



CITY OF RIO GRANDE CITY, TEXAS

ANNUAL FINANCIAL REPORT

FOR THE YEAR ENDED SEPTEMBER 30, 2018

Raul Hernandez & Company, P.C.

CERTIFIED PUBLIC ACCOUNTANTS

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CITY OF RIO GRANDE CITY
ANNUAL FINANCIAL REPORT FOR THE YEAR ENDED
SEPTEMBER 30, 2018

**CITY OF RIO GRANDE CITY, TEXAS
CITY OFFICIALS
SEPTEMBER 30, 2018**

Council – Manager Form of Government

MAYOR

Joel Villarreal

COUNCIL MEMBERS

Hernan R. Garza, III
Rey Ramirez
Dave “Chachi” Jones
Flor E. Flores

CITY MANAGER

Alberto Perez

FINANCE DIRECTOR

Leonel Cantu

CITY SECRETARY

Lyzette Pena

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CITY OF RIO GRANDE CITY
ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED SEPTEMBER 30, 2018

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Raul Hernandez and Company, P.C.
Certified Public Accountants
5402 Holly Rd., Suite 102
Corpus Christi, Texas 78411

Independent Auditors' Report

To the City Council
City of Rio Grande City, Texas
Rio Grande City, Texas 78582

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 of Rio Grande City") as of and for the year ended September 30, 2018, and the related notes to the financial statements, which collectively comprise the City of Rio Grande 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.

Auditor's 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 of Rio Grande 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 of Rio Grande 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.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of City of Rio Grande City, Texas as of September 30, 2018, 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

Change in Accounting Principle

As described in Note 1 to the financial statements, in 2018, City of Rio Grande City, Texas adopted new accounting guidance, Governmental Accounting Standards Board Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions*. Our opinion is 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 information and schedule of the City of Rio Grande City's proportionate share of the net pension liability and schedule of City of Rio Grande City pension contributions, and schedule of the City of Rio Grande City's proportionate share of the net OPEB liability and schedule of City of Rio Grande City OPEB contributions identified as Required Supplementary Information in 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 Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Rio Grande City, Texas's basic financial statements. The combining and individual nonmajor fund financial statements are presented for purposes of additional analysis and are not required parts 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.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated August 28, 2019 on our consideration of City of Rio Grande City, Texas'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 of Rio Grande 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 City of Rio Grande City, Texas's internal control over financial reporting and compliance.

Respectfully submitted,


Raul Hernandez & Company, P.C.

Corpus Christi, TX
August 28, 2019

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MANAGEMENTS DISCUSSION AND ANALYSIS

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CITY OF RIO GRANDE CITY, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS
September 30, 2018

Our discussion and analysis of the City's financial performance provides an overview of the City's financial activities for the fiscal year ended September 30, 2018. 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 \$2,772,056 for the year, which is a change of 11%. The governmental activities increase was \$1,456,459 while the business-type activities showed an increase of \$1,315,597.
- Last year's decrease in sales tax revenues of (\$362,329) was followed by an increase in sales tax revenues of \$188,275 for 2018.
- There were a few changes in both revenues and certain expenses of the general fund and utility fund. General fund charges for service revenues increased by \$209,812, and overall revenues increased by \$1,478,441. In addition, general government expenses decreased by (\$140,780) and total governmental expenses decreased by (\$317,639). Utility operating revenues had a decrease (\$284,482) and a decrease in the utility fund expenses of (\$217,144).
- The City added approximately \$617,889 to capital assets during the year. Capital additions include purchase of new equipment, remodeling, infrastructure improvements, water and sewer system upgrades and improvements. Depreciation expense of \$1,295,360 was also recorded for the year.
- The City had \$358,039 in business-type construction in progress at the end of the prior year. The City added \$34,951 as construction in progress in the business-type activities. Additionally, during the current year, the City added \$235,090 as construction in progress in the governmental activities, and \$258,623 was capitalized as infrastructure in the current year.

Overview of the Financial 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.

CITY OF RIO GRANDE CITY, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS
September 30, 2018

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 funds 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 modified accrual basis of accounting. Proprietary fund financial statements are presented on a cost of services or "capital maintenance" 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 fund financial statements and 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.

CITY OF RIO GRANDE CITY, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS
September 30, 2018

Government-wide net position

	Governmental Activities		Business-type Activities		Total Primary Government	
	2018	2017	2018	2017	2018	2017
Current and other assets	\$ 7,787,330	6,918,302	4,002,338	3,425,164	11,789,668	10,343,466
Capital assets	14,508,313	14,637,600	31,577,147	32,125,331	46,085,460	46,762,931
Total assets	22,295,643	21,555,902	35,579,485	35,550,495	57,875,128	57,106,397
Deferred Outflows of Resources	258,323	455,876	68,737	129,927	327,060	585,803
Long-term liabilities	6,064,395	6,713,560	19,801,777	21,075,579	25,866,172	27,789,139
Other liabilities	2,108,354	2,487,821	973,124	1,082,540	3,081,478	3,570,361
Total liabilities	8,172,749	9,201,381	20,774,901	22,158,119	28,947,650	31,359,500
Deferred Outflows of Resources	591,791	477,429	176,206	140,784	767,997	618,213
Net position:						
Invested in capital assets, net of debt	8,443,441	7,924,040	11,775,370	11,049,753	20,218,811	18,973,793
Restricted	1,430,365	575,689	-	-	1,430,365	575,689
Assigned	1,748,020	1,731,046	-	-	1,748,020	1,731,046
Unrestricted	2,167,601	2,102,193	2,921,746	2,331,766	5,089,347	4,433,959
Total net position	\$ 13,789,427	12,332,968	14,697,116	13,381,519	28,486,543	25,714,487

The City's governmental activities showed an increase in net position of \$1,456,459. Capital assets for governmental activities decreased by (\$129,287).

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

	Governmental Activities		Business-type Activities		Total Primary Government	
	2018	2017	2018	2017	2018	2017
Change in net assets						
Total revenues	\$ 9,493,002	8,014,561	7,255,216	7,539,698	16,748,218	15,554,259
Total expenses	(9,140,112)	(9,257,751)	(5,185,594)	(5,402,738)	(14,325,706)	(14,660,489)
Change before transfers	352,890	(1,243,190)	2,069,622	2,136,960	2,422,512	893,770
Transfers	1,113,222	1,064,260	(1,113,222)	(1,064,260)	-	-
Change in net position	1,466,112	(178,930)	956,400	1,072,700	2,422,512	893,770
Net position - beginning	12,332,968	13,416,673	13,381,519	12,141,078	25,714,487	25,557,751
Reclass of Beg Net Position	(9,654)	(904,775)	359,197	167,741	349,543	(737,034)
Net position - ending	\$ 13,789,427	12,332,968	14,697,116	13,381,519	28,486,543	25,714,487

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.

CITY OF RIO GRANDE CITY, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS
September 30, 2018

	Governmental Activities		Business-type Activities		Total Primary Government	
	2018	2017	2018	2017	2018	2017
Revenues						
Program revenues:						
Charges for services	\$ 1,413,476	1,203,664	7,178,469	7,368,470	8,591,945	8,572,134
General revenues:						
Maintenance and						
Operations Taxes	2,100,382	1,884,742	-	-	2,100,382	1,884,742
Debt Service Taxes	449,068	407,848	-	-	449,068	407,848
Grants	933,873	628,022	-	-	933,873	628,022
Sales tax	3,916,543	3,728,268	-	-	3,916,543	3,728,268
Investment Earnings	66,067	28,973	36,632	18,359	102,699	47,332
Miscellaneous	613,593	133,044	40,115	152,869	653,708	285,913
Total revenues	\$ 9,493,002	8,014,561	7,255,216	7,539,698	16,748,218	15,554,259

Last year's decrease in sales tax revenues of (\$362,329) was followed by an increase in sales tax revenues of \$188,275 for 2018. The increase in the sales tax was due to changes in the economic 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 fund charges for service revenues increased by \$209,812. In addition, governmental expenses decreased by (\$317,639).

Utility operating revenues had a decrease of (\$284,482) for operating revenues. There was a decrease in the utility fund expenses of (\$217,144).

	Governmental Activities		Business-type Activities		Total Primary Government	
	2018	2017	2018	2017	2018	2017
Expenses						
General Government	\$ 2,211,814	2,352,594	-	-	2,211,814	2,352,594
Judicial	150,013	149,899	-	-	150,013	149,899
Public safety	3,771,474	3,848,514	-	-	3,771,474	3,848,514
Public works	776,319	800,243	-	-	776,319	800,243
Highways and Streets	174,280	219,980	-	-	174,280	219,980
Culture and Recreation	361,763	406,175	-	-	361,763	406,175
Libraries	300,632	323,265	-	-	300,632	323,265
Economic Development	1,105,740	856,678	-	-	1,105,740	856,678
Bond Interest	254,401	474,764	-	-	254,401	474,764
Fiscal agent fees	33,675	25,639	-	-	33,675	25,639
Utility Fund	-	-	5,185,594	5,402,738	5,185,594	5,402,738
Total expenses	\$ 9,140,112	9,457,751	5,185,594	5,402,738	14,325,706	14,860,489

In 2018, 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 or the funding of principal and interest loan payments.

