end.

During the year ended September 30, 2016, expenditures exceeded appropriations as follows in the General Fund.

	Expenditures
	Over
Department	Appropriations
Judicial	\$ (11,336)
Public Safety	(10,888)
Highway and Streets	(21,557)
Public Works	(27,244)
Debt Service	(473,549)
Total	\$ (544,574)

Encumbrances represent commitments related to unperformed contracts for goods or services. Encumbrance accounting, under which purchase orders, contracts and other commitments for the expenditure of resources are recorded to reserve that portion of the applicable appropriation, is utilized in the governmental funds.

NOTE 3 - DEPOSITS AND INVESTMENTS

Deposits – State statutes require that all deposits in financial institutions be fully collateralized by direct obligations of the U.S. Government or its agencies and instrumentalities or direct obligations of Texas or its agencies and instrumentalities that have a market value of not less than the principal amount of the deposits. The City's deposits were fully insured and collateralized as required by the state statutes at September 30, 2016.

At year-end, the carrying amount of the City's deposits and investments with financial institutions was \$7,472,117 and the bank balance was \$4,244,544. Of the total bank balance, the Federal Depository Insurance Corporation (FDIC) covered \$250,000 for demand deposits. Balances in excess of Federal insurance limits were covered with collateral. The collateral is held by Frost Bank in the City's name under a joint safekeeping arrangement with the City's depository bank.

Investments - Public funds investment pools in Texas ("Pools") are established under the authority of the interlocal Cooperation Act, Chapter 79 of the Texas Government Code, and are subject to the provisions of the Public Funds Investment Act (the "Act"). Chapter 2256 of the Texas Government Code, in addition to other provisions of the Act designed to promote liquidity and safety of principal, the Act requires Pools to: 1) have an advisory board composed of participants in the pool and other persons who do not have a business relationship with the pool and are qualified to advise the pool; 2) maintain a continuous rating of no lower than AAA or AAAm or an equivalent rating by at least one nationally recognized rating service; and 3) maintain the market value of its underlying investment portfolio within one half of one percent of the value of its shares.

The City's investments, which are in an external investment pool, as of September 30, 2016, are:

			Weighted Average	
	A	mortized	Maturity	Standard &
Governmental Activities		Cost	(Days)	Poor's Rating
General Fund				
TexPool	\$	65	44	AAAm
Logic Money Market		603,638	38	AAAm
Total General Fund		603,703		
Special Revenues Funds:				
Logic Money Market		1,089,123	38	AAAm
Total-Special Revenue Fund		1,089,123		
Total Governmental-type	\$	1,692,826		

NOTE 3 - DEPOSITS AND INVESTMENTS (Continued)

			Weighted Average	
	Α	mortized	Maturity	Standard &
Business-type Activities		Cost	(Days)	Poor's Rating
TexPool	\$	761	44	AAAm
Logic Money Market		1,378,945	38	AAAm
Bank of New York Money Market		155,041		
Total-Business-type	\$	1,534,747		

The TexPool and Logic Investments are considered investments on the government-wide statement of net position and the governmental and proprietary fund-level statements.

The State Comptroller of Public Accounts exercises oversight responsibility over TexPool, the Texas Local Government Investment Pool. Oversight includes the ability to significantly influence operations, designation of management, and accountability for fiscal matters. Additionally, the State Comptroller has established an advisory board composed of both persons who do not have a business relationship with TexPool and participants in TexPool.

LOGIC was organized on May 6, 1994 to conform to the Interlocal Cooperation Act, Chapter 791 of the Texas Government Code, and the Public Funds Investment Act, Chapter 2256 of the Texas Government Code. This Act permits the creation of investment pools to which a majority of political subdivisions (local governments) in Texas may delegate, by contract, the authority to make investments purchased with local investment funds and to hold legal title as custodian of the investment securities.

The City of Rio Grande City and JP Morgan Chase Bank had a custody agreement to hold cash and securities for the City of Rio Grande City. In 2006, JP Morgan Chase and Bank of New York Co. did a business-swap agreement where Bank of New York Co. received JP Morgan Chase's corporate trust business. This swap transferred the money market mutual fund from JP Morgan Chase to Bank of New York Co. During the same year, Bank of New York and Mellon Financial Corporation merged, transferring the City's agreement to Bank of New York Mellon. The City's cash and securities in the Bank of New York Mellon are deposited in a money market mutual fund.

As of September 30, 2016, all of the City's external investment pools meet the criteria described in GASB Statement No. 79 and measure all of their investments at amortized cost; therefore, the City has also measured their investments in these external investment pools at amortized cost for financial reporting purposes. In addition, the pools do not have any limitations or restrictions on withdrawals such as notice periods or maximum transaction amounts. The pools do not impose any liquidity or redemption gates.

NOTE 3 - DEPOSITS AND INVESTMENTS (Continued)

Interest Rate Risk: To limit the risk that changes in interest rates will adversely affect the fair value of investments; the City requires that the investments shall be monitored by using specific identification.

Credit Risk: To limit the risk that an issuer or other counterparty to an investment will not fulfill its obligations the City limits investments to Certificates of Deposits, Public Funds Investment Pools and Guaranteed Investment Contracts, collateralized by U.S. Government Securities. As of September 30, 2016, the City's investments were secured by U.S. Government Securities.

Concentration of Credit Risk: To limit the risk of loss attributed to the magnitude of a government's investment in a single issuer, the investment portfolio shall be diversified in terms of investment instruments maturity scheduling, and financial institutions. To further limit the risk all of the City investments are collateralized by U.S. Government Securities.

Custodial Credit Risk for Investments: State law requires governmental entities to contract with financial institutions in which funds will be deposited to secure those deposits with insurance or pledged securities with a fair value equaling or exceeding the amount on deposit at the end of each business day. The pledged securities must be in the name of the governmental entity and held by the entity or its agent. Since the City complies with this law, it has no custodial credit risk for deposits.

NOTE 4 - RECEIVABLES

Primary Government

Receivables at year-end for the government's individual major funds, and nonmajor funds in the aggregate, including the applicable allowances for uncollectible accounts, are as follows:

	Nonmajor				
	General	Enterprise	Gov	ernmental	
	Fund	Fund		Funds	Total
Receivables					
Taxes	\$ 2,106,049	\$ -	\$	376,752	\$ 2,482,801
Accounts	-	1,976,745		3,541	1,980,286
Other Receivables	-	145,360		-	145,360
Due from other governments	55,993	20,000		194,568	270,561
Gross receivables	2,162,042	2,142,105		574,861	4,879,008
Less: Allowance					
for uncollectible-taxes	(59,536)	-		(14,825)	(74,361)
Less: Allowance					
for uncollectible-accounts	-	(1,008,739)		-	(1,008,739)
Net Total Receivables	\$ 2,102,506	\$ 1,133,366	\$	560,036	\$ 3,795,908

NOTE 4 - RECEIVABLES (Continued)

Revenues of the Water, Sewer and Sanitation Fund are reported net of uncollectible amounts. Total uncollectible amounts related to revenues of the current period are \$1,008,739.

Property Taxes

Property taxes are levied by October 1 on the assessed value listed as of the prior January 1 for all real and business personal property located in the City in conformity with Subtitle E, Texas Property Tax Code. Assessed values are an approximation of market values. Taxes are due on receipt of the tax bill and are delinquent if not paid before February 1 of the year following the year in which imposed. On January 31 of each year, a tax lien attaches to property to secure the payment of all taxes, penalties, and interest ultimately imposed. Property tax revenues are considered available (1) when they become due or past due and receivable within the current period and (2) when they are expected to be collected during a 60-day period after the close of the fiscal year. The adjusted assessed value for the roll as of January 1, 2015, upon which the 2015 levy was based, was \$443,214,720.

For the year ended September 30, 2016, property tax rates were \$.412 and \$.103 for the general fund and the debt service fund, respectively, per \$100 of assessed value.

Delinquent Taxes Receivable

Allowances for uncollectible tax receivables within the General Fund are based on historical experience in collecting property taxes. Uncollectible personal property taxes are periodically reviewed and written off, but the City is prohibited from writing off real property taxes without specific statutory authority from the Texas Legislature.

Current and delinquent property taxes are collected by the Rio Grande City Consolidated Independent School District Tax Office which is operated independently of the City of Rio Grande City.

NOTE 5 - DEFERRED INFLOWS AND OUTFLOWS OF RESOURCES/DEFERRED REVENUE

Governmental funds report deferred inflows in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Governmental funds and Enterprise funds also defer revenue recognition in connection with resources that have been received, but not yet earned. At the end of the fiscal year, the various components of deferred inflows, deferred outflows and unearned revenue reported in the funds were as follows:

	Governmental Funds		Enterprise Funds			
	Inflows	Unearned	Inflows	Outflows	Unearned	
Delinquent property taxes (General Fund)	\$ 1,394,721	\$ -	\$ -	\$ -	\$ -	
Delinquent property taxes (Nonmajor Fund)	348,683	-	-	-	-	
Unearned revenue	-	-	36,001	-		
	\$ 1,743,404	\$ -	\$ 36,001	\$ -	\$ -	

Information regarding deferred inflows and outflows for pensions is contained in Note 10.

NOTE 6 - INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS

Primary Government

Interfund receivable and payable balances at September 30, 2016 were as follows:

Governmental Funds - Receivable Fund

Receivable Fund	Payable Fund	Amount
General Fund	Economic Development Corporation	\$ 13,160
General Fund	Other Governmental Funds	575,134
General Fund	Enterprise Fund	483,907
Economic Development Corporation	General Fund	145,095
Other Governmental Funds	General Fund	945,191
Other Governmental Funds	Enterprise Fund	1,191,128
		\$ 3,353,615

NOTE 6 - INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS (Continued)

Proprietary Funds – Receivable Fund

Receivable Fund	Fund Payable Fund		ount
Water, Sewer and Sanitation Fund	General Fund	\$	804,527
Water, Sewer and Sanitation Fund	Special Revenue Funds		2
		\$	804,529

The outstanding balances between funds result mainly from time lag between the date that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made. All amounts due are scheduled to be repaid within one year.

Transfers to and from other funds during the year ended September 30, 2016, consisted of the following:

		Transfer In:							
		Other							
			Go	vernmental					
Transfer Out:	Ger	neral Fund		Funds	Ente	erprise Fund		Total	
General Fund	\$	-	\$	450,251	\$	144,790	\$	450,251	
Economic Development Corporation Fund		225,000		-		-		225,000	
Other Governmental Funds		92,853		-		-		92,853	
Enterprise Fund		500,000		1,280,679		-		1,780,679	
Total	\$	817,853	\$	1,730,930	\$	144,790	\$	2,548,783	

Transfers are used primarily to 1) move unassigned and unrestricted fund revenues to other funds to finance variance special projects, to finance payroll, and the purchase of capital assets.

Transfers out of the Enterprise Fund to the General Fund are for operations.

The General Fund made transfers to the Debt Service Fund (nonmajor governmental fund) in order to provide funds for principal and interest loan payments. At year-end, the debt service fund had a balance greater than the annual debt service requirement of the governmental debt.

NOTE 7 - CAPITAL ASSETS

Primary Government

Capital asset activity for the year ended September 30, 2016 was as follows:

	Restated			
	Balance at			Balance at
	October 01,			September 30,
Governmental Activities	2015	Increases	Decreases	2016
Capital Assets, Not Being Depreciated:				
Land	\$ 2,292,630	\$ -	\$ -	\$ 2,292,630
Construction in progress	-	56,971	-	56,971
Total Capital Assets, Not Being Depreciated	2,292,630	56,971	-	2,349,601
Capital Assets, Being Depreciated:				
Buildings	3,450,198	13,506	-	3,463,704
Improvements other than buildings	12,752,929	365,092	-	13,118,021
Furniture and equipment	5,532,756		-	5,532,756
Total Capital Assets, Being Depreciated	21,735,883	378,598	-	22,114,481
Less Accumulated Depreciation For:				
Buildings	(390,122)	(24,627)	-	(414,749)
Improvements other than buildings	(5,683,929)	(191,213)	-	(5,875,142)
Furniture and equipment	(2,908,694)	(368,041)	-	(3,276,735)
Total Accumulated Depreciation	(8,982,745)	(583,881)	-	(9,566,626)
Total Capital Assets, Being Depreciated, Net	12,753,138	(205,283)	-	12,547,855
Governmental Activities Capital Assets, Net	\$ 15,045,768	\$ (148,312)	\$ -	\$ 14,897,456
	Balance at			Balance at
	Balance at October 01,			Balance at September 30,
Business-type Activities	Balance at October 01, 2015	Increases	Decreases	Balance at September 30, 2016
	October 01,	Increases	Decreases	September 30,
Capital Assets, Not Being Depreciated:	October 01, 2015			September 30, 2016
Capital Assets, Not Being Depreciated: Land	October 01, 2015 \$ 339,036	\$ -	\$ -	September 30, 2016 \$ 339,036
Capital Assets, Not Being Depreciated: Land Construction in progress	October 01, 2015 \$ 339,036 231,955	\$ - 159,944	\$ - (231,955)	\$ 339,036 159,944
Capital Assets, Not Being Depreciated: Land	October 01, 2015 \$ 339,036	\$ -	\$ -	\$ 339,036 159,944
Capital Assets, Not Being Depreciated: Land Construction in progress Total Capital Assets, Not Being Depreciated Capital Assets, Being Depreciated:	\$ 339,036 231,955 570,991	\$ - 159,944	\$ - (231,955)	\$ 339,036 159,944 498,980
Capital Assets, Not Being Depreciated: Land Construction in progress Total Capital Assets, Not Being Depreciated	\$ 339,036 231,955 570,991	\$ - 159,944	\$ - (231,955)	\$ 339,036 159,944
Capital Assets, Not Being Depreciated: Land Construction in progress Total Capital Assets, Not Being Depreciated Capital Assets, Being Depreciated:	\$ 339,036 231,955 570,991	\$ - 159,944	\$ - (231,955)	\$ 339,036 159,944 498,980
Capital Assets, Not Being Depreciated: Land Construction in progress Total Capital Assets, Not Being Depreciated Capital Assets, Being Depreciated: Buildings and system	\$ 339,036 231,955 570,991	\$ - 159,944 159,944	\$ - (231,955)	\$ 339,036 159,944 498,980
Capital Assets, Not Being Depreciated: Land Construction in progress Total Capital Assets, Not Being Depreciated Capital Assets, Being Depreciated: Buildings and system Improvements other than buildings	\$ 339,036 231,955 570,991 1,600,173 34,037,080	\$ - 159,944 159,944 - 301,554	\$ - (231,955)	\$ 339,036 159,944 498,980 1,600,173 34,338,634
Capital Assets, Not Being Depreciated: Land Construction in progress Total Capital Assets, Not Being Depreciated Capital Assets, Being Depreciated: Buildings and system Improvements other than buildings Furniture and equipment	\$ 339,036 231,955 570,991 1,600,173 34,037,080 667,606	\$ - 159,944 159,944 - 301,554 1,620,461	\$ - (231,955)	\$ 339,036 159,944 498,980 1,600,173 34,338,634 2,288,067
Capital Assets, Not Being Depreciated: Land Construction in progress Total Capital Assets, Not Being Depreciated Capital Assets, Being Depreciated: Buildings and system Improvements other than buildings Furniture and equipment Total Capital Assets, Being Depreciated	\$ 339,036 231,955 570,991 1,600,173 34,037,080 667,606 36,304,859	\$ - 159,944 159,944 - 301,554 1,620,461 1,922,015	\$ - (231,955)	\$ 339,036 159,944 498,980 1,600,173 34,338,634 2,288,067 38,226,874
Capital Assets, Not Being Depreciated: Land Construction in progress Total Capital Assets, Not Being Depreciated Capital Assets, Being Depreciated: Buildings and system Improvements other than buildings Furniture and equipment Total Capital Assets, Being Depreciated Less Accumulated Depreciation For: Buildings and system	\$ 339,036 231,955 570,991 1,600,173 34,037,080 667,606 36,304,859 (410,058)	\$ - 159,944 159,944 - 301,554 1,620,461 1,922,015	\$ - (231,955)	\$ 339,036 159,944 498,980 1,600,173 34,338,634 2,288,067 38,226,874
Capital Assets, Not Being Depreciated: Land Construction in progress Total Capital Assets, Not Being Depreciated Capital Assets, Being Depreciated: Buildings and system Improvements other than buildings Furniture and equipment Total Capital Assets, Being Depreciated Less Accumulated Depreciation For: Buildings and system Improvements other than buildings	\$ 339,036 231,955 570,991 1,600,173 34,037,080 667,606 36,304,859 (410,058) (5,286,384)	\$ - 159,944 159,944 - 301,554 1,620,461 1,922,015 (87,147) (506,160)	\$ - (231,955)	\$ 339,036 159,944 498,980 1,600,173 34,338,634 2,288,067 38,226,874 (497,205) (5,792,544)
Capital Assets, Not Being Depreciated: Land Construction in progress Total Capital Assets, Not Being Depreciated Capital Assets, Being Depreciated: Buildings and system Improvements other than buildings Furniture and equipment Total Capital Assets, Being Depreciated Less Accumulated Depreciation For: Buildings and system Improvements other than buildings Furniture and equipment	\$ 339,036 231,955 570,991 1,600,173 34,037,080 667,606 36,304,859 (410,058) (5,286,384) (196,580)	\$ - 159,944 159,944 - 301,554 1,620,461 1,922,015 (87,147) (506,160) (125,631)	\$ - (231,955)	\$ 339,036 159,944 498,980 1,600,173 34,338,634 2,288,067 38,226,874 (497,205) (5,792,544) (322,211)
Capital Assets, Not Being Depreciated: Land Construction in progress Total Capital Assets, Not Being Depreciated Capital Assets, Being Depreciated: Buildings and system Improvements other than buildings Furniture and equipment Total Capital Assets, Being Depreciated Less Accumulated Depreciation For: Buildings and system Improvements other than buildings	\$ 339,036 231,955 570,991 1,600,173 34,037,080 667,606 36,304,859 (410,058) (5,286,384)	\$ - 159,944 159,944 - 301,554 1,620,461 1,922,015 (87,147) (506,160)	\$ - (231,955) (231,955)	\$ 339,036 159,944 498,980 1,600,173 34,338,634 2,288,067 38,226,874 (497,205) (5,792,544)

NOTE 7 - CAPITAL ASSETS (Continued)

As further discussed in Note 11, at September 30, 2016, the City had remaining construction and improvement commitments amounting to \$216,915.

Depreciation expense was charged to governmental functions as follows:

Governmental Activities

General government	\$ 81,368
Judicial	10,935
Public Safety	306,802
Public Works	57,406
Economic Development and Assitance	81,815
Culture, Recreation and Parks	24,826
Library	20,729
Total Depreciation Expense -Governmental Activities	\$ 583,881

NOTE 8 - LONG TERM DEBT

Primary Government

Bond Obligations in Governmental Funds

The government issues combination tax and revenue bonds to provide funds for the acquisition and construction of major capital facilities. Combination tax and revenue bonds have been issued for governmental activities. The original amount of outstanding combination tax and revenue bonds allocated to primary government issued in prior years was \$8,430,000.

These are direct obligations issued with a pledge of the City's general taxing power for the payment of its debt obligations. General obligation bonds and certificates of obligation require the City to compute, at the time other taxes are levied, the rate of tax required to provide (in each year the bonds are outstanding) a fund to pay interest and principal at maturity. The City is in compliance with this requirement. These bonds generally are issued as 20-year serial bonds with varying amounts of principal maturing each year.

Certain revenue and combination tax and revenue bonds are being repaid by revenues of the enterprise funds and are therefore presented in Business-Type Activities.

\$ 4,960,000

NOTE 8 - LONG TERM DEBT (Continued)

Governmental bond obligations currently outstanding are as follows:

Governmental Activities:

\$6,500,000, 2010 Combination Tax & Limited Pledge Revenue Certificates of Obligation due in annual installments ranging from \$190,000 to \$510,000 from March 15, 2011 through 2030; interest estimated at 5.34%.

\$1,930,000, 2013 Combination Tax & Revenue Certificates of Obligation

due in annual installments ranging from \$70,000 to \$145,000 from

February 15, 2014 through 2033; interest estimated at .67% to 5.29%.

1,715,000

Total Bonds Obligations 6,675,000
Less: Current Portion of Bonds Obligations (355,000)

Bonds Obligations, Net of Current Portion \$6,320,000

Debt service requirements to maturity for Bonds Obligations Payables are as follows:

	Governmen	Governmental Activities			
Year Ending September 30,	Principal	Interest			
2017	\$ 355,000	\$ 256,811			
2018	360,000	246,757			
2019	370,000	236,077			
2020	385,000	224,685			
2021	395,000	211,054			
2022-2026	2,245,000	797,686			
2027-2031	2,285,000	291,421			
2032-2036	280,000	15,056			
Total	\$ 6,675,000	\$ 2,279,547			

NOTE 8 - LONG TERM DEBT (Continued)

Revenue Bonds

The City also issues bonds where the City pledges income derived from the acquired or constructed assets to pay debt service. Revenue bonds have been issued for Business-Type Activities. The original amount of outstanding revenue bonds issued in prior years allocated to Business-Type Activities was \$24,596,000.

Revenue bonds outstanding at September 30, 2016 are as follows:

Business-Type Activities:

Revenue Bonds Payable:

\$2,885,000, 2007 A Combination Tax and Revenue Certificates of Obligation due in annual installments ranging from \$140,000 to \$145,000 from February 15, 2011 through 2030; interest at 0.0%.	\$ 2,030,000
\$12,200,000, 2007 B Combination Tax and Revenue Certificates of Obligation due in annual installments ranging from \$100,000 to \$430,000 from 02-15-11 through 2040; interest at 0.0%.	10,210,000
\$8,700,000, 2007 C Combination Tax and Revenue Certificates of Obligation due in annual installments ranging from \$145,000 to \$545,000 from 02-15-11 through 2040; interest 2.5% to 5.25%.	7,740,000
\$811,000, 1996 A Waterworks and Sewer System Revenue Serial Bonds due in annual installments ranging from \$8,000 to \$46,000 from July 10, 2002 through 2035; interest at 5.125%.	<u>582,000</u>
Revenue Bonds Payable Less: Current Portion of Revenue Bonds Payable	20,562,000 <u>(769,000)</u>
Revenue Bonds Payable, Net of Current Portion	<u>\$19,793,000</u>

NOTE 8 - LONG TERM DEBT (Continued)

Debt service requirements to maturity for Revenue Bonds Payable in Business-type Activities are as follows:

	Business-T	Business-Type Activities			
Year Ending September 30,	Principal	Interest			
2017	\$ 769,000	\$ 408,398			
2018	775,000	400,497			
2019	786,000	392,008			
2020	792,000	382,818			
2021	803,000	372,854			
2022-2026	4,193,000	1,689,502			
2027-2031	4,427,000	1,320,746			
2032-2036	4,292,000	820,338			
2037-2041	3,725,000	218,415			
Total	\$ 20,562,000	\$ 6,005,576			

There are a number of limitations and restrictions contained in the revenue bond indenture. Management has indicated that the City is in compliance with most of the significant limitations and restrictions at September 30, 2016. The City is currently in default due to failure to present audited financial report on a timely basis.