CITY OF RIO GRANDE CITY, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS
September 30, 2018

Financial Analysis of the City's Funds

The City has experienced an increase in sales tax revenue due to current economic conditions. We attribute some of this increase due to the stability of the current economic climate.

The city adopted a conservative budget for 2019-2020.

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 \$514,074 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 a \$1,315,597 increase in net position. The utility fund has net position of \$14,697,116 at the end of the year. However, \$11,775,370 is restricted for investment in capital assets, net of related debt. Unrestricted net position of \$2,921,746 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 \$400,052. Expenditures had an overall decrease of (\$35,731).

Capital Asset and Debt Administration

Capital assets

The following capital asset information is presented net of depreciation. More detailed information can be found on Note 6 of the notes to the financial statements.

	Governmental Activities		Business-type Activities		Total Primary Government	
	2018	2017	2018	2017	2018	2017
Land	\$ 2,292,630	2,292,630	339,036	339,036	2,631,667	2,631,666
Infrastructure	13,562,317	13,276,294	34,897,905	34,726,081	48,460,222	48,002,375
Buildings	3,525,404	3,499,293	1,690,609	1,662,514	5,216,013	5,161,807
Machinery and Equipment	5,667,145	5,572,728	2,366,222	2,366,222	8,033,367	7,938,950
Depreciation	(10,681,503)	(10,169,197)	(8,109,616)	(7,326,562)	(18,791,119)	(17,495,759)
Construction in Progress	142,319	165,852	392,990	358,039	535,309	523,891
Total assets	<u>\$ 14,508,313</u>	<u>14,637,600</u>	<u>31,577,147</u>	<u>32,125,331</u>	<u>46,085,460</u>	<u>46,762,931</u>

The City added approximately \$617,889 to capital assets during the year. Capital additions include purchase of new equipment, remodeling, infrastructure improvements, water and sewer system upgrades and improvements and construction in progress of street improvements and sewer line upgrades among others. Depreciation expense of \$1,295,360 was also recorded for the year.

CITY OF RIO GRANDE CITY, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS
September 30, 2018

Debt

More detailed information on the City's debt can be found on Note 7 in the notes to the financial statements.

	Governmental Activities		Business-type Activities		Total Primary Government	
	2018	2017	2018	2017	2018	2017
General obligation debt	\$ 5,960,000	6,320,000	19,018,000	19,793,000	24,978,000	26,113,000
Capital leases payable	104,395	393,560	783,777	1,282,071	888,172	1,675,631
Total debt	\$ 6,064,395	6,713,560	19,801,777	21,075,071	25,866,172	27,788,631

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, and administratively, the Attorney General will permit 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 \$0.108.

Economic Factors

During Fiscal Year 2017-2018 the city continued to promote a pro-business atmosphere by working with existing and new businesses to ensure the continued growth of the business community which in turn provides jobs to city residents and tax revenue for the city. From the moment a business decides to open their doors in Rio Grande City, both EDC and the Rio Grande City Chamber of Commerce engage with them to make them welcome and to facilitate their grand openings. This along with social and web posting of their ventures help promote their arrival to the area.

New Developments

A major project (Shopping strip across Walmart) that has been in the works for five years is finally coming to fruition. This development will include approximately a combination of fifteen (15) stores and restaurants including a hotel.

Another example reflective of the business-friendly environment that is being fostered is the continued increase in development of FY2019 will be exceeding FY2018 in the number of permits issues, square footage developed, valuations and permit fees collected. To date the Valuation of investments in Rio Grande City is \$24,275,433 with two more months left in the year compared to \$16,375,166 last year.

Fiscal Year	Square Footage	Valuation	Permits	Permit Fees
2019 (to date)	1,783,745	\$24,275,433	1,142	\$151,103.23
2018	1,720,626	\$16,375,166	1,196	\$119,165.47

CITY OF RIO GRANDE CITY, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS
September 30, 2018

Customer Service

Every department in the city is committed to improving customer service as iWorq system continues to be deployed for tracking customer requests. Conceptually if you can measure the requests and time it takes to complete them you can better management such requests. Emphasis is also placed on doing things right the first time in order to continue improvement of customer service.

Tourism

The City's Tourism department has continued to excel in promoting the city events that attract visitors from outside the city. For example, the Texas Downtown Association recognized one of the events the Tourism Department puts on as a "2018 Best Promotional Event" within the "Cultural Event" category. The "Viva Mexico" is a cultural annual event celebrated in the City of Rio Grande City.

Infrastructure

The city continues to invest on infrastructure such as the current lift station project that is underway. The new lift station design has three pumps compared to the old design which only had one pump. This allows for a better fail over system which will provide a higher availability and increased capacity that should support city growth for the next fifteen years.

Summary

The continued increase in Sales Tax revenue supports a healthy overall economic positive outlook. The diversity in businesses being constructed reflect the growing needs of the community such as the development currently underway for a 120 bed facility (Regency Health Care) for the elderly, a new fully automated car wash, permits recently issued for a new luxurious dance hall or event center, planned opening for a new title company (Title Max), the building of affordable homes behind city hall to name a few. The future of Rio Grande City is very positive.

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.

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BASIC FINANCIAL STATEMENTS

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CITY OF RIOGRANDE CITY
STATEMENT OF NET POSITION
SEPTEMBER 30, 2018

EXHIBIT A-1

Data Control Codes	Primary Government		
	Governmental Activities	Business - Type Activities	Total
ASSETS			
1010 Cash and Cash Equivalents	\$ 4,689,843	\$ 404,790	\$ 5,094,633
1030 Investments - Current	592,422	2,469,568	3,061,990
1050 Taxes Receivable, Net	1,467,145	-	1,467,145
1150 Accounts Receivable Net	1,011,439	1,000,003	2,011,442
1260 Due from Other Governments	82,935	-	82,935
1300 Due from Other Funds	(112,099)	112,099	-
1410 Inventories	-	15,878	15,878
1430 Prepaid Items	55,645	-	55,645
Capital Assets:			
1710 Land	2,292,630	339,036	2,631,666
1720 Infrastructure, Net	7,271,603	28,030,895	35,302,498
1730 Buildings, Net	3,008,589	1,009,703	4,018,292
1750 Machinery and Equipment, Net	1,793,172	1,804,523	3,597,695
1780 Construction in Progress	142,319	392,990	535,309
1000 Total Assets	<u>22,295,643</u>	<u>35,579,485</u>	<u>57,875,128</u>
DEFERRED OUTFLOWS OF RESOURCES			
1997 Deferred Outflow Related to Pension	244,070	64,323	308,393
1998 Deferred Outflow Related to OPEB	14,253	4,414	18,667
1500 Total Deferred Outflows of Resources	<u>258,323</u>	<u>68,737</u>	<u>327,060</u>
LIABILITIES			
2010 Accounts Payable	12,334	337,591	349,925
2020 Wages and Salaries Payable	197,817	40,915	238,732
2050 Deposits Payable	-	276,199	276,199
2090 Due to State	1,060,770	-	1,060,770
2140 Accrued Interest Payable	31,507	68,797	100,304
Noncurrent Liabilities:			
2501 Due Within One Year	420,612	1,179,350	1,599,962
2502 Due in More Than One Year	5,643,783	18,622,427	24,266,210
2580 Net Pension Liability	673,459	208,593	882,052
2585 Net OPEB Liability	132,467	41,029	173,496
2000 Total Liabilities	<u>8,172,749</u>	<u>20,774,901</u>	<u>28,947,650</u>
DEFERRED INFLOWS OF RESOURCES			
2602 Deferred Inflow Related to Pension Plan	591,791	176,206	767,997
2500 Total Deferred Inflows of Resources	<u>591,791</u>	<u>176,206</u>	<u>767,997</u>
NET POSITION			
3200 Net Investment in Capital Assets	8,443,441	11,775,370	20,218,811
Restricted for:			
3810 Restricted for Federal or State Grant Funds	876,606	-	876,606
3820 Restricted for Debt Service	514,074	-	514,074
3830 Restricted for Other Purposes	39,685	-	39,685
3870 Restricted for Capital Projects	1,748,020	-	1,748,020
3900 Unrestricted	2,167,601	2,921,746	5,089,347
3000 Total Net Position	<u>\$ 13,789,427</u>	<u>\$ 14,697,116</u>	<u>\$ 28,486,543</u>

The notes to the financial statements are an integral part of this statement.