Capital Lease Obligations

Governmental Activities:

Capital lease obligations payable at September 30, 2016, are as follows:

\$54,831, capital lease payable to Schertz Bank & Trust dated December 15, 2013 through December 15, 2020, payable in 84 monthly installments of \$747 including interest at 3.920%, secured by (1) Crack Filler Machine.	\$ 34,428
\$286,986, capital lease payable to Kansas State Bank dated December 20, 2013 through December 20, 2019, payable in 7 annual installments of \$44,959 including interest at 3.190%, secured by (2) Dump Trucks and (1) Backhoe.	166,362
\$167,996, Capital lease payable to Kansas State Bank dated January 27, 2014 through January 27, 2017, payable in 4 annual installments of \$43,867 including interest at 2.980%, secured by COPSync Hardware/Software.	42,597

(338,925)

\$ 393,082

NOTE 8 - LONG TERM DEBT (Continued)

Less: Current Portion of Capital Leases

Capital Leases, Net of Current Portion

\$187,410, Capital lease payable to Kansas State Bank dated July 10, 2012 through August 10, 2018, payable in 7 annual installments of \$29,284 including interest at 3.098%, secured by (1) TYMCO Street Sweeper. 55,955 \$49,450, Capital lease payable to Kansas State Bank dated February 1, 2015 through February 1, 2017, payable in 3 annual installments of \$16,984 including interest at 3.070%. 16,478 \$79,848, capital lease payable to Kansas State Bank dated July 15, 2015 through July 15, 2018, payable in 3 annual installments of \$28,185 including interest at 2.920%, 53,995 \$551,915, capital lease payable to Motorola Solutions, Inc. dated May 1, 2015 through May 1, 2018, payable in 3 annual installments of \$189,724 including interest at 3.160%. 362,192 **Capital Leases** 732,007

Debt service requirements to maturity for Capital Leases are as follows:

	Gov	Governmental Activities			
Year Ending September 30,	Pri	Principal		nterest	
2017	\$	338,925	\$	23,049	
2018		288,688		12,435	
2019		50,612		3,316	
2020		52,294		1,627	
Thereafter		1,488		7	
Total	\$	732,007	\$	40,434	

NOTE 8 - LONG TERM DEBT (Continued)

Business-Type Activities:

Capital Leases:

\$209,883 Capital lease payable to Schertz Bank dated April 3, 2013 through April 3, 2019, payable in 84 monthly installments of \$2,739 including interest at 2.69%, secured by a sewer cleaning truck.	\$ 109,642
\$1,282,125 Capital lease payable to Southside Bank dated February 17, 2016, through October 15, 2019, payable in 4 yearly installments of \$346,164 including interest at 3.641%, secured by automated water meter system.	1,282,125
\$154,620 Capital lease payable to Kansas State Bank dated August 1, 2016, through August 1, 2020, payable in 4 yearly installments of \$41,140 including interest at 2.511%, secured by a freightliner truck.	<u>154,620</u>
Capital Leases Less: Current Portion of Capital Leases	1,546,387 (382,402)
Capital Leases, Net of Current Portion	\$ 1,163,985

Debt service requirements to maturity for Capital Leases in Business Type Activities are as follows:

	Business-Type Activiti	ies
Year Ending September 30,	Principal Intere	st
2017	\$ 382,402 \$ 37,	767
2018	380,209 39,	960
2019	393,350 26,	819
2020	390,426 13,	310
Thereafter	-	
Total	\$ 1,546,387 \$ 117,	856

NOTE 8 - LONG TERM DEBT (Continued)

Changes in Long-Term Liabilities

Long-term activity for the year ended September 30, 2016, was as follows:

Governmental Activities	_	Balance at otember 30, 2015	Additional Obligations and Net Increases		Retirement and Net	_	Balance at otember 30, 2016	Di	amounts ue within One Year
Governmental Activities		2015	Net increases		Decreases		2016		ne rear
Combination Tax & Limited Revenue Bond	\$	5,230,000	\$ -	9	\$ 270,000	\$	4,960,000	\$	280,000
Combination Tax & Revenue Bond		1,790,000	-		75,000		1,715,000		75,000
Capital Leases		1,077,547	-		345,540		732,007		338,925
Notes payable		151,003	-		151,003		-		_
Governmental Activity Long-Term Liabilities	\$	8,248,550	\$ -	(\$ 841,543	\$	7,407,007	\$	693,925

Business-type Activities	Balance at ptember 30, 2015	Obl	Additional ligations and et Increases	-	Retirement and Net Decreases	Balance at September 30, 2016		Amounts Due within One Year	
Revenue Bonds Add: issuance premium	\$ 21,340,000	\$	-	\$	778,000 -	\$	20,562,000	\$	769,000 -
Revenue Bonds Payable	21,340,000		-		778,000		20,562,000		769,000
Capital Leases	139,115		1,436,745		29,473		1,546,387		382,402
Business-Type Activity Long-Term Liabilities	\$ 21,479,115	\$	1,436,745	\$	807,473	\$	22,108,387	\$	1,151,402

	Go	Governmental		Business-Type		
Balance at September 30, 2016		Activities		Activities		
Long-term liabilities	\$	7,407,007	\$	22,108,387		
Less: Amounts due within one year		(693,925)		(1,151,402)		
Total Liabilities Due in More Than One Year (Exhibit 1-A)	\$	6,713,082	\$	20,956,985		

NOTE 9 – DEFICIT NET POSITION/FUND BALANCE

At September 30, 2016, the General Fund had a deficit of (\$547,260). Special Revenue Funds - Border Security Grant and the TDA Contract No. 7217419 have fund balance deficits of (\$25,935) and (\$20), respectively. The Boys & Girls Club Fund had a deficit fund balance of (\$46,881). Additionally, the 2013 Wastewater Fund had a fund balance deficit of (\$123,105).

NOTE 10 – EMPLOYEE RETIREMENT BENEFIT PLANS

Health Care Coverage

During the year ended September 30, 2016, employees of the City were covered by a health insurance plan (the "Plan"). The City paid premiums of \$307 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 a contractual agreement.

The contract between the City and the licensed insurer is renewable October 1, 2016, and terms of coverage and premium costs are included in the contractual provisions.

Latest financial statements for the insurer (Texas municipal League Employee Benefits Pool) are available for the year ended December 31, 2016, and have been filed with the Texas Board of Insurance in Austin, Texas, and are public records.

Defined Benefit Pension Plan

Plan Description

The City of Rio Grande City participates as one of 866 plans in the nontraditional, joint contributory, hybrid defined benefit pension plan administered by the Texas Municipal Retirement System (TMRS). TMRS is an agency created by the State of Texas and administered in accordance with the TMRS Act, Subtitle G, Title 8, Texas Government Code (the TMRS Act) as an agent multiple-employer retirement system for municipal employees in the State of Texas. The TMRS Act places the general administration and management of the System with a six-member Board of Trustees. Although the Governor, with the advice and consent of the Senate, appoints the Board, TMRS is not fiscally dependent on the State of Texas. TMRS's defined benefit pension plan is a tax-qualified plan under Section 401 (a) of the Internal Revenue Code. TMRS issues a publicly available comprehensive annual financial report (CAFR) that can be obtained at www.tmrs.com.

All eligible employees of the city are required to participate in TMRS

Benefits Provided

TMRS provides retirement, disability, and death benefits. Benefit provisions are adopted by the governing body of the city, within the options available in the state statutes governing TMRS.

At retirement, the benefit is calculated as if the sum of the employee's contributions, with interest, and the city-financed monetary credits with interest were used to purchase an annuity. Members may choose to receive their retirement benefit in one of seven payments options. Members may also choose to receive a portion of their benefit as a Partial Lump Sum Distribution in an amount equal to 12, 24, or 36 monthly payments, which cannot exceed 75% of the member's deposits and interest.

City of Rio Grande City, Texas Notes Financial Statements

NOTE 10 – EMPLOYEE RETIREMENT BENEFIT PLANS (Continued)

Plan Provisions:

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

Employee deposit rate	6%
Matching ratio (city to employee)	1.5 to 1
Years required for vesting	5
Retirement eligibility (age/service)	60/5, 0/20
Updated service credit	100% Repeating Transfers
Annuity increase (to retirees)	70% of change in CPI-U, Repeating

Employees covered by benefit terms

At the December 31, 2015 valuation and measurement date, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefits	10
Inactive employees entitled to but not yet receiving benefits	72
Active employees	150
Total	232

Contributions

The contribution rates for employees in TMRS are either 5%, 6%, or 7% of employee gross earnings, and the city matching percentages are either 100%, 150%, or 200%, both as adopted by the governing body of the city. Under the state law governing TMRS, the contribution rate for each city is determined annually by the actuary, using the Entry Age Normal (EAN) actuarial cost method. The actuarially determined rate is the estimated amount necessary to finance the cost of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability.

Employees for the City of Rio Grande City were required to contribute 6.00% of their annual gross earnings during the fiscal year. The contribution rates for the City of Rio Grande City were 8.28% and 7.38% in calendar years 2015 and 2016, respectively. The City's contributions to TMRS for the year ended September 30, 2016, were \$359,758 and were equal to the required contributions.

Net Pension Liability

The City's Net Pension Liability (NPL) was measured as of December 31, 2015, and the Total Pension Liability (TPL) used to calculate the Net Pension Liability was determined by an actuarial valuation as of that date.

City of Rio Grande City, Texas Notes Financial Statements

NOTE 10 – EMPLOYEE RETIREMENT BENEFIT PLANS (Continued)

Actuarial assumptions:

The Total Pension Liability in the December 31, 2015 actuarial valuation was determined using the following actuarial assumptions:

Inflation 2.50% per year Overall payroll growth 3.00% per year

Investment rate of return 6.75%, net of pension plan investment expense, including inflation

Salary increases were based on a service-related table. Mortality rates for active members, retirees, and beneficiaries were based on the gender-distinct RP2000 Combined Healthy Mortality Tables with Blue Collar Adjustment, with male rates multiplied by 109% and female rates multiplied by 103%. The rates are projected on a fully generational basis by scale BB to account for future mortality improvements. For disabled annuitants, the gender-distinct RP2000 Combined Healthy Mortality Tables with Blue Collar Adjustment are used with males rates multiplied by 109% and female rates multiplied by 103% with a 3-year set-forward for both males and females. In addition, a 3% minimum mortality rate is applied to reflect the impairment for younger members who become disabled. The rates are projected on a fully generational basis by scale BB to account for future mortality improvements subject to the 3% floor.