CITY OF RIOGRANDE CITY
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2018

Data Control Codes	Expenses	Program Revenues	
		Charges for Services	Operating Grants and Contributions
Primary Government:			
GOVERNMENTAL ACTIVITIES:			
110 Mayor and Council	\$ 10,615	\$ -	\$ -
111 City Manager	255,897	-	-
120 Administration	1,258,180	248,563	9,339
130 City Secretary	83,450	-	-
140 Finance	167,458	-	-
150 Personnel	57,052	-	-
160 Planning	379,162	-	-
170 Judicial	150,013	246,246	-
210 Police	2,874,328	220,997	625,695
220 Fire Protection	897,146	-	-
300 Public Works	776,319	-	-
310 Highway and Streets	174,280	-	-
510 Culture, recreation and parks	361,763	-	-
520 Library	300,632	-	-
650 Economic Development and Assistance	1,105,740	-	298,839
720 Interest on Debt	254,401	-	-
790 Other Debt Service	33,675	-	-
Total Governmental Activities	9,140,112	715,806	933,873
BUSINESS-TYPE ACTIVITIES:			
701 Water, Sewer & Sanitation Fund	5,185,594	7,178,469	-
Total Business-Type Activities	5,185,594	7,178,469	-
TOTAL PRIMARY GOVERNMENT	\$ 14,325,706	\$ 7,894,275	\$ 933,873

Data Control Codes	General Revenues:
	Taxes:
5010	Property Taxes, Levied for General Purposes
5011	Property Taxes, Levied for Debt Service
5111	Delinquent Property Taxes
5112	AD Valorem Tax Relief Revenue
5120	General Sales and Use Taxes
5170	Franchise Tax
5177	Hotel/Motel Tax
5190	Penalty and Interest on Taxes
5700	Miscellaneous Revenue
5800	Investment Earnings

Transfers In (Out)

Total General Revenues and Transfers

Change in Net Position

Net Position - Beginning

Prior Period Adjustment

Net Position - Ending

The notes to the financial statements are an integral part of this statement.

Net (Expense) Revenue and Changes in Net Position		
Primary Government		
Governmental Activities	Business-Type Activities	Total
(10,615)	-	(10,615)
(255,897)	-	(255,897)
(1,000,278)	-	(1,000,278)
(83,450)	-	(83,450)
(167,458)	-	(167,458)
(57,052)	-	(57,052)
(379,162)	-	(379,162)
96,233	-	96,233
(2,027,636)	-	(2,027,636)
(897,146)	-	(897,146)
(776,319)	-	(776,319)
(174,280)	-	(174,280)
(361,763)	-	(361,763)
(300,632)	-	(300,632)
(806,901)	-	(806,901)
(254,401)	-	(254,401)
(33,675)	-	(33,675)
(7,490,433)	-	(7,490,433)
-	1,992,875	1,992,875
-	1,992,875	1,992,875
(7,490,433)	1,992,875	(5,497,558)
1,734,037	-	1,734,037
449,068	-	449,068
219,736	-	219,736
964,173	-	964,173
2,952,370	-	2,952,370
604,793	-	604,793
92,877	-	92,877
146,609	-	146,609
613,593	40,115	653,708
66,067	36,632	102,699
1,113,222	(1,113,222)	-
8,956,545	(1,036,475)	7,920,070
1,466,112	956,400	2,422,512
12,332,968	13,381,519	25,714,487
(9,654)	359,197	349,543
\$ 13,789,427	\$ 14,697,116	\$ 28,486,543

CITY OF RIO GRANDE CITY
BALANCE SHEET
GOVERNMENTAL FUNDS
SEPTEMBER 30, 2018

Data Control Codes	General Fund	Economic Development Corporation	Other Funds	Total Governmental Funds
ASSETS				
1010 Cash and Cash Equivalents	\$ 790,428	\$ 242,311	\$ 3,657,104	\$ 4,689,843
1030 Investments - Current	43,742	548,680	-	592,422
1050 Taxes Receivable	1,209,375	-	335,746	1,545,121
1051 Allowance for Uncollectible Taxes (credit)	(61,189)	-	(16,787)	(77,976)
1150 Accounts Receivable Net	993,952	-	17,487	1,011,439
1260 Due from Other Governments	-	-	82,935	82,935
1300 Due from Other Funds	750,109	184,354	190,826	1,125,289
1430 Prepaid Items	55,645	-	-	55,645
1000 Total Assets	<u>\$ 3,782,062</u>	<u>\$ 975,345</u>	<u>\$ 4,267,311</u>	<u>\$ 9,024,718</u>
LIABILITIES				
2010 Accounts Payable	\$ 8,686	\$ 1,960	\$ 1,688	\$ 12,334
2020 Wages and Salaries Payable	44,873	2,635	1,236	48,744
2080 Due to Other Funds	750,834	265	486,289	1,237,388
2090 Due to State	1,060,748	-	22	1,060,770
2000 Total Liabilities	<u>1,865,141</u>	<u>4,860</u>	<u>489,235</u>	<u>2,359,236</u>
DEFERRED INFLOWS OF RESOURCES				
2601 Unavailable Revenue - Property Taxes	1,410,266	-	318,958	1,729,224
2600 Total Deferred Inflows of Resources	<u>1,410,266</u>	<u>-</u>	<u>318,958</u>	<u>1,729,224</u>
FUND BALANCES				
Restricted Fund Balance:				
3450 Federal or State Funds Grant Restriction	-	-	876,606	876,606
3480 Retirement of Long-Term Debt	-	-	514,074	514,074
3490 Other Restricted Fund Balance	-	-	39,684	39,684
Committed Fund Balance:				
3510 Construction	-	-	1,748,020	1,748,020
Assigned Fund Balance:				
3590 Other Assigned Fund Balance	-	970,485	377,934	1,348,419
3600 Unassigned Fund Balance	506,655	-	(97,200)	409,455
3000 Total Fund Balances	<u>506,655</u>	<u>970,485</u>	<u>3,459,118</u>	<u>4,936,258</u>
4000 Total Liabilities, Deferred Inflows & Fund Balances	<u>\$ 3,782,062</u>	<u>\$ 975,345</u>	<u>\$ 4,267,311</u>	<u>\$ 9,024,718</u>

The notes to the financial statements are an integral part of this statement.

CITY OF RIOGRANDE CITY
 RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE
 STATEMENT OF NET POSITION
 SEPTEMBER 30, 2018

Total Fund Balances - Governmental Funds	\$ 4,936,258
Capital assets used in governmental activities are not financial resources and therefore are not reported in governmental funds.	14,508,313
Property taxes receivables unavailable to pay for current period expenditures are deferred in the funds.	1,729,224
Payables for bonds principal which are not due in the current period are not reported in the funds.	(5,960,000)
Payables for capital leases principal which are not due in the current period are not reported in the funds.	(104,872)
Payables for bond interest which are not due in the current period are not reported in the funds.	(31,507)
Included in the noncurrent assets/(liabilities) is the recognition of the City's net pension asset/(liability) required by GASB 68 in the amount of (\$673,459), a deferred resource inflow in the amount of (\$591,791), and a deferred resource outflow in the amount of \$244,070. This resulted in an increase/(decrease) in net position by (\$1,021,180).	(1,021,180)
Included in the noncurrent assets/(liabilities) is the recognition of the City's net OPEB asset/(liability) required by GASB 75 in the amount of (\$132,467) and a deferred resource outflow in the amount of \$14,253. This resulted in an increase/(decrease) in net position by (\$118,214).	(118,214)
Various other reclassifications and eliminations are necessary to convert from the modified accrual basis of accounting to accrual basis of accounting. These include recognizing deferred revenue as revenue, eliminating interfund transactions, reclassifying the proceeds of bond sales as an increase in bonds payable, and recognizing the liabilities associated with maturing long-term debt and interest. The net effect of these reclassifications and recognitions is to increase (decrease) net position.	(148,595)
Net Position of Governmental Activities	\$ 13,789,427

The notes to the financial statements are an integral part of this statement.

CITY OF RIO GRANDE CITY
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2018

EXHIBIT C-3

Data Control Codes	General Fund	Economic Development Corporation	Other Funds	Total Governmental Funds
REVENUES:				
Taxes:				
5110 Property Taxes	\$ 1,617,245	\$ -	\$ 449,068	\$ 2,066,313
5111 Delinquent Property Taxes	176,053	-	43,683	219,736
5112 AD Valorem Tax Relief Revenue	964,173	-	-	964,173
5120 General Sales and Use Taxes	1,988,167	964,203	-	2,952,370
5170 Franchise Tax	588,469	-	16,324	604,793
5177 Hotel/Motel Tax	-	-	92,877	92,877
5190 Penalty and Interest on Taxes	118,259	-	28,350	146,609
5200 Licenses and Permits	115,976	-	-	115,976
5300 Intergovernmental Revenue and Grants	129,418	300,000	504,455	933,873
5400 Charges for Services	132,589	-	-	132,589
5510 Fines	235,692	-	10,852	246,544
5520 Forfeits	-	-	220,997	220,997
5610 Investment Earnings	16,926	17,556	31,585	66,067
5700 Other Revenue	56,682	17,918	173,233	247,833
5020 Total Revenues	6,139,649	1,299,677	1,571,424	9,010,750
EXPENDITURES:				
Current:				
General Government:				
0110 Mayor and Council	10,615	-	-	10,615
0111 City Manager	255,897	-	-	255,897
0120 Administration	1,162,408	-	159,594	1,322,002
0130 City Secretary	82,284	-	-	82,284
0140 Finance	168,321	-	-	168,321
0150 Personnel	57,032	-	-	57,032
0160 Planning	377,356	-	-	377,356
0170 Judicial	139,904	-	-	139,904
Public Safety:				
0210 Police	2,310,668	-	358,766	2,669,434
0220 Fire Protection	916,084	-	-	916,084
0300 Public Works	724,302	-	-	724,302
0310 Highway and Streets	174,280	-	-	174,280
Culture and Recreation:				
0510 Culture, recreation and parks	357,576	-	-	357,576
0520 Library	280,536	-	-	280,536
Conservation and Development:				
0650 Economic Development and Assistance	-	1,051,560	212,058	1,263,618
Debt Service:				
0710 Principal on Debt	288,688	-	360,000	648,688
0720 Interest on Debt	11,757	-	246,757	258,514
0790 Other Debt Service	-	-	33,675	33,675
6030 Total Expenditures	7,317,708	1,051,560	1,370,850	9,740,118
1100 Excess (Deficiency) of Revenues Over (Under) Expenditures	(1,178,059)	248,117	200,574	(729,368)
OTHER FINANCING SOURCES (USES):				
7912 Sale of Real and Personal Property	365,260	-	200	365,460
7915 Transfers In	1,472,448	-	2,046,499	3,518,947
8911 Transfers Out (Use)	(6,875)	(1,009,760)	(1,389,090)	(2,405,725)
7080 Total Other Financing Sources (Uses)	1,830,833	(1,009,760)	657,609	1,478,682
1200 Net Change in Fund Balances	652,774	(761,643)	858,183	749,314
0100 Fund Balance - October 1 (Beginning)	(79,731)	1,585,115	2,600,843	4,106,227
1300 Prior Period Adjustment	(66,388)	147,013	92	80,717
3000 Fund Balance - September 30 (Ending)	\$ 506,655	\$ 970,485	\$ 3,459,118	\$ 4,936,258

The notes to the financial statements are an integral part of this statement.

CITY OF RIOGRANDE CITY
 RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES,
 AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES
 FOR THE YEAR ENDED SEPTEMBER 30, 2018

Total Net Change in Fund Balances - Governmental Funds	\$ 749,314
Capital outlays are not reported as expenses in the Statement of Activities	383,019
Certain property tax revenues are deferred in the funds. This is the change in these amounts this year.	116,792
Repayment of bond principal is an expenditure in the funds but is not an expense in the Statement of Activities.	360,000
Repayment of capital lease principal is an expenditure in the funds but is not an expense in the Statement of Activities.	288,688
The implementation of GASB 68 required that certain expenditures be de-expended and recorded as deferred resource outflows. These contributions made after the measurement date of 12/31/17 caused the change in the ending net position to increase in the amount of \$216,865. Contributions made before the measurement date but after the previous measurement date were reversed from deferred resource outflows and recorded as a current year expense. This caused a decrease in the change in net position totaling (\$217,881). The City's reported TMRS net pension expense had to be recorded. The net pension expense increased/(decreased) the change in net position by \$118,401. The result of these changes is to increase/(decrease) the change in net position by \$117,385.	117,385
The implementation of GASB 75 required that certain expenditures be de-expended and recorded as deferred resource outflows. These contributions made after the measurement date of 12/31/17 caused the change in the ending net position to increase in the amount of \$4,300. Contributions made before the measurement date but after the previous measurement date were reversed from deferred resource outflows and recorded as a current year expense. This caused a decrease in the change in net position totaling (\$4,321). The City's reported TMRS net OPEB expense had to be recorded. The net pension expense increased/(decreased) the change in net position by (\$27,822). The result of these changes is to increase/(decrease) the change in net position by (\$27,843).	(27,843)
Depreciation is not recognized as an expense in governmental funds since it does not require the use of current financial resources. The net effect of the current year's depreciation is to decrease the change in net position.	(512,306)
Various other reclassifications and eliminations are necessary to convert from the modified accrual basis of accounting to accrual basis of accounting. These include recognizing deferred revenue as revenue, adjusting current year revenue to show the revenue earned from the current year's tax levy, eliminating interfund transactions, reclassifying the proceeds of bond sales, and recognizing the liabilities associated with maturing long-term debt and interest. The net effect of these reclassifications and recognitions is to increase (decrease) the change in net position.	(8,937)
Change in Net Position of Governmental Activities	\$ 1,466,112

The notes to the financial statements are an integral part of this statement.

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CITY OF RIOGRANDE CITY
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
SEPTEMBER 30, 2018

	Business Type Activities
	Water, Sewer & Sanitation Fund
ASSETS	
Current Assets:	
Cash and Cash Equivalents	\$ 404,790
Investments - Current	2,469,568
Accounts Receivable Net	1,000,003
Due from Other Funds	935,384
Inventories	15,878
Total Current Assets	<u>4,825,623</u>
Noncurrent Assets:	
Capital Assets:	
Land	339,036
Infrastructure, Net	28,030,895
Buildings, Net	1,009,703
Machinery and Equipment, Net	1,804,523
Construction in Progress	392,990
Total Noncurrent Assets	<u>31,577,147</u>
Total Assets	<u>36,402,770</u>
DEFERRED OUTFLOWS OF RESOURCES	
Deferred Outflow Related to Pension and OPEB	68,737
Total Deferred Outflows of Resources	<u>68,737</u>
LIABILITIES	
Current Liabilities:	
Accounts Payable	337,591
Wages and Salaries Payable	40,915
Deposits Payable	276,199
Due to Other Funds	823,285
Accrued Interest Payable	68,797
Total Current Liabilities	<u>1,546,787</u>
Noncurrent Liabilities:	
Due Within One Year	1,179,350
Due in More Than One Year	18,622,427
Net Pension Liability	208,593
Net OPEB Liability	41,029
Total Noncurrent Liabilities	<u>20,051,399</u>
Total Liabilities	<u>21,598,186</u>
DEFERRED INFLOWS OF RESOURCES	
Deferred Inflow Related to Pension Plan	176,206
Total Deferred Inflows of Resources	<u>176,206</u>
NET POSITION	
Net Investment in Capital Assets	11,775,370
Unrestricted	2,921,746
Total Net Position	<u>\$ 14,697,116</u>

The notes to the financial statements are an integral part of this statement.

CITY OF RIO GRANDE CITY
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION
PROPRIETARY FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2018

EXHIBIT D-2

	Business-Type Activities Water, Sewer & Sanitation Fund
OPERATING REVENUES:	
Water Sales	\$ 3,563,887
Sewer Charges	1,821,249
Sanitation Charges	1,316,072
Other Services	477,261
Other Revenue	38,915
Total Operating Revenues	<u>7,217,384</u>
OPERATING EXPENSES:	
Administration	
Personnel Services - Salaries and Wages	128,727
Purchased Professional & Technical Services	49,856
Other Operating Costs	154,118
Total Administration	<u>332,701</u>
Billings and Collections	
Personnel Services - Salaries and Wages	78,682
Purchased Professional & Technical Services	18,692
Other Operating Costs	45,959
Total Billings and Collections	<u>143,333</u>
Water System	
Personnel Services - Salaries and Wages	216,259
Purchased Professional & Technical Services	26,979
Other Operating Costs	485,489
Total Water System	<u>728,727</u>
Water Plant #1	
Personnel Services - Salaries and Wages	201,281
Purchased Professional & Technical Services	30,515
Other Operating Costs	264,275
Total Water Plant #1	<u>496,071</u>
Water Distribution	
Personnel Services - Salaries and Wages	294,064
Purchased Professional & Technical Services	36,401
Other Operating Costs	285,819
Total Water Distribution	<u>616,284</u>
Sewer System	
Personnel Services - Salaries and Wages	74,263
Purchased Professional & Technical Services	27,804
Other Operating Costs	126,778
Total Sewer System	<u>228,845</u>
Sewer Collection	
Personnel Services - Salaries and Wages	47,151
Purchased Professional & Technical Services	25,775
Other Operating Costs	33,577
Total Sewer Collection	<u>106,503</u>
Solid Waste Collection	
Personnel Services - Salaries and Wages	340,519

CITY OF RIO GRANDE CITY
 STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION
 PROPRIETARY FUNDS
 FOR THE YEAR ENDED SEPTEMBER 30, 2018

	Business-Type Activities Water, Sewer & Sanitation Fund
Purchased Professional & Technical Services	251,221
Other Operating Costs	723,495
Total Solid Waste Collection	1,315,235
Depreciation	783,054
Total Operating Expenses	4,750,753
Operating Income	2,466,631
NONOPERATING REVENUES (EXPENSES):	
Gain in Sale of Property	1,200
Investment Earnings	36,632
Interest Expense - Non-Operating	(434,841)
Total NonOperating Revenue (Expenses)	(397,009)
Income Before Transfers	2,069,622
Nonoperating Transfers In	1,355,001
Transfers Out (Use)	(2,468,223)
Change in Net Position	956,400
Total Net Position - October 1 (Beginning)	13,381,519
Prior Period Adjustment	359,197
Total Net Position - September 30 (Ending)	\$ 14,697,116

The notes to the financial statements are an integral part of this statement.