Actuarial assumptions used in the December 31, 2015, valuation were based on the results of actuarial experience studies. The experience study in TMRS was for the period December 31, 2010 through December 31, 2014. Healthy post-retirement mortality rates and annuity purchase rates were updated based on a Mortality Experience Investigation Study covering 2009 through 2011, and dated December 31, 2013. These assumptions were first used in the December 31, 2013 valuation, along with a change to the Entry Age Normal (EAN) actuarial cost method. Assumptions are reviewed annually. No additional changes were made for the 2014 valuation. After the Asset Allocation Study analysis and experience investigation study, the Board amended the long-term expected rate of return on pension plan investments from 7% to 6.75%. Plan assets are managed on a total return basis with an emphasis on both capital appreciation as well as the production of income, in order to satisfy the short-term and long-term funding needs of TMRS.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. In determining their best estimate of a recommended investment return assumption under the various alternative asset allocation portfolios, GRS focused on the area between (1) arithmetic mean (aggressive) without an adjustment for time (conservative) and (2) the geometric mean (conservative) with an adjustment for time (aggressive). At its meeting on July 30, 2015, the TMRS Board approved a new portfolio target allocation. The target allocation and best estimates of real rates of return for each major asset class are summarized in the following table:

NOTE 10 – EMPLOYEE RETIREMENT BENEFIT PLANS (Continued)

		Long-Term
		Expected Real Rate
Asset Class	Target Allocation	of Return (Arithmetic)
Domestic Equity	17.5%	4.55%
International Equity	17.5%	6.10%
Core Fixed Income	10.0%	1.00%
Non-Core Fixed Income	20.0%	3.65%
Real Return	10.0%	4.03%
Real Estate	10.0%	5.00%
Absolute Return	10.0%	4.00%
Private Equity	5.0%	8.00%
Total	100.0%	

Discount Rate:

The discount rate used to measure the Total Pension Liability was 6.75%. The projection of cash flows used to determine the discount rate assumed that employee and employer contributions will be made at the rates specified in statute. Based on that assumption, the pension plan's Fiduciary Net Position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the Total Pension Liability.

Changes in the Net Pension Liability:

	Total Pension		Plan Fiduciary		Net Pension		
	Li	Liability (a)		Net Position (b)		oility (a) - (b)	
Balance at 12/31/2015	\$	7,338,768	\$	5,956,105	\$	1,382,663	
Changes for the year:							
Service cost		544,128		-		544,128	
Interest		526,651		-		526,651	
Changes in current period benefits		-		-		-	
Difference between expected							
and actual experience		(209,742)		-		(209,742)	
Changes in assumptions		27,426		-		27,426	
Contributions-employer		-		390,073		(390,073)	
Contributions-employee		-		286,383		(286,383)	
Net investment income		-		8,788		(8,788)	
Benefit payments, including refunds							
of employee contributions		(174,484)		(174,484)		-	
Administrative expense		-		(5,353)		5,353	
Other changes		-		(264)		264	
Net changes		713,979		505,143		208,836	
Balance at 12/31/2016	\$	8,052,747	\$	6,461,248	\$	1,591,499	

NOTE 10 – EMPLOYEE RETIREMENT BENEFIT PLANS (Continued)

Sensitivity of the Net Pension Liability to Changes in the Discount Rate

The following presents the net pension liability of the City, calculated using the discount rate of 6.75%, as well as what the City's net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (5.75%) or 1-percentage-point higher (7.75%) than the current rate:

1% Decrease in				1% Increa	ase in	
	Discount Rate 5.75%		Discount Rate 6.75%	Discount Rate 7.75%		
Net pension liability	\$	3,202,407	\$ 1,591,499	\$	326,422	

Pension Plan Fiduciary Net Position:

Detailed information about the pension plan's Fiduciary Net Position is available in a separately issued TMRS financial report. That report may be obtained on the Internet at www.tmrs.com.

Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

For the year ended September 30, 2016, the City recognized pension expense of \$330,460.

At September 30, 2016, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

Deferred Outflows Deferred Infl				
of Resources		o	f Resources	
\$	-	\$	621,044	
	22,900		-	
	366,517		-	
	273,748		-	
\$	663,165	\$	621,044	
	of F	of Resources \$ - 22,900 366,517 273,748	of Resources o \$ - \$ 22,900 366,517 273,748	

City of Rio Grande City, Texas Notes Financial Statements

Net Deferred

NOTE 10 – EMPLOYEE RETIREMENT BENEFIT PLANS (Continued)

\$273,748 reported as deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability for the year ended September 30, 2016. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

	net beieffed
	Outflows (Inflows)
Year Ending September 30,	of Resources
2016	\$ (42,626)
2017	(42,626)
2018	(42,625)
2019	(55,962)
2020	(45,982)
Thereafter	(1,806)
Total	\$ (231,627)

Other Post-Employment Benefits – Texas Municipal Retirement System – Supplemental Death Benefits

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

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

	Plan Year	Plan Year	Plan Year
Supplemental death benefits	2014	2015	2016
Active employees (yes or no)	Yes	Yes	Yes
Retirees (yes or no)	Yes	Yes	Yes

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

The City's contributions to the TMRS SDBF for the years ended in 2016, 2015, and 2014 were \$5,831, \$5,127 and \$2,015, respectively, which equaled the required contributions per each year.

NOTE 11 – CONSTRUCTION AND IMPROVEMENT COMMITMENTS

Construction and Improvement Commitments

At September 30, 2016, the City had the following significant remaining contractual commitments for construction and improvement projects:

Remaining							
Project	roject Commitment		Financing Sources				
Refugio Drainage	\$	6,134	General Fund				
Café Mexico Sidewalk Repair		50,836	EDC				
VFW10" Force Main Sewer Line		159,944	Public Utilities Fund				
Total	\$	216,914					

NOTE 12 – RISK MANAGEMENT

General

The City is exposed to various risks of loss related to torts, theft, damage, or destruction of assets, errors and omissions, injuries to employees, and natural disasters. During fiscal year 2016, the City has maintained general liability coverage at a cost that is considered to be economically justifiable by joining together with other governmental entities in the State as a member of the Texas Municipal League Intergovernmental Risk Pool ("TML"). TML is a self-funded pool operating as a common risk management and insurance program. The City pays an annual premium to TML for its insurance coverage. The agreement for the formation of TML provides that TML will be self-sustaining through member premiums and will reinsure through commercial companies for claims in excess of acceptable risk levels; however each category of coverage has its own level of reinsurance. The City continues to carry commercial insurance for other risks of loss. There were no significant reductions in commercial insurance coverage in the past fiscal year and settled claims resulting from these risks have not exceeded coverage in any of the past three years.

Concentrations of Credit Risk

Proprietary fund accounts receivable are concentrated within the geographic service area of the utility system, which is within the City. Those receivables are not concentrated within any individually significant customers. The City requires a deposit from each utility customer prior to establishing service. The net amount of proprietary fund accounts receivable at year end after deducting the allowance for doubtful accounts and after including estimated amounts for service provided but not yet billed at year end was \$1,133,366. Utility customer deposits held at year end totaled \$262,361.

City of Rio Grande City, Texas Notes Financial Statements

NOTE 13 – CONTINGENCIES

Litigation

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

Federal and State Assisted Grants Programs

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

NOTE 14 – PRIOR PERIOD ADJUSTMENTS

During the year ended September 30, 2016, prior period adjustments were made to correctly reflect fund balances to actual. The effect of these prior period adjustments was as follows: An adjustment of \$837,631 was made to the general fund and an adjustment of (\$18,927) was made to the economic development fund. A payable to the Texas State Comptroller was recorded for overpayment of sales taxes in prior years in the amount of \$1,220,289. An adjustment of (\$73,606) was posted to the HIDTA Taskforce fund which decreased the ending net position and fund balance. An adjustment of \$25,967 was posted to the Border Security Grant fund which increased the fund balance and net position. An adjustment of (\$18,849) was made to the DHS Stonegarden fund which decreased the fund balance and net position. An adjustment of (\$987,498) was made to the enterprise fund which decreased the ending net position and fund balance. An adjustment of (\$36,255) was made to the debt service fund which decreased the ending net position and ending fund balance. An adjustment of (\$157,499) was posted to the Boys & Girls Club fund which decreased the fund balance and net position. An adjustment for the Governmental Activities of \$80,637 increased the beginning net position and restated capital assets beginning balance.

City of Rio Grande City, Texas Notes Financial Statements

NOTE 15 – SUBSEQUENT EVENTS

The City has evaluated subsequent events through November 21, 2018, the date which the financial statements were available to be issued.

As of December 8, 2016, The City entered into an Agreed Order with the Texas Commission on Environmental Quality. The Executive Director's preliminary report and petition recommending that the Texas Commission on Environmental Quality enter an enforcement order assessing an administrative penalty against and requiring certain actions of the City. A penalty has been assessed In the amount or \$9,620.

In addition, in 2017, the Executive Director of the Texas Commission on Environmental Quality is pursuing an enforcement action against the City of Rio Grande City for violations of the Texas Health & Safety Code, the Texas Water Code, and Commission Rules. The City has the option to perform or contribute to a Supplemental Environmental Project to offset a portion of the penalty. The city has implemented the second option.





City of Rio Grande City, Texas General Fund Budgetary Comparison Schedule Exhibit 4-A

Variance with

	Budgeted Amounts						Final Budget Positive	
For the Year Ended September 30, 2016	Original		Final	Actual	((Negative)		
Revenues								
Taxes								
General property taxes	\$ 1,662,553	\$	1,662,553	\$	1,725,373	\$	62,820	
General sales and use taxes	3,067,331		2,960,331		2,940,387		(19,944)	
Beverage taxes	9,400		9,400		9,790		390	
Other taxes - franchise taxes	682,083		662,083		708,535		46,452	
Licenses and permits	86,875		86,875		86,631		(244)	
Intergovernmental	92,150		92,150		127,508		35,358	
Charges for services	145,700		145,700		103,780		(41,920)	
Fines and forfeitures	182,400		182,400		117,326		(65,074)	
Investments earnings	1,124		1,124		4,213		3,089	
Rents and royalties	15,500		15,500		25,364		9,864	
Miscellaneous revenues	22,538		22,538		84,189		61,651	
Total Revenues	5,967,654		5,840,654		5,933,096		92,442	
Expenditures								
General Government								
Mayor and Council								
Supplies	834		834		833		1	
Other services and charges	18,080		18,080		18,481		(401)	
Capital outlay	927		927		927		-	
Total Mayor and Council	19,841		19,841		20,241		(400)	
Administration								
Personal services	181,703		181,703		185,809		(4,106)	
Supplies	21,958		21,958		25,342		(3,384)	
Other services and charges	798,208		798,208		709,750		88,458	
Capital outlay	5,800		5,800		9,892		(4,092)	
Total Administration	1,007,669		1,007,669		930,793		76,876	
City Secretary								
Personal services	250,491		250,491		220,475		30,016	
Supplies	16,566		16,566		16,480		86	
Other services and charges	792		792		541		251	
Capital outlay	200		200		-		200	
Total City Secretary	268,049		268,049		237,496		30,553	
Finance								
Personal services	149,933		149,933		116,068		33,865	
Supplies	936		936		454		482	
Other services and charges	10,743		10,743		11,743		(1,000)	
Capital outlay	268		268		-		268	
Total Finance	161,880		161,880		128,265		33,615	

City of Rio Grande City, Texas General Fund Budgetary Comparison Schedule Exhibit 4-A (continued)