CITY OF RIOGRANDE CITY
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2018

	Business-Type Activities
	Water, Sewer & Sanitation Fund
<u>Cash Flows from Operating Activities:</u>	
Cash Received from User Charges	\$ 7,217,384
Cash Payments to Employees for Services	(1,379,475)
Cash Payments for Other Operating Expenses	(2,480,998)
Net Cash Provided by Operating Activities	<u>3,356,911</u>
<u>Cash Flows from Non-Capital Financing Activities:</u>	
Operating Transfer In	1,355,001
Operating Transfer Out	(2,468,223)
Net Cash Provided by (Used for) Non-Capital Financing Activities	<u>(1,113,222)</u>
<u>Cash Flows from Capital and Related Financing Activities:</u>	
Acquisition and construction of capital assets	(234,870)
Principal and Interest Paid on Capital Debt	(1,708,644)
Proceeds from the sale of assets	1,200
Net Cash Provided by (Used for) Capital and Related Financing Activities	<u>(1,942,314)</u>
<u>Cash Flows from Investing Activities:</u>	
Purchase of Investment Securities	(964,727)
Interest and Dividends on Investments	36,632
Net Cash Provided by (Used for) Investing Activities	<u>(928,095)</u>
Net Increase (Decrease) in Cash and Cash Equivalents	(626,720)
Cash and Cash Equivalents at the Beginning of the Year	672,313
Prior Period Adjustment	359,197
Cash and Cash Equivalents at the End of the Year	<u>\$ 404,790</u>
<u>Reconciliation of Operating Income to Net Cash Provided By Operating Activities:</u>	
Operating Income	\$ 2,466,631
Adjustments to Reconcile Operating Income To Net Cash Provided by Operating Activities:	
Depreciation	783,054
Effect of Increases and Decreases in Current Assets and Liabilities:	
Decrease (Increase) in Receivables	(265,759)
Decrease (Increase) in Inventories	13,571
Decrease (Increase) in Interfund Receivables	(59,181)
Decrease (Increase) in Outflows	61,190
Increase (Decrease) in Accounts Payables	(109,416)
Increase (Decrease) in Interfund Payables	431,399
Increase (Decrease) in Inflows	35,422
Net Cash Provided by Operating Activities	<u>\$ 3,356,911</u>

The notes to the financial statements are an integral part of this statement.

**CITY OF RIO GRANDE CITY, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2018**

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-setting body for establishing governmental and financial reporting principles.

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.

Other Post-Employment Benefits (OPEB). For purposes of measuring the net OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB expense, information about the fiduciary net position of the City's plan (OPEB Plan) and additions to/deductions from the OPEB Plan's fiduciary net position have been determined on the same basis. For this purpose, benefit payments are recognized when currently due and payable in accordance with the benefit terms. Investments are reported at fair value.

The accounting policies of the City conform to generally accepted accounting principles applicable to governments as promulgated by the Governmental Accounting Standards Board (GASB). The following is a summary of the significant policies.

A. 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 presenting all assets, deferred outflows of resources, liabilities, deferred inflows of resources, and changes in net position of the City. These statements are prepared using the accrual basis of accounting. Separate rows and columns are used in the government-wide statements to distinguish between governmental activities and business-type activities, with a total column for the primary government.

B. SCOPE OF REPORTING ENTITY

The City has used the criteria detailed in GASB statement No. 14, *"The Financial Reporting Entity"* and GASB Statement No. 61, *The Financial Reporting Entity; Omnibus an amendment of GASB Statements No. 14 and No. 34* to determine whether or not certain entities should be included in the accompanying financial statements. The definition of the reporting entity is based primarily on the notion of financial accountability. A primary government is financially accountable for legally separate organizations if its officials appoint a voting majority of an organization's governing body and either it 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 primary government.

Based on these criteria, the City has no Discretely Presented Component Units.

**CITY OF RIO GRANDE CITY, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2018**

C. 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 governmental funds and proprietary funds. The City has no fiduciary funds. The governmental and proprietary fund financial statements place an emphasis on major funds. Those funds which are determined to be major funds are presented in separate columns, with all nonmajor governmental funds being aggregated and displayed in a single column. Interfund receivable and payable balances and transfers between funds have been eliminated in the fund financial statements.

The City has reported the following major governmental funds:

General Fund - The General Fund is the main operating fund of the City. This fund is used to account for all financial resources not accounted for in other funds. All general tax revenues and other receipts that are not restricted by law or contractual agreement to some other fund are accounted for in this fund. General operating expenditures, fixed charges and capital improvement costs that are not paid through other funds are paid from the General Fund.

Economic Development Corporation Fund - The 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 has reported the following major proprietary funds:

Utility Fund - The Utility Fund is used to account for the provision of water and sewer services to the residents of the City. Activities of the fund include administration, operations and maintenance of the water and sewer system and billing and collection activities. The fund also accounts for the accumulation of resources for, and the payment of, long-term debt principal and interest for water and sewer debt. All costs are financed through charges to utility customers with rates reviewed regularly and adjusted if necessary, to ensure integrity of the funds.

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.

Water Projects Funds - 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.

Capital Projects Funds - 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.

**CITY OF RIO GRANDE CITY, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2018**

D. MEASUREMENT FOCUS AND BASIS OF ACCOUNTING

Measurement focus refers to whether a particular type of transaction will be recorded in the financial statements. The economic resources measurement focus recognizes all resources and obligations and the changes in them. The current financial resources measurement focus recognizes only current resources and obligations and transactions affecting current resources and obligations. Basis of accounting refers to when revenues and expenditures are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied.

Government-wide financial statements

The government-wide financial statements are prepared using the economic resources measurement focus and the accrual basis of account. Revenues, expenses, gains, losses, assets, and liabilities resulting from exchange and exchange like transactions are recognized in accordance with the requirements specific to the class of nonexchange transactions. For the government-wide financial statements prepared on the accrual basis, property tax revenues are recognized in the period for which the taxes are levied.

Fund financial statements – government funds

The fund financial statements for the government funds are prepared using the current financial resources measurement focus and the modified accrual basis of accounting. This measurement focus affects the accounting and reporting treatment of capital assets and long-term liabilities. The capital assets and long-term liabilities of the governmental activities are not recorded on the balance sheet of the fund financial statements of the governmental funds. Transactions for the purchase of assets, the issuance of debt, and the payment of debt principal are reflected in the governmental funds, but they are reported on the statement of revenues, expenditures, and changes in fund balances as capital outlay and debt service principal expenditures and proceeds from debt.

The modified accrual basis of accounting recognizes revenues in the accounting period in which they become measurable and available and recognizes expenditures in the accounting period in which the fund liability is incurred, except for unmatured interest on general long-term debt, which is recognized when due. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. All revenues of the City are considered susceptible to accrual except for revenue from delinquent property taxes receivable, revenue from fines and revenue from fines.

While the City expects all taxes on real property to ultimately be collectible, the bulk of delinquent property taxes receivable at the end of the year are not anticipated to be collected soon enough thereafter to be used to pay liabilities of current period. Therefore, revenue from delinquent property taxes receivable is not recognized in the fund financial statements until they are considered available when collected during the current period of within 60 days of the end of the current fiscal period.

Fines receivable but not past due at the end of the fiscal year may be subsequently reduced when the offender attends a defensive driving course, provides proof of insurance, has the offense dismissed by the municipal court, or serves jail time. Current fines receivable thus do not meet the measurability criterion required to be susceptible to accrual. A significant portion of past due fines receivable is not anticipated to be collected enough to meet the criterion that the revenue be considered available.