Variance with

	Budgeted A	mounts		Final Budget Positive	
For the Year Ended September 30, 2016	Original	Final	Actual	(Negative)	
Expenditures					
Personnel					
Personal services	53,178	53,178	53,157	21	
Supplies	2,444	2,444	2,808	(364)	
Other services and charges	5,696	5,696	6,917	(1,221)	
Total Personnel	61,318	61,318	62,882	(1,564)	
Planning					
Personal services	281,298	281,298	287,805	(6,507)	
Supplies	18,606	18,606	17,039	1,567	
Other services and charges	45,494	45,494	45,681	(187)	
Capital outlay	1,500	1,500	760	740	
Total Planning	346,898	346,898	351,285	(4,387)	
Total General Government	1,865,655	1,865,655	1,730,962	134,693	
Judicial					
Municipal Court					
Personal services	61,880	61,880	65,857	(3,977)	
Supplies	3,800	3,800	2,924	876	
Other services and charges	69,550	69,550	77,785	(8,235)	
Total Municipal Court	135,230	135,230	146,566	(11,336)	
Total Judicial	135,230	135,230	146,566	(11,336)	
Public Safety					
Police Department					
Personal services	1,795,359	1,795,359	1,887,677	(92,318)	
Supplies	103,451	103,451	96,323	7,128	
Other services and charges	189,362	189,362	166,773	22,589	
Capital outlay	1,842	1,842	600	1,242	
Total Police Department	2,090,014	2,090,014	2,151,373	(61,359)	
Fire Department					
Personal services	852,045	852,045	809,187	42,858	
Supplies	26,111	26,111	22,004	4,107	
Other services and charges	82,411	82,411	78,905	3,506	
Total Fire Department	960,567	960,567	910,096	50,471	
Total Public Safety	3,050,581	3,050,581	3,061,469	(10,888)	
Highways and Streets					
Other services and charges	131,500	131,500	153,057	(21,557)	
Total Highways and Streets	131,500	131,500	153,057	(21,557)	

City of Rio Grande City, Texas General Fund Budgetary Comparison Schedule Exhibit 4-A (continued)

	Pool and a d Accord			Variance with Final Budget Positive	
For the Year Ended September 30, 2016	 Budgeted Am Original	Final	Actual	(Negative)	
Expenditures	<u> </u>		Accuai	(itegative)	
Public Works					
Personal services	585,946	585,946	613,997	(28,051)	
Supplies	82,690	82,690	82,077	613	
Other services and charges	77,210	77,210	75,586	1,624	
Capital outlay	69,455	69,455	70,885	(1,430)	
Total Public Works	815,301	815,301	842,545	(27,244)	
Culture, Recreation & Parks	•	,	,		
Parks Department					
Personal services	203,352	203,352	155,741	47,611	
Supplies	22,155	22,155	19,332	2,823	
Other services and charges	213,979	213,979	212,728	1,251	
Capital outlay	1,800	1,800	2,782	(982)	
Total Parks Department	441,286	441,286	390,583	50,703	
Total Culture, Recreation & Parks	441,286	441,286	390,583	50,703	
Library					
Personal services	191,873	191,873	191,099	774	
Supplies	8,262	8,262	3,317	4,945	
Other services and charges	44,188	44,188	38,679	5,509	
Capital outlay	48,000	48,000	32,016	15,984	
Total Library	292,323	292,323	265,111	27,212	
Debt					
Principal retirements	-	-	455,178	(455,178)	
Interest and fiscal charges	-	-	18,371	(18,371)	
Total Debt Service	-	-	473,549	(473,549)	
Total Expenditures	6,731,876	6,731,876	7,063,842	(331,966)	
Excess (Deficiency) of Revenues				_	
Over (Under) Expenditures	(764,222)	(891,222)	(1,130,746)	(239,524)	
Other Financing Sources (Uses)					
Transfers in	800,000	800,000	817,853	17,853	
Transfers out	(5,400)	(5,400)	(595,041)	(589,641)	
Sale of capital assets	3,500	3,500	-	(3,500)	
Total Other Financing Sources (Uses)	798,100	798,100	222,812	(575,288)	
Net Change in Fund Balance	33,878	(93,122)	(907,934)	(814,812)	
Fund Balance - beginning of year	1,344,201	1,344,201	1,344,201	-	
Increase (Decrease) in Fund Balance	 		(983,527)	(983,527)	
Fund Balance - ending of year	\$ 1,378,079 \$	1,251,079 \$	(547,260)	(1,798,339)	

City of Rio Grande City, Texas Economic Development Corporation Fund Budgetary Comparison Schedule Exhibit 5-A

	Budgeted	l Am	ounts		ariance with Final Budget Positive
For the Year Ended September 30, 2016	Original		Final	Actual	(Negative)
Revenues					
Taxes					
General sales and use taxes	\$ 1,000,000	\$	1,000,000	\$ 980,129	\$ (19,871)
Investment earnings	10,000		10,000	5,779	(4,221)
Rents and royalties	-		-	3,692	3,692
Miscellaneous revenues	13,500		13,500	6,809	(6,691)
Total Revenues	1,023,500		1,023,500	996,409	(27,091)
Expenditures					
Economic Development and Assistance					
Personal services	299,196		299,196	290,004	9,192
Supplies	20,325		20,325	9,164	11,161
Other services and charges	1,932,438		1,932,438	680,627	1,251,811
Capital outlay	72,475		72,475	41,211	31,264
Total Economic Development and Assistance	2,324,434		2,324,434	1,021,006	1,303,428
Total Expenditures	2,324,434		2,324,434	1,021,006	1,303,428
Excess (Deficiency) of Revenues					
Over (Under) Expenditures	(1,300,934)		(1,300,934)	(24,597)	(1,276,337)
Other Financing Sources (Uses)					
Transfers out	(225,000)		(225,000)	(225,000)	-
Capital leases	(1,500)		(1,500)	(7,292)	5,792
Total Other Financing Sources (Uses)	(226,500)		(226,500)	(232,292)	5,792
Net Change in Fund Balance	(1,527,434)		(1,527,434)	(256,889)	(1,270,545)
Fund Balance - beginning of year	1,808,848		1,808,848	1,808,848	-
Increase (Decrease) in Fund Balance					
(Prior Years Adjustments)	-		-	18,927	(18,927)
Fund Balance - ending of year	\$ 281,414	\$	281,414	\$ 1,570,886	\$ (1,289,472)

City of Rio Grande City, Texas Schedule of Changes in Net Pension Liability and Related Ratios Texas Municipal Retirement System (TMRS) Last Ten Years Exhibit 6-A

September 30,		2014		2015		2016
Total Pension Liability						
Service cost	\$	492,276	\$	544,128	\$	564,952
Interest		513,277		526,651		556,171
Differences between expected and actual experience		(660,921)		(209,742)		(166,728)
Changes of assumptions		-		27,426		-
Benefit payments, including refunds of						
employee contributions		(184,520)		(174,484)		(191,301)
Net Change in Total Pension Liability		160,112		713,979		763,094
Total Pension Liability - beginning		7,178,656		7,338,768		8,052,747
Total Pension Liability - ending (a)	\$	7,338,768	\$	8,052,747	\$	8,815,841
Plan Fiduciary Net Position						
Contributions - employer	\$	359,165	\$	390,073	\$	359,708
Contributions - employee		261,514	-	286,383	-	291,714
Net investment income		299,025		8,788		436,680
Benefit payments, including refunds of						
employee contributions		(184,520)		(174,484)		(191,301)
Administrative expense		(3,120)		(5,353)		(4,932)
Other		(257)		(264)		(266)
Net Change in Plan Fiduciary Net Position		731,807		505,143		891,603
Plan Fiduciary Net Position - beginning		5,224,298		5,956,105		6,461,248
Plan Fiduciary Net Position - ending (b)	\$	5,956,105	\$	6,461,248	\$	7,352,851
Net Pension Liability - ending (a) - (b)	\$	1,382,663	\$	1,591,499	\$	1,462,990
Net Position as a Percentage of the Total Pension	•	,,	•	, ,	•	, - ,
Liability		81.16%		80.24%		83.40%
Covered - employee payroll	\$	4,358,940	\$	4,773,052	\$	4,861,895
Net Pension Liability as a Percentage of Covered -employee	•	•		•	•	
payroll		31.72%		33.34%		30.09%

Note: GASB 68 requires 10 fiscal years of data to be provided in this schedule. However, until a full 10-year trend is compiled, this schedule provides the information for those years for which information is available.

Notes to Schedule: N/A

City of Rio Grande City, Texas Schedule of Contributions Texas Municipal Retirement System (TMRS) Last Ten Years Exhibit 6-B

September 30,	2014	2015	2016
Actuarially determined contribution Contributions in relation to the actuarially determined	\$ 359,165	\$ 390,073	\$ 359,708
contribution	(359,165)	(390,073)	(359,708)
Contribution deficiency (excess)	\$ -	\$ -	\$
Covered - employee payroll	\$ 4,358,940	\$ 4,773,052	\$ 4,861,895
Contributions as a percentage of covered - employee payroll liability	8.24%	8.17%	7.40%

Note: GASB 68 requires 10 fiscal years of data to be provided in this schedule. However, until a full 10-year trend is compiled, this schedule provides the information for those years for which information is available.

City of Rio Grande City, Texas
Notes to the Schedule of Contributions Texas Municipal Retirement System (TMRS)
for the Year Ended September 30, 2016

Valuation Date:

Notes Actuarially determined contribution rates are calculated as of

December 31 and become effective in January, 13 months later.

Methods and Assumptions Used to Determine Contribution Rates:

Actuarial Cost Method Entry Age Normal

Amortization Method Level Percentage of Payroll, Closed

Remaining Amortization Period 30 years

Asset Valuation Method 10 Year smoothed market; 15% soft corridor

Inflation 2.5%

Salary Increases 3.50% to 10.5% including inflation

Investment Rate of Return 6.75%

Retirement Age Experience-based table of rates that are specific to the City's plan of

benefits. Last updated for the 2015 valuation pursuant to an

experience study of the period 2010-2014

Mortality RP2000 Combined Mortality Table with Blue Collar Adjustment with

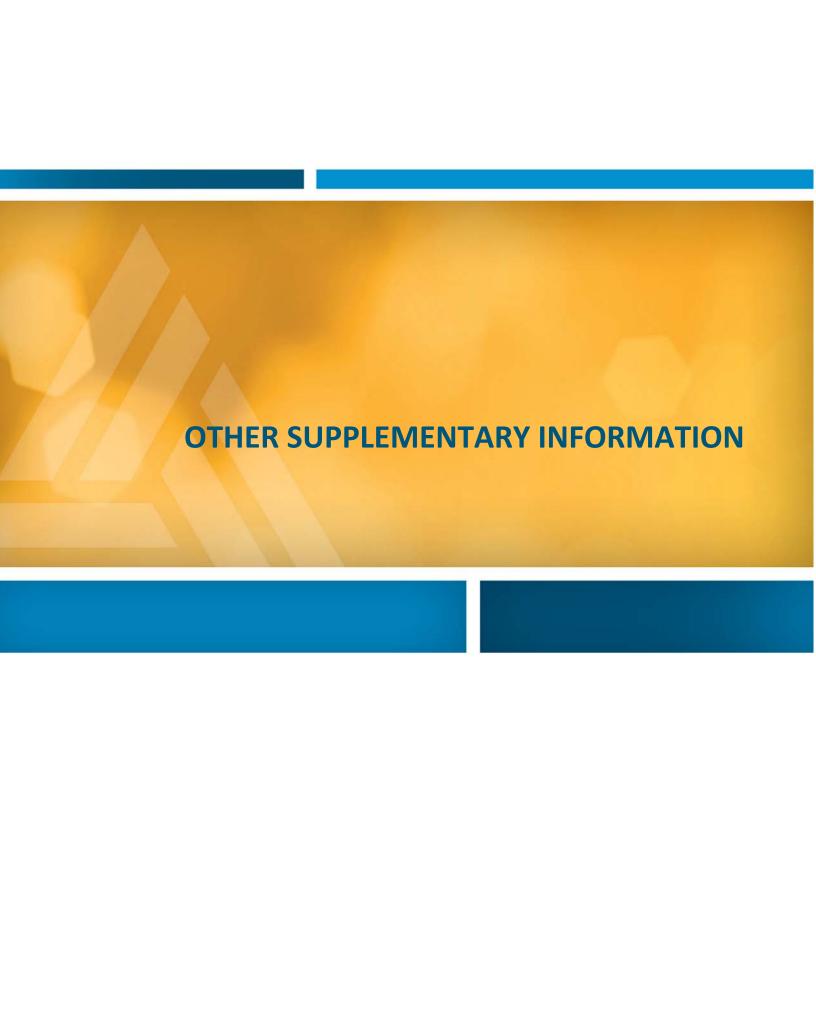
male rates multiplied by 109% and female rates multiplied by 103%

and projected on a fully generational basis with scale BB

Other Information:

Notes There were no benefit changes during the year.







City of Rio Grande City, Texas Notes to required Supplemenary Information

Budgetary Information

The budget is prepared in accordance with financial policies approved by the City Budget Officer and the City Council following a public hearing. The Budget Officer is required by policy to present City Council with a balanced budget that contains a no-tax increase assumption as a starting point for budget discussions. The amounts budgeted in a fiscal year for expenditures in various funds may not exceed the balances in those funds as the first day of the fiscal year plus any anticipated revenue for the fiscal year as estimated by the City's management.

The following are the funds which have legally adopted annual budgets prepared on a basis consistent with GAAP for the General Fund, Economic Development Corporation Fund and Debt Service Fund.

The budget law of the State of Texas provides that the amounts budgeted for current expenditures from the various funds of the City shall not exceed the balances in said funds plus the anticipated revenues for the current year for which the budget is made as estimated by the City's management. In addition, law provides that the City Council may, upon proper application, transfer an existing budget surplus during the year to a budget of like kind and fund but no such transfer shall increase the total budget.

Each year, all departments submit to the Budget Officer requests for appropriation. These requests are reviewed, complied and presented to the City Council for approval. The City Council conducts departmental budget reviews, adjusts budget requests to final form and conducts a public hearing in the City Administration Building. A copy of the proposed budget must be filed with the City Secretary. Copies must be available to the public. The City Council must provide for the public hearing on the budget on some date within seven calendar days after the filing of the budget and prior to October 1st of the current fiscal year.

The City controls appropriations at the category level (i.e., salaries/allowances, operations and property) for each department/project within the General Fund and some of the Special Revenue Funds. Grants are budgeted in total and not at the category level. All Debt Service Fund expenditures for principal and interest of long-term debt are considered to be in the operations category. Certain appropriation transfers may be made between categories or departments only with the approval of the City Council. Other transfers (e.g. court costs) may be authorized by the City Manager. Transfers that were made during fiscal year 2015 did not increase the City's overall budget. Unencumbered funds lapse at fiscal year end. The original budgets presented in the report are the approved budgets before amendments and transfers. The final budgets presented in this report reflect the budgets as amended for all appropriation transfers processed during the fiscal year. The legal level of budgetary control (the level on which expenditures may not exceed appropriations) in on an object class basis. More comprehensive accounting of activity on the budgetary basis is provided in a separate report, which available for public inspection in the City's administration building.

City of Edinburg, Texas Notes to required Supplementry Information (Continued)

SPECIAL REVENUE FUNDS

Special revenue funds are used to account for specific revenue resources that are restricted or committed to expenditure for specified purposes other than debt service or capital projects.

Hotel Occupancy Tax Fund is used to account for a tax levied on hotels within the City. The tax revenues can be expended for tourism and related programs promoting the City.

Forfeiture Fund accounts for monies obtained through forfeited "contraband" provisions pursuant to Chapter 59 of the Texas Code of Criminal Procedure. The City's share of adjudicated forfeitures are to be used solely for law enforcement purposes as provided by Article 59.06 of the Code.

The High Intensity Drug Trafficking Areas (HIDTA) Task Force Fund is used to account for revenues and expenditures of Police Department activities in conjunction with other drug task force agencies.

Treasury Forfeiture Fund is the receipt account for proceeds from non-tax forfeitures made pursuant to laws enforced or administered by participating Treasury and Department of Homeland Security agencies.

Criminal Justice Division (CJD) Task Force Grant Fund is used to account for grant revenues and expenditures received for the ARRA-Edward Byre Justice Assistance Grant by the CJD programs.

Border Security Grants is used to account for grant revenues and expenditures received for border security.

Department of Homeland Security (DHS) Stonegarden Fund is used to account for grant revenues and expenditures received for efforts to secure the United States' borders along routes of ingress from international borders

SRF Airport Fund is used to account for revenues and expenses of the City's airport operations.

Texas Department of Agriculture (TDA) Contract NO. 713409 is used to account for revenues and expenditures of received by the TDA for the construction or improvement of the Sanitary Sewer Project.

Texas Department of Agriculture (TDA) Contract NO. 7217419 s used to account for revenues and expenditures of funds received by the TDA for construction and engineering services provided for the approved Street Improvements.

Public Education and Governmental (PEG) Fee Revenue Fund is used to account for revenues and expenditures of funds received under Chapter 66.006 of the Utilities Code concerning the 1% fee charged as part of franchise fees collected from cable companies. These fees are used to support capital costs for the City's public access channel.

CAPITAL PROJECTS FUND

The *Capital Projects Fund* accounts for the acquisition and construction of the City's major capital facilities and infrastructure improvements, other than those financed by proprietary funds.

DEBT SERVICE FUNDS

Debt service funds are used to account for and report financial resources that are restricted, committed, or assigned to expenditure for principal and interest.

The *Debt Service Fund,* also known as the Interest and Sinking Fund, was established by ordinance authorizing the issuance of General Obligation Bonds. The fund provides for payment of bond principal, interest, paying agent fees, and a debt service reserve as a sinking fund each year. An ad valorem tax rate and tax levy is required to be computed and levied, which will be sufficient to produce the money required to pay the principal and interest as it comes due and provide the interest and sinking fund reserve.

City of Rio Grande City, Texas Combining Balance Sheet Nonmajor Governmental Funds Exhibit 7-A

	Spe	ecial Revenue	Ca	pital Projects	al Nonmajor vernmental
September 30, 2016		Funds		Funds	Funds
Assets					
Cash and cash equivalents	\$	886,033	\$	1,724,800	\$ 2,610,833
Receivables, net		560,036		-	560,036
Due from other funds		2,159,565		(23,246)	2,136,319
Total assets		3,605,634		1,701,554	5,307,188
Liabilities, Deferred Inflows of Resources and Fund Balances					
Liabilities					
Accounts payable		310		-	310
Accrued wages payable		146		-	146
Due to other funds		483,367		91,768	575,135
Due to other governments		1		_	1
Total liabilities		483,824		91,768	575,592
Deferred inflows of resources					
Unavailable revenue-property taxes		348,683		-	348,683
Total deferred inflows of resources		348,683		-	348,683
Fund balances					
Restricted fund balances					
Federal or state funds grant restriction		335,974		-	335,974
Restricted for debt service		2,082,757		-	2,082,757
Assigned		404,012		-	404,012
Unassigned		(49,616)		-	(49,616)
Committed					
Construction		_		1,609,786	1,609,786
Total fund balances		2,773,127		1,609,786	 4,382,913
Total liabilities, deferred inflows of resources					
and fund balances	\$	3,605,634	\$	1,701,554	\$ 5,307,188

City of Rio Grande City, Texas Combining Statement of Revenues, Expenditures, And Changes in Fund Balances Nonmajor Governmental Funds Exhibit 7-B

	Sno	cial Revenue	Can	ital Projects	Total Non Governm	-
For the Year Ended September 30, 2016	Spec	Funds	Сар	Funds	Fund	
Revenues						
Taxes						
General property taxes	\$	451,091	\$	-	\$ 45	51,091
General sales and use taxes		170,081		-	17	70,081
Other taxes - franchise taxes		14,894		-	1	14,894
Intergovernmental		591,974		34,675	62	26,649
Charges for services		46,734		-	4	46,734
Fines and forfeitures		92,635		-	9	92,635
Investment earnings		1,362		42		1,404
Miscellaneous revenues		10,318		-	1	10,318
Total revenues		1,379,089		34,717	1,41	13,806
Expenditures						
Current						
General government		195,359		158,040	35	53,399
Public safety		385,785		-	38	35,785
Economic development and assistance		101,332		-	10	01,332
Debt service						
Principal		386,365		-	38	36,365
Interest and fiscal charges		268,721		-	26	58,721
Fiscal agent's fees		29,593		-	2	29,593
Total expenditures		1,367,155		158,040	1,52	25,195
Excess (deficiency) of revenues over (under) expenditures		11,934		(123,323)	(11	11,389)
Other Financing Sources (Uses)						
Transfers in		1,730,930		-	1,73	30,930
Transfers out		(81,250)		(11,603)	(9	92,853)
Total other financing sources (uses)		1,649,680		(11,603)	1,63	38,077
Excess (deficiency) of revenues over (under) expenditures						
and other sources (uses)		1,661,614		(134,926)	1,52	26,688
Fund Balances - as previously stated		851,270		1,744,712		95,982
Prior period adjustment		260,243		-		50,243
Fund Balances - beginning of year restated		1,111,513		1,744,712		56,225
Fund Balances - end of year	\$	2,773,127	\$	1,609,786		32,913



September 30, 2016		Hotel ccupancy ax Fund	/ Forfeiture Fund		 IDTA Task orce Fund	Treasury Forfeiture Fund		
Assets								
Cash and cash equivalents	\$	451,151	\$	74,430	\$ 20,324	\$	49,185	
Receivables, net		11,014		-	116,115		-	
Due from other funds		-		-	-			
Total assets		462,165		74,430	136,439		49,185	
Liabilities, Deferred Inflows of Resources and Fund Balance	es							
Liabilities								
Accounts payable		-		-	-		-	
Accrued wages payable		146		-	-		-	
Due to other funds		58,007		67,590	64,992		-	
Due to other governments		-		-	-			
Total liabilities		58,153		67,590	64,992			
Deferred inflows of resources								
Unavailable revenue - property taxes		-		-	-		-	
Total deferred inflows of resources		-		-	-		_	
Fund balances								
Restricted fund balances								
Federal or state funds grant restriction		-		6,840	71,447		49,185	
Restricted for debt service		-		-	-		-	
Assigned		404,012		-	-		-	
Unassigned		-		-	-		-	
Total fund balance		404,012		6,840	71,447		49,185	
Total liabilities, deferred inflows of resources								
and fund balance	\$	462,165	\$	74,430	\$ 136,439	\$	49,185	