**CITY OF RIO GRANDE CITY, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2018**

Fund financial statements – proprietary funds

The fund financial statements for the proprietary funds are prepared using the economic resources measurement focus and the accrual basis of accounting and are similar to those often found in the private sector. All assets, liabilities, equities, revenues, expenses, and payments relating to the government's business activities are accounted for through proprietary funds. The measurement focus is on determination of operating income, financial position, changes in net position and cash flows. Operating expenses include costs of services as well as materials, contracts, personnel, and depreciation. All revenues and expenses not meeting these definitions are reported as non-operating revenues and expenses.

E. ENCUMBRANCES

Encumbrances represent commitments related to unperformed contracts for goods and 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 not utilized by the City's accounting system. Encumbrances outstanding at year end are reported as reservations of fund balances and do not constitute expenditure or liabilities until the commitments are honored by inclusion in the subsequent year's budget. There are no significant encumbrances outstanding at September 30, 2018.

F. CASH AND CASH EQUIVALENTS

Cash and cash equivalents for purposes of the statements of cash flows represent demand accounts and petty cash. Certificates of deposit, U.S. government debt securities, money market funds, and investments in local government investment pools are recorded as investments and are not treated as cash or cash equivalents.

G. INVESTMENTS

The City is required by Government Code Chapter 2256, The Public Funds Investment Act, to adopt, implement, and publicize an investment policy. That policy must be written; primarily emphasize safety of principal and liquidity; address investment diversification, yield, and maturity and the quality and capability of investment management; and include a list of the types of authorized investments in which the investing entity's funds may be invested; and the maximum allowable stated maturity of any individual investment owned by the entity.

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

The Act determines the types of investments which are allowable for the City. These include, with certain restrictions, (1) obligations of the U.S. Treasury, certain U.S. agencies, and the State of Texas, (2) certificates of deposit, (3) certain municipal securities, (4) money market savings accounts, (5) repurchase agreements, (6) bankers acceptances, (7) mutual bonds, (8) investment pools, (9) guaranteed investment contracts, and (10) common trust funds.

**CITY OF RIO GRANDE CITY, TEXAS
NOTES TO THE FINACIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2018**

H. PREPAID ITEMS

Prepaid balances are for payments made by the City in the current year to provide services occurring in the subsequent fiscal year, and the reserve for prepaid items has been recorded to signify that a portion of fund balance is not available for other subsequent expenditures.

I. RECEIVABLES

Amounts reported in the fund financial statements as interfund receivables and payables are eliminated in the government-wide governmental and business-type activities columns of the statement of net position, except for the net residual amounts due between governmental and business-type activities, which are presented as internal balances. Within the governmental fund financial statements, long-term advances and long-term receivables are reflected as unspendable fund balance indicating they do not constitute available expendable resources.

All trade and property tax receivables are shown net of an allowance for uncollectibles. The allowance for uncollectibles is management's best estimate of the amount of credit losses based on account delinquencies and historical write-off expense.

Utility revenue is recorded when earned. Customers are billed monthly. The estimated value of services provided but unbilled has been included in the financial statements and has been accrued in the proprietary funds to record the estimated amount of revenues earned but not billed as of the end of the fiscal year. The estimate is based on the pro rata number of days in the billing cycle before and after the fiscal year end.

J. INVENTORY

Inventories in the Proprietary Funds are valued at cost, which approximates market, using the first in/first out (FIFO) method. The costs of governmental fund type inventories are recorded as expenditures when consumed rather than when purchased.

K. INTER-FUND RECEIVABLE AND PAYABLES

Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances."

L. TRANSACTIONS BETWEEN FUNDS

Legally authorized transfers are treated as inter-fund transfers and are included in the results of operations of both Governmental and Proprietary Funds.

**CITY OF RIO GRANDE CITY, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2018**

M. CAPITAL ASSETS

Capital assets, which include property, plant, equipment, and infrastructure assets, are reported in the applicable governmental or business-type activities columns in the government-wide financial statements and in the fund financial statements for proprietary funds. All capital assets are valued at historical cost or estimated historical cost if actual historical cost is not available. Donated assets are valued at their fair market value on the date donated. Repairs and maintenance are recorded as expenses. Renewals and betterments are capitalized. Interest has not been capitalized during the construction period on capital assets. Assets capitalized have an original cost of \$5,000 or more and over three years of useful life. Deprecation has been calculated on each class of depreciable property using the straight-line method. Estimated useful lives are as follows:

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

N. COMPENSATED ABSENCES

It is the City's policy to permit employees to accumulate earned but unused vacation and sick pay benefits. Vacation leave may be accumulated at the rate of 80 hours for each continuous year of employment for full-time employees with between 1 and 5 years of service. Employees with between 5 and 10 years of service, 120 hours accumulate each year. For employees with more than 10 years of service, 160 hours accumulate each year. Limits on the accumulation of vacation leave are 240 hours for all full-time employees, and 168 hours for fire department personnel. The City allows employees to accumulate sick leave without limit. Employees are not paid for accumulated sick leave, therefore, no liability is accrued. In proprietary fund types, accumulated unpaid compensated absences are accrued when incurred. The accruals are reported as liabilities and expenses for the year incurred. The liability in the governmental fund types is recorded only in the Government-wide Financial Statements. The amount expected to be paid from current resources is not considered to be significant. Applicable liabilities in the governmental wide net assets and in the proprietary fund have been established to reflect these liabilities.

O. LONG-TERM DEBT

In the government-wide financial statements and proprietary 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 position. Bond premiums and discounts 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. Gains or losses on proprietary fund refunding and on the government-wide financial statements are reported as deferred inflows or outflows and are amortized over the term of the lesser of the new bonds or the refunded bonds using the effective interest method. Bond issuance costs are recognized as expenditures/expenses when incurred.

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. Bond issuance costs are shown as debt service expenditures.

**CITY OF RIO GRANDE CITY, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2018**

P. FUND EQUITY

In the government-wide financial statements and proprietary funds financial statements, net position is classified in the following categories:

Net assets invested in capital assets

This category represents the net carrying value of all capital assets, reduced by the outstanding balances of long-term debt that are attributable to the acquisition, construction or improvement of these assets.

Restricted

The restricted component of net position represents restricted assets reduced by liabilities related to those assets. This category represents external restrictions imposed by creditors, grantors, contributors, or laws or regulations of other governments and restrictions imposed by law through constitutional provisions or enabling legislation.

Unrestricted

This category is the “residual” component of net position. It consists of net position that does not meet the definition of “restricted” or “net invested in capital assets.”

In the governmental fund financial statements, fund balances are classified in the following categories:

The *nonspendable* fund balance includes the portion of net resources that cannot be spend because of their form or because they must be maintained intact. Resources not in spendable form include inventories and prepaid items, long-term advances, long-term receivable, and nonfinancial assets held for resale.

The *restricted* fund balance includes net resources that can be spent only for the specific purposes stipulated by constitution, external resource providers (creditors, grantors, contributors), laws and regulations of other governments, or through enabling legislation. Some resources are spendable but are legally or contractually required to be maintained intact. Such resources include the principal of an endowment. The enabling legislation authorizes the City to assess, levy, charge or otherwise mandate payment of resources from external resource providers; those resources can be used only for the specific purposes stipulated in the legislation.

The *committed* fund balance includes spendable net resources that can only be used for specific purposes pursuant to constraints that are imposed by the highest level of decision making authority, City Council. City Council is required to take formal action by ordinance or resolution to establish, modify, or rescind a fund balance commitment. Committed funds incorporate contractual obligations constraints to the extent that existing resources in the fund have been specifically committed for use in satisfying those contractual requirements. Those constraints remain binding unless removed or changed in the same manner employed to previously commit those resources.

The *assigned* fund balance includes amounts that are constrained by the City’s intent to be used for specific purposes but are neither restricted nor committed. Constraints imposed on the use of assigned amounts can be removed with no formal Council action. The residual fund balance that is not Restricted or Committed in governmental funds except the General Fund is assigned.

The *unassigned* fund balance represents the spendable net resources that have not been restricted, committed, or assigned to specific purposes. The General Fund is the only fund that reports a positive unassigned fund balance.

**CITY OF RIO GRANDE CITY, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2018**

Q. SPENDING PRIORITIZATION IS USING AVAILABLE RESOURCES

When both restricted resources and other resources (i.e., committed, assigned, and unassigned) can be used for the same purpose, the City budget considers restricted to be spent first.

When committed, assigned, and unassigned resources can be used for the same purpose, the flow assumption in the City budget is to spend in the sequence of committed resources first, assigned second, and unassigned last.

The City has in the past and plans to continue in the future its conservative approach to monitoring expenditures to ensure that fund balances stay strong at the 25% general fund policy level. The General Fund will need to re-build with future revenues.

By a majority vote in a scheduled meeting of the City Council, the Council may commit fund balances and it may modify or rescind these commitments. The Council may also delegate authority to persons or parties to assign fund balances in specific circumstances or funds.

R. PROGRAM REVENUES AND INDIRECT EXPENSES

The government-wide statement of activities is presented in a format that identifies the net cost of the City's individual functions. The expense of each function is reduced by the functions program revenues. Program revenues are revenues which derive directly from the program itself and include charges for services, program-specific operating grants and contributions, and program specific capital grants and contributions. Some governmental functions such as administration and finance are in essence indirect expenses of other functions. Governments are not required to allocate those indirect expenses to other functions, but if they do, indirect expenses should be presented in a separate column from direct expenses. The City has chosen not to allocate those indirect expenses.

S. OPERATING AND NONOPERATING REVENUES AND EXPENSES

The City's policy in distinguishing proprietary fund operating and nonoperating revenues and expenses follows the guidance for distinguishing types of cash flows. Transactions for capital and related financing activities, noncapital financing activities, or investing activities are normally not treated as operating revenues or expenses.

T. ESTIMATES

Preparation of financial statements in conformity with generally accepted accounting principle requires the use of management's estimates. Items for which estimates are necessary include the amount of receivables which may not be collectible, inventory obsolescence, service lines and salvage values of depreciable assets. Estimates also include the likelihood of loss and potential loss amount from contingencies such as litigation.

U. NET PENSION LIABILITY

For purposes of measuring the net pension liability, deferred outflows or resources and deferred inflows of resources related to pensions, and pension expense, information about the Fiduciary Net Position of the Texas Municipal Retirement System (TMRS) and additions to/deductions from TMRS'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.

**CITY OF RIO GRANDE CITY, TEXAS
NOTES TO THE FINACIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2018**

Benefit payments and refunds are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

V. DEFERRED OUTFLOWS/INFLOWS OF RESOURCES

In addition to assets, the statement of net position 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 (expenses/expenditures) until then. The City has two items that qualify for reporting in this category, one is related to the City's net pension liability and the other is related to the City's net OPEB liability and both are reported on the government-wide statements of net position. This deferred outflow includes City contributions to the retirement systems contributed subsequent to the measurement date of the net pension liability and net OPEB liability, as of September 30, 2018, the City's deferred outflows totaled \$327,060.

In addition to liabilities, the statement of financial position 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.

The City has two items that qualify for reporting in this category, one of which are reported on the government wide statements of net position and the other reported on the balance sheet at the governmental fund level.

Government-wide statements

One is the deferred inflow related to the net position liability and is the difference between expected and actual economic experiences and changes in actual earnings. This is amortized over subsequent accounting periods as determined by the actuary. As of September 30, 2018, the City's deferred inflow totaled \$767,997.

Governmental fund level

This deferred inflow is property taxes received prior to the applicable budget year. As of September 30, 2018, the City's deferred inflowed totaled \$1,729,224.

**CITY OF RIO GRANDE CITY, TEXAS
NOTES TO THE FINACIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2018**

NOTE 2 STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

Budgetary Data

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for the general fund and debt service fund. The other special revenue funds do not have appropriated budgets since other means control the use of these resources and sometimes span a period of more than one fiscal year.

The appropriated budgets are prepared by fund and function. Any revisions that alter the total appropriations of any fund must be approved by City Council. All budget amounts presented reflect the original budget and the final amended budget, which has been adjusted for legally authorized revisions or appropriations to the original budgets during the fiscal year. All unencumbered budget appropriations except project budgets, lapse at the end of each fiscal year. The following procedures are used by the City in establishing the budgetary date reflected in the financial statements:

- a. 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.
- b. 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.
- c. 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.
- d. Budgeted amounts are as amended by the Council. All budget appropriations lapse at year end.

During the year ended September 30, 2018, expenditures exceeded appropriations as follows:

<u>Department</u>	<u>Expenditures Over Appropriations</u>
Mayor and Council	\$ (365)
Administration	(70,060)
Finance	(15,790)
Fire Protection	(38,444)
Library	(17,373)
Debt Service	(300,445)

**CITY OF RIO GRANDE CITY, TEXAS
NOTES TO THE FINACIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2018**

NOTE 3 DEPOSITS AND INVESTMENT

At September 30, 2018, the carrying amount of the City's deposits (cash, certificates of deposit, and interest-bearing savings accounts included in temporary investments) was \$5,094,633 and the bank balance was \$4,941,507. The City's cash deposits at September 30, 2018 and during the period ended September 30, 2018, were entirely covered by FDIC insurance or by pledged collateral held by the City's agent bank in the City's name.

A. Investments

As of September 30, 2018, the City the following investments:

<u>Governmental Activities</u>	<u>Amortized Cost</u>	<u>Weighted Average Maturity (Days)</u>	<u>Standard & Poor's Rating</u>
General Fund			
TexPool	\$ 10,031	28	AAAm
Logic Money Market	33,711	34	AAAm
<u>Total General Fund</u>	<u>43,742</u>		
Special Revenues Funds:			
Logic Money Market	548,680	34	AAAm
<u>Total Special Revnue Fund</u>	<u>548,680</u>		
<u>Total Governmental Activities</u>	<u>\$ 592,422</u>		

<u>Business-type Activities</u>	<u>Amortized Cost</u>	<u>Weighted Average Maturity (Days)</u>	<u>Standard & Poor's Rating</u>
TexPool	\$ 85,622	28	AAAm
Logic Money Market	2,325,499	34	AAAm
Bank of New York Money Market	58,446		
<u>Total Business-type Activities</u>	<u>\$ 2,469,568</u>		

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 responsibilities 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.

**CITY OF RIO GRANDE CITY, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2018**

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, 2018, all of the City's external investment pools meet the criteria described in GASB Statement No. 79 and measures 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.

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, 2018, 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: 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 risk for deposits.

**CITY OF RIO GRANDE CITY, TEXAS
NOTES TO THE FINACIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2018**

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:

	General Fund	Enterprise Fund	Nonmajor Governmental Funds	Total
Receivables				
Taxes	\$ 1,209,375	\$ -	\$ 335,746	\$ 1,545,121
Accounts	-	2,050,518	-	2,050,518
Other Receivables	993,952	27,077	17,487	1,038,515
Due from other governments	-	-	82,935	82,935
Gross Receivables	2,203,327	2,077,595	436,167	4,717,089
Less: Allowance for uncollectible-taxes	(61,189)	-	(16,787)	(77,976)
Less: Allowance for uncollectible-accounts	-	(1,077,592)	-	(1,077,592)
Net Total Receivables	\$ 2,142,138	\$ 1,000,003	\$ 419,380	\$ 3,561,521

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 \$1,077,592.

Property Taxes

Property taxes are levied on October 1 bases on assessed value of property as of January 1, for all real and personal property located in the City in conformity with Subtitle I, 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, 2017, upon which the 2017 levy was based, was \$472,093,780.

For the year ended September 30, 2018, property tax rates were \$.389 and \$.108 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.

**CITY OF RIO GRANDE CITY, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2018**

NOTE 5 INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS

Primary Government

Interfund receivable and payable balances at September 30, 2018 were as follows:

Governmental Funds - Receivable Fund

Receivable Fund	Payable Fund	Amount
General Fund	Economic Development Corporation	\$ 265
General Fund	Debt Service Fund	45,470
General Fund	Other Governmental Funds	341,460
General Fund	Enterprise Fund	362,914
Economic Development Corporation	General Fund	184,029
Economic Development Corporation	Other Governmental Funds	325
Debt Service Fund	General Fund	90,849
Other Governmental Funds	General Fund	78,525
Other Governmental Funds	Other Governmental Funds	9,707
Other Governmental Funds	Enterprise Fund	11,745
		\$1,125,289

Proprietary Funds - Receivable Fund

Receivable Fund	Payable Fund	Amount
Water, Sewer and Sanitation Fund	General Fund	\$ 397,431
Water, Sewer and Sanitation Fund	Other Governmental Funds	89,327
Water, Sewer and Sanitation Fund	Water, Sewer and Sanitation Fund	448,626
		\$ 935,384

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, 2018, consisted of the following:

Transfer Out:	Transfer In:				Total
	General Fund	Debt Service Fund	Other Governmental Funds	Enterprise Fund	
General Fund	\$ -	\$ -	\$ 6,875	\$ -	\$ 6,875
Economic Development Corporation Fund	225,000	-	765,000	19,760	1,009,760
Debt Service Fund	-	-	-	1,126,643	1,126,643
Other Governmental Funds	262,448	-	-	-	262,448
Enterprise Fund	985,000	1,274,624	-	208,599	2,468,223
Total	\$ 1,472,448	\$ 1,274,624	\$ 771,875	\$ 1,355,001	\$ 4,873,948

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.