City of Rio Grande City, Texas Combining Balance Sheet Nonmajor Special Revenue Funds Exhibit 7-C

sk Force It Fund	Border Security Grants		DHS negarden Fund	SRF Airport Fund	TDA Contract NO 713409	TDA Contract NO 7217419	PEG Fee Revenue	Debt Service Fund
\$ 8,679 - -			136,923 78,453 -	-	\$ 14 - 49,460	- -	\$ 10,200 3,783	347,130 2,075,105
8,679	92,287		215,376	1	49,474	280	13,983	2,433,424
-	1		-	-	-	-	164	-
-	118,221	•	- 78,463	-	13	300	350	- 1,984
-	110,221		1	-	-	-	-	-
-	118,222		78,464	-	13	300	514	1,984
 -			-	-	-	-	-	348,683
-			-	-	-	-	-	348,683
8,679			136,912	1	49,461	(20)	13,469	-
-			-	-	-	-	-	2,082,757
-	(25,935	\	-	-	-	-	-	-
 			-	<u>-</u>	-		-	
 8,679	(25,935)	136,912	1	49,461	(20)	13,469	2,082,757
\$ 8,679	\$ 92,287	\$	215,376	\$ 1	\$ 49,474	\$ 280	\$ 13,983	\$ 2,433,424



City of Rio Grande City, Texas Combining Balance Sheet Nonmajor Special Revenue Funds Exhibit 7-C (continued)

					N	Total IonMajor
						Special
	-	& Girls				Revenue
September 30, 2016	(Club	Park I	ee Fund		Funds
Assets						
Cash and cash equivalents	\$	26,711	\$	4,659	\$	886,033
Receivables, net		-		3,541		560,036
Due from other funds		20,000		15,000		2,159,565
Total assets		46,711		23,200		3,605,634
Liabilities, Deferred Inflows of Resources and Fund Balances						
Liabilities						
Accounts payable		145		-		310
Accrued wages payable		-		-		146
Due to other funds		93,447		-		483,367
Due to other governments		-		-		1
Total liabilities		93,592		-		483,824
Deferred inflows of resources						
Unavailable revenue - property taxes		-		-		348,683
Total deferred inflows of resources		-		-		348,683
Fund balances						
Restricted fund balances						
Federal or state funds grant restriction		-		-		335,974
Restricted for debt service		-		-		2,082,757
Assigned		-		-		404,012
Unassigned		(46,881)		23,200		(49,616)
Total fund balance		(46,881)		23,200		2,773,127
Total liabilities, deferred inflows of resources						
and fund balance	\$	46,711	\$	23,200	\$	3,605,634

For the Year Ended September 30, 2016	Oce	Hotel cupancy x Fund		eiture nd		A Task Fund	For	easury feiture fund
Revenues								
Taxes								
General property taxes	\$	-	\$	-	\$	-	\$	-
General sales and use taxes		170,081		-		-		-
Other taxes - franchise taxes		-		-		-		-
Intergovernmental		-		-	1	81,582		-
Charges for services		-		-		-		-
Fines and forfeitures		-		53,628		-		39,007
Investment earnings		751		187		-		30
Miscellaneous revenues		-		-		-		-
Total revenues		170,832		53,815	1	81,582		39,037
Expenditures								
Current								
General government		-		-		-		-
Public safety		-		71,621	1	88,590		138
Economic development and assistance		101,332		-		-		-
Debt service								
Principal		-		41,365		-		-
Interest and fiscal charges		-		2,502		-		-
Fiscal agent's fees		-		-		-		-
Total expenditures		101,332	1	15,488	1	.88,590		138
Excess (deficiency) of revenues								
over (under) expenditures		69,500	(61,673)		(7,008)		38,899
Other Financing Sources (Uses)								
Transfers in		-		-		-		-
Transfers out		-	(81,250)		-		-
Total other financing sources (uses)		-	(81,250)		-		-
Net changes in fund balance		69,500	(1	42,923)		(7,008)		38,899
Fund Balances - as previously stated		334,512	1	49,763		4,849		10,286
Prior period adjustment			_	-		73,606		-
Fund Balances - beginning of year restated		334,512	1	49,763		78,455		10,286
Fund Balances - end of year	\$	404,012	\$	6,840	\$	71,447	\$	49,185

City of Rio Grande City, Texas Combining Statement of Revenues, Expenditures And Changes in Fund Balances Nonmajor Special Revenue Funds Exhibit 7-D

		Border	DHS					
CJD Tas		ecurity	Stonegarden	SRF Airport	TDA Contract	PEG Fee	TDA Contract	Debt Service
Grant	Fund	Grants	Fund	Fund	NO 713409	Revenue	NO 7217419	Fund
\$	-	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 451,091
	-	-	-	-	-	14,894	-	-
	2,442	-	231,142	_	82,808	14,654	_	_
	-	-	-	-	-	-	-	-
	-	-	-	-	-	-	-	-
	15	54	160	-	-	13	-	114
	-	-	-	1	-	-	-	
	2,457	54	231,302	1	82,808	14,907	-	451,205
	_	_	_	7,744	33,347	_	20	_
	885	-	113,239	7,744	-	11,312	-	-
	-	-	-	-	-	-	-	-
	-	-	-	-	-	-	-	345,000
	-	-	-	-	-	-	-	266,219
	-	-	-	-	-	-	-	29,593
	885	-	113,239	7,744	33,347	11,312	20	640,812
	1,572	54	118,063	(7,743)	49,461	3,595	(20)	(189,607)
	-	-	-	7,744	-	-	-	1,723,186
	-	-	-	-	-	-	_	
	-	-	-	7,744	-	-	-	1,723,186
	1,572	54	118,063	1	49,461	3,595	(20)	1,533,579
	7,107	(22)	-	-	-	9,874	-	512,922
	<u> </u>	 (25,967)	18,849	-			-	36,256
	7,107	(25,989)	18,849	-	-	9,874	-	549,178
\$	8,679	\$ (25,935)	\$ 136,912	\$ 1	\$ 49,461	\$ 13,469	\$ (20)	\$ 2,082,757

City of Rio Grande City, Texas Combining Statement of Revenues, Expenditures And Changes in Fund Balances Nonmajor Special Revenue Funds Exhibit 7-D (continued)

For the Year Ended September 30, 2016	Boys & Girls Club	Park Fee Fund	Total NonMajor Special Revenue Funds
Revenues			
Taxes			
General property taxes	\$ -	\$ -	\$ 451,091
General sales and use taxes	-	-	170,081
Other taxes - franchise taxes	_	_	14,894
Intergovernmental	94,000	_	591,974
Charges for services	23,468	23,266	46,734
Fines and forfeitures	-	-	92,635
Investment earnings	33	5	1,362
Miscellaneous revenues	10,317	-	10,318
Total revenues	127,818	23,271	1,379,089
Expenditures			
Current			
General government	154,176	72	195,359
Public safety	-	-	385,785
Economic development and assistance	-	-	101,332
Debt service			
Principal	-	-	386,365
Interest and fiscal charges	-	-	268,721
Fiscal agent's fees	-	-	29,593
Total expenditures	154,176	72	1,367,155
Excess (deficiency) of revenues			
over (under) expenditures	(26,358)	23,199	11,934
Other Financing Sources (Uses)			
Transfers in	-	-	1,730,930
Transfers out	-	-	(81,250)
Total other financing sources (uses)	-	-	1,649,680
Net changes in fund balance	(26,358)	23,199	1,661,614
Fund Balances - as previously stated	(178,022)	1	851,270
Prior period adjustment	157,499	-	260,243
Fund Balances - beginning of year restated	(20,523)	1	1,111,513
Fund Balances - end of year	\$ (46,881)	\$ 23,200	\$ 2,773,127

City of Rio Grande City, Texas Debt Service Fund Budgetary Comparison Schedule Exhibit 8-A

	Budgeted	ΙΛm	ounts				riance With nal Budget Positive
For the Year Ended September 30, 2016	 Original	AII	Final	1	Actual	(Negative)
Revenue							
Taxes							
General property tax	\$ 448,000	\$	448,000	\$	451,091	\$	3,091
Investment earnings	410		410		114		(296)
Total revenues	448,410		448,410		451,205		2,795
Expenditures							
Debt service							
Principal	1,070,000		1,070,000		345,000		725,000
Interest and fiscal charges	620,670		620,670		266,219		354,451
Fiscal agent's fees	29,450		29,450		29,593		(143)
Total expenditures	1,720,120		1,720,120		640,812		1,079,308
Excess (deficiency) of revenues							
over (under) expenditures	(1,271,710)		(1,271,710)		(189,607)		(1,082,103)
Other Financing Sources (Uses)							
Transfers in	1,284,298		1,284,298		1,723,186		438,888
Total other financing sources (uses)	1,284,298		1,284,298		1,723,186		438,888
Net change in fund balances	12,588		12,588		1,533,579		1,520,991
Fund Balances - as previously stated	512,922		512,922		512,922		-
Prior period adjustment	-		-		36,256		36,256
Fund Balances - beginning of year restated	512,922		512,922		549,178		36,256
Fund Balances - end of year	\$ 525,510	\$	525,510	\$	2,082,757	\$	1,557,247

City of Rio Grande City, Texas Combining Balance Sheet Nonmajor Capital Project Funds Exhibit 9-A

September 30, 2016	Water Plant Project		Capital Projects Reserve Fund		2013 Wastewater		TX Parks and Wildlife		Total Nonmajor Capital Projects Funds	
Assets										
Cash and cash equivalents	\$	-	\$	-	\$	1,724,659	\$	141	\$	1,724,800
Due from other funds		11,745		-		-		(34,991)		(23,246)
Total assets		11,745		-		1,724,659		(34,850)		1,701,554
Liabilities										
Due to other funds		3,513		-		-		88,255		91,768
Total Liabilities		3,513		-		-		88,255		91,768
Fund balances										
Restricted fund balances										
Federal or state funds grant restriction		-		-		-		(123,105)		(123,105)
Committed										
Construction		8,232		-		1,724,659		-		1,732,891
Total fund balances		8,232		-		1,724,659		(123,105)		1,609,786
Total liabilities and fund balances	\$	11,745	\$	-	\$	1,724,659	\$	(34,850)	\$	1,701,554

City of Rio Grande City, Texas Combining Statement of Revenues, Expenses, and Changes in Fund Balances Nonmajor Capital Project Funds Exhibit 9-B

				Capital			Total Nonmajor				
	Wate	er Plant	Projects			2013		2013		Capital Projects	
For the Year Ended September 30, 2016	Pr	oject	Re	serve Fund	W	/astewater	W	astewater		Funds	
Revenue											
Intergovernmental	\$	-	\$	-	\$	-	\$	34,675	\$	34,675	
Investment earnings		-		-		42		-		42	
Total Revenues		-		-		42		34,675		34,717	
Expenditures											
Current											
General government		-		120		140		157,780		158,040	
Total expenditures		-		120		140		157,780		158,040	
Excess (deficiency) of revenues											
over (under) expenditures		-		(120)		(98)		(123,105)		(123,323)	
Other Financing Sources (Uses)											
Transfers out		-		(11,603)		-		-		(11,603)	
Total other financing sources (uses)		-		(11,603)		-		-		(11,603)	
Net change in fund balances		-		(11,723)		(98)		(123,105)		(134,926)	
Fund Balances - beginning of year		8,232		11,723		1,724,757		-		1,744,712	
Fund Balances - ending of year	\$	8,232	\$	-	\$	1,724,659	\$	(123,105)	\$	1,609,786	





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INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

Honorable Mayor, City Council and City Manager

We have audited, in accordance with the 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, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Rio Grande City, Texas (the "City"), as of and for the year ended September 30, 2016, and the related notes to the financial statements, which collectively comprise the City's basic financial statements and have issued our report thereon dated November 21, 2018.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control that we consider material weaknesses and significant deficiencies.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying schedule of findings and questioned costs as items 2016-001, 2016-002, 2016-004, 2016-007, 2016-008 and 2016-009 to be material weaknesses.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompany schedule of findings and questioned costs as items 2016-003, 2016-005, 2016-006, 2016-010, 2016-011 and 2016-012 to be significant deficiencies.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and questioned costs as items 2016-004, 2016-005, 2016-006, 2016-008, 2016-009 and 2016-010.