**CITY OF RIO GRANDE CITY, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2018**

The Enterprise 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 6 CAPITAL ASSETS

Capital asset activity for the year ended September 30, 2018 was as follows:

	Beginning Balance October 1, 2017	Additions	Deletions	Ending Balance September 30, 2018
Governmental Activities:				
Capital Assets, not being depreciated:				
Land	\$ 2,292,630	\$ -	\$ -	\$ 2,292,630
Construction in Progress	165,852	235,090	258,623	142,319
Total Capital assets, not being depreciated	<u>2,458,482</u>	<u>235,090</u>	<u>258,623</u>	<u>2,434,949</u>
Capital Asset being depreciated:				
Buildings	3,499,293	26,111	-	3,525,404
Infrastructure	13,276,294	286,023	-	13,562,317
Machinery and Equipment	5,572,728	94,417	-	5,667,145
Total capital assets, being depreciated	<u>22,348,315</u>	<u>406,552</u>	<u>-</u>	<u>22,754,867</u>
Less accumulated depreciation for:				
Buildings	(442,403)	(74,412)	-	(516,815)
Infrastructure	(6,079,353)	(211,362)	-	(6,290,715)
Machinery and Equipment	(3,647,441)	(226,532)	-	(3,873,973)
Total accumulated depreciation	<u>(10,169,197)</u>	<u>(512,306)</u>	<u>-</u>	<u>(10,681,503)</u>
Total capital assets being depreciated, net	12,179,118	(105,754)	-	12,073,364
Governmental activities capital assets, net	<u>\$ 14,637,600</u>	<u>\$ 129,336</u>	<u>\$ 258,623</u>	<u>\$ 14,508,313</u>
	Beginning Balance October 1, 2017	Additions	Deletions	Ending Balance September 30, 2018
Business-type Activities				
Capital Assets, not being depreciated				
Land	339,036	-	-	339,036
Construction in Progress	358,039	34,951	-	392,990
Total capital assets, not being depreciated	<u>697,075</u>	<u>34,951</u>	<u>-</u>	<u>732,026</u>
Capital Assets, being depreciated				
Buildings	1,662,514	28,095	-	1,690,609
Infrastructure	34,726,081	171,824	-	34,897,905
Machinery and Equipment	2,366,222	-	-	2,366,222
Total capital assets, being depreciated	<u>38,754,817</u>	<u>199,919</u>	<u>-</u>	<u>38,954,737</u>
Less accumulated depreciation for:				
Buildings	(588,119)	(92,787)	-	(680,906)
Infrastructure	(6,321,186)	(545,824)	-	(6,867,010)
Machinery and Equipment	(417,257)	(144,443)	-	(561,700)
Total accumulated depreciation	<u>(7,326,562)</u>	<u>(783,054)</u>	<u>-</u>	<u>(8,109,616)</u>
Total capital assets, being depreciated, net	<u>31,428,255</u>	<u>(583,135)</u>	<u>-</u>	<u>30,845,121</u>
Business-type activities capital assets, net	<u>\$ 32,125,330</u>	<u>\$ (548,184)</u>	<u>\$ -</u>	<u>\$ 31,577,147</u>

**CITY OF RIO GRANDE CITY, TEXAS
NOTES TO THE FINACIAL STATEMENTS
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Depreciation expense was charged to governmental functions as follows:

Governmental Activities:	
Administration	\$ 71,393
Judical	9,594
Public Safety	269,193
Public Works	50,369
Economic Development and Assistance	50,299
Culture, Recreation and Parks	43,269
Library	18,188
Total Depreciation Expense - Governmental Activities	<u>\$ 512,306</u>

As further discussed in Note 13, at September 30, 2018, the City had remaining construction and improvement commitments amounting to \$462,316.

NOTE 7 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 to the payment of its debt obligations. General obligations 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.

**CITY OF RIO GRANDE CITY, TEXAS
NOTES TO THE FINACIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2018**

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%	\$4,395,000
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\$1,930,000, 2013 Combination Tax & Revenue Certificates of Obligation due in annual installments ranging from \$40,000 to \$145,000 from February 15, 2014 through 2033; interest estimated at .67% to 5.29%	<u>1,565,000</u>
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Total Bonds Obligations	5,960,000
Less: Current Portion of Bonds Obligations	<u>(370,000)</u>

Bonds Obligations, Net of Current Portion	\$5,590,000
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Debt service requirements to maturity for Bonds Obligations Payables are as follows:

Year Ending September 30	Governmental Activities	
	Prinicpal	Interest
2019	\$ 370,000	\$ 236,077
2020	385,000	224,685
2021	395,000	211,054
2022	415,000	196,061
2023	430,000	178,185
2024-2028	2,430,000	606,382
2029-2033	1,535,000	124,535
Total	\$5,960,000	\$ 1,776,979

**CITY OF RIO GRANDE CITY, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2018**

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, 2018 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%	\$ 1,740,000
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\$12,200,000, 2007 B Combination Tax and Revenue Certificates of Obligation due in annual installments ranging from \$100,000 to \$430,000 from February 15, 2011 through 2040; interest at 0.0%	9,360,000
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\$8,700,000, 2007 C Combination Tax and Revenue Certificates of Obligation due in annual installments ranging from \$145,000 to \$545,000 from February 15, 2011 through 2040; interest 2.5% to 5.25%	7,375,000
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\$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, 2012 through 2035; interest at 5.125%	543,000
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Revenue Bonds Payable	19,018,000
Less: Current Portion of Revenue Bonds Payable	(786,000)

Revenue Bonds Payable, Net of Current Portion	\$18,232,000
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Debt service requirements to maturity for Revenue Bonds Payable in Business-Type Activities are as

Year Ending September 30	Business-Type Activities	
	Principal	Interest
2019	\$ 786,000	\$ 392,008
2020	792,000	382,818
2021	803,000	372,854
2022	814,000	362,191
2023	825,000	350,779
2024-2028	4,333,000	1,555,807
2029-2033	4,315,000	1,137,814
2034-2038	4,430,000	585,973
2039-2043	1,920,000	56,438
Total	\$19,018,000	\$ 5,196,680

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, 2018. The City is currently in default due to failure to present audited financial report on a timely basis.

**CITY OF RIO GRANDE CITY, TEXAS
NOTES TO THE FINACIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2018**

Capital Lease Obligations

Governmental Activities

Capital lease obligations payable at September 30, 2018, 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. \$ 18,602

\$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 85,792

Capital Leases 104,394
Less: Current Portion of Capital Leases (50,612)

Capital Leases, Net of Current Portion \$ 53,782

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

<u>Year Ending September 30</u>	<u>Governmental Activities</u>	
	<u>Prinicpal</u>	<u>Interest</u>
2019	\$ 50,612	\$ 3,316
2020	52,294	1,627
2021	1,489	7
2022	-	-
2023	-	-
Thereafter	-	-
Total	\$ 104,394	\$ 4,950

**CITY OF RIO GRANDE CITY, TEXAS
NOTES TO THE FINACIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2018**

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. \$ 48,258

\$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. 656,270

\$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. 79,249

Capital Leases 783,777
Less: Current Portion of Capital Leases (393,350)

Capital Leases, Net of Current Portion \$ 390,427

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

Year Ending September 30	Business-Type Activities	
	Prinicpal	Interest
2019	\$ 393,350	\$ 26,819
2020	390,427	13,310
2021	-	-
2022	-	-
2023	-	-
Thereafter	-	-
Total	\$ 783,777	\$ 40,129

**CITY OF RIO GRANDE CITY, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2018**

Changes in Long-Term Liabilities

Long-term activity for the year ended September 30, 2018, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental Activities:					
Bonds and Leases Payable					
Combination Tax & Limited Revenue Bonds	\$ 4,680,000	\$ -	\$ 285,000	\$ 4,395,000	\$ 295,000
Combination Tax & Revenue Bond	1,640,000	-	75,000	1,565,000	75,000
Capital Leases	393,560	-	289,166	104,395	50,612
Total bonds and leases payable	6,713,560	-	649,166	6,064,395	420,612
Other long-term liabilities					
Accumulated compensated absences	136,022	149,073	136,022	149,073	-
Net pension liability	1,117,013	-	443,554	673,459	-
Net OPEB liability	-	132,467	-	132,467	-
Total other long-term liabilities	1,253,035	281,540	579,576	954,999	-
Total Governmental Activities	\$ 7,966,595	\$ 281,540	\$ 1,228,742	\$ 7,019,394	\$ 420,612
Business-Type Activities					
Revenue Bonds	\$ 19,793,000	\$ -	\$ 775,000	\$ 19,018,000	\$ 786,000
Capital Leases	1,282,071	-	498,294	783,777	393,350
Total bonds and leases payable	21,075,071	-	1,273,294	19,801,777	1,179,350
Other long-term liabilities					
Accumulated compensated absences	24,362	27,115	24,362	27,115	-
Net pension liability