City's Response to Findings

City's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. City's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

McAllen, Texas

November 21, 2018

Can, Rigge & Ingram, L.L.C.

Section I - Summary of Auditors' Results

Financial Statements

Type of auditor's report issued:		Modified	
Interr	nal control over financial reporting:		
•	Material weakness (es) identified?	Xyes	no
•	Significant deficiency (ies) identified that are not considered to be material weaknesses?	Xyes	none reported
Nonc	ompliance material to financial statements noted?	Xyes	no

Section II – Findings Relating to the Financial Statement Audit as Required to Be Reported in Accordance with Generally Accepted Government Auditing Standards

PROGRAM	DESCRIPTION
Finding 2016-001	City Accounting-Material Weakness
Criteria:	All transaction types occurring in the course of business should be timely and coded properly in the general ledger. Preparation of year-end adjusting journal entries, reconciliations, reviews and other general ledger tests for reasonableness and agreement to underlying journals, and third parties should be performed in readiness for the monthly reports to the commissioners, and preparation of the City's annual financial statements.
Condition Found:	The general ledger required significant adjustments and reclassifications to both the current and prior period balances. Preparation of the year-end adjusting journal entries, schedules, and reconciliation of several significant areas were not complete.
Cause:	Due to the extended absences and turnover of key individuals, and the absence of training for key operational areas, there was a lack of familiarity with required procedures.
Effect:	Management assessments and financial decisions, and internal and external financial reporting may be inaccurate because of an improperly maintained general ledger.
Context:	During the course of the audit, there were various general ledger accounts that required adjustment.
Recommendation(s):	The City should review their procedures for proper coding and timely recording of transactions at the end of each month and at year-end.

Finding 2016-002	Grant Reconciliations-Material Weakness
Criteria:	The City must have proper controls in place to effectively administer and monitor grant activity to provide accurate financial preparation in accordance with accounting standards generally accepted in the United State of American applicable to state and local governments (GAAP).
Condition Found:	In conducting the audit, year-end accruals related to grants were not recorded. In addition, reconciliation of grant activity was not performed during the year.
Cause:	Lack of communication between departments and finance.
Effect:	Account balances were misstated.
Context:	Accounts receivable, revenue and expenditures related to the grants were not reconciled at year-end.
Recommendation(s):	Departments and finance should review amounts received and expended on a regular basis, reconciled at year-end, and adjusted as deemed necessary.

Finding 2016-003	Segregation of Duties and Documentation of Approvals- Significant Deficiency
Criteria:	Internal controls are a major part of managing a local government's financial operations and assuring taxpayers that a local government is handling their money responsibly.
Condition Found:	We noted that there was not segregation of duties and approvals for bank reconciliation, transfers, EFTPS payroll deposits and direct deposit payments.
Cause:	Due to the extended absences and turnover of key individuals, there was lack of familiarity with required procedures. An absence of training for key operational areas was noticed.
Effect:	The lack of segregation of duties could hinder the ability to safeguard City's assets and detect and prevent errors and fraud.
Context:	During the review of the internal control process, it was observed that some internal accounting control weaknesses existed with segregation of duties and physical approvals.
Recommendation(s):	The City should review and evaluate its internal controls currently in place and make appropriate changes as needed to improve the safeguarding of City's assets.

Finding 2016-004	Procurement-Material Weakness
Criteria:	Texas Local Government Code 252.021 provides that, before a Municipality may enter into a contract for the purchase of most goods and services that require an expenditure of more than \$50,000 from one or more municipal funds, the municipality must comply with several competitive purchasing requirements.
Condition Found:	The City did not follow the procurement process for eight vendors during the year.
Cause:	The lack of a review process and the laxity of the required procurement procedures appear to have lead to the condition found.
Effect:	The City does not comply with the purchasing requirements of Texas Local Government Code 252.021.
Context:	The sample selected consisted of eight vendors. Eight of the eight bids did not comply with the purchasing requirements of the Texas Local Government Code 252.021.
Recommendation(s):	The City should attend training on the procurement and review process in adherences to Texas Local Government Code 252.021.

Finding 2016-005 City Home Rule Charter – Significant Deficiency

Criteria: City Charter requires that the City have a five and ten year

Comprehensive Long-Term Capital Improvement Plan.

Condition Found: City does not have a five and ten year Comprehensive Long-

Term Capital Improvement Plan.

Cause: City Charter is not reviewed on a regular basis.

Effect: City's non-compliance with plan may provide inadequate

in frastructure.

Context: Obtained and reviewed City's Home Rule Charter.

Recommendation(s): The City should comply with the City's Home Rule Charter.

Finding 2016-006	Economic Development Corporation (EDC) By-Laws-Significar Deficiency
Criteria:	The EDC By-Laws (1) require the registered agent to reside in the City, (2) a performance evaluation process to ensure the achievements of the Corporation's goals were met for the prior period, and a (3) contract between the City and the Department of Finance.
Condition Found:	Registered agent did not reside in the City, a performance evaluation process was not in place, and no contract between the City and the Department of Finance was available.
Cause:	EDC Bylaws are not reviewed on a regular basis.
Effect:	Non compliance with EDC bylaws.
Context:	Obtained and reviewed EDC bylaws.
Recommendation(s):	The City should comply with the EDC's By-Laws.

Finding 2016-007	Fixed Assets-Material Weakness
Criteria:	Government regulations, Generally Accepted Accounting Principals, (GAAP), require the City to develop policies and procedures to track an asset's cost, depreciation and the disposal of the assets.
Condition Found:	No written policies and procedures to track purchased or donated capital assets. No subsidiary ledger was available that agreed with the general ledger accounts balances regarding capital assets or their related depreciation.
Cause:	Capital asset software was not renewed for a number of years and no policies and procedures were available.
Effect:	Capital asset may not be properly identified and recorded.
Context:	In the review of beginning balances for the capital assets, the City was not able to provide detail subsidiary ledger that agreed with the general ledger accounts.
Recommendation(s):	The City should develop policies and procedures to identify capital assets as well as renew or acquire a new fixed asset software to track the City's capital assets.

Finding 2016-008	GASB 68 Compliance - Material Weakness
Criteria:	The American Institute of Certified Public Accountants (AICPA), chapter 13 of the AICPA's State and Local Governments Audit Guide and Accounting Guide requires tests be performed on census data in relation to Pension Plans. The City participates in the Texas Municipal Retirement System (TMRS).
Condition Found:	Inaccurate names were identified in the TMRS Census report.
Cause:	No review process has been implemented by the City to assure accurate information is transmitted to TMRS.
Effect:	Inaccurate information may affect the employees' TMRS benefits.
Context:	In our review of TMRS census information, CRI noted that six names were not consistent with the employee's information.
Recommendation(s):	The City should develop a review process for information sent to TMRS and review the list to insure the information is accurate.

Finding 2016-009	Debt Compliance - Material Weakness
Criteria:	Bonds compliance requires that fiscal records are kept on GAAP basis; must be audited by an independent CPA and must file audit reports within 120 days with the County Judge of the Commissioners Court. The Fiscal Records and audit reports available for public inspection and provide a copy of the audit report to any bondholder or any member. Any material Event must also be submitted.
Condition Found:	No audited report was submitted within the required 120 days.
Cause:	Turnover of key personnel in the City.
Effect:	Violation of the Bond Compliance Requirements.
Context:	The City did not submit the audit report on a timely manner.
Recommendation(s):	The City should submit the audit report on a timely manner.

City of Rio Grande City Corrective Action Plan

PROGRAM

CORRECTIVE ACTION PLAN

Finding 2016-001

A new Finance Director with experience and knowledge was hired to keep the Finance Department up to date. Duties have been segregated within the Finance Personnel and monitored by the Finance Director to make sure that journal entries are coded correctly and bank reconciliations are up to date. Schedules and reconciliation worksheets have been established to ensure journal accounts carry the correct balances. Year-end adjusting journal entries are made based on corresponding reconciliation schedules to ensure end of year balances are correct.

Finding 2016-002

All grant activity back-ups are submitted to Finance Department prior to agency submission to ensure accuracy and reconciliation to ledger account balances. The Finance Department and the departments in charge of grants have established better communication that ensures that everything submitted on grants will pass through the Finance Department for review before submitting. All year-end accruals are entered based on reconciliation schedules at year-end.

Finding 2016-003

Approvals of EFTPS payroll deposits and direct deposit payments have been performed since the auditor's recommendations and will continue in the future to ensure that there is a review and approval process. Bank reconciliation duties have been segregated within the Finance Department and approved by Finance Director after review. As of the beginning of 2018-2019 Fiscal year, the City implemented a form that requires the signature of Finance Director and City Manager for all bank transfers.

Finding 2016-004

The City is developing procurement policy that will adhere to the Texas Local Government Code 252.021. The policy will include a review and approval process. Training for Department Head will be scheduled on the policy, local government code and on the use of cooperative purchasing organizations.

Finding 2016-005

The City will do an annual review of the City Charter to identify areas of compliance. The City will develop a five and ten year Comprehensive Long-Term Capital Improvement Plan.

Finding 2016-006

The EDC will adhere to the By-Laws and contact the Texas State Comptroller to initiate the process to appoint the registered agent. The EDC will develop a performance evaluation process to ensure the achievements of the Corporation's goals were met for the prior period. EDC and the City will work with attorneys to prepare a contract between the EDC and the City's Department of Finance.

City of Rio Grande City Corrective Action Plan

Finding 2016-007 The City is developing a fixed asset policy that will adhere to governmental

regulations and Generally Accepted Accounting Principles, (GAAP). The policy will include procedures to track an asset's cost, depreciation and the disposal of the assets. The City has contracted RCI to do a fixed asset management

program.

Finding 2016-008 The City is developing a review procedure that will ensure accurate

information is transmitted to TMRS.

Finding 2016-009 The City is currently working with Independent Auditors (CRI) to be in

compliance and have yearly audits performed within the 120 day period. The lack key of Finance Department personnel resulted in the delay of the audits. A new Finance Director was hired and he is working on gathering information

to be in compliance with the 120 day period requirement.

City of Rio Grande City Schedule of Status of Prior Year Findings

STATUS OF PRIOR YEAR FINDINGS PROGRAM DESCRIPTION

FINDING/COMPLIANCE

Finding No. 2015-1:

A new Finance Director was hired in July 2017, and he has concentrated in getting the financials up to date. The Budget was increased for an additional staff person to assist with posting journal entries and preparing the schedule spreadsheets.

Finding No. 2015-2:

The plan to train staff continues in the audit preparation process and for contracting an outside party for the Fixed Asset Management Plan.

Finding No. 2015-3:

A Team Approach made up by the Finance Department and Management, continues to bring to date the Finance Department. The focus is on 1) developing written policies 2) Continue with RCI with the fixed asset report 3) train and delegate audit preparation duties to the Accounts Payable Clerk 4) Continue with the additional staff person for the schedules and posting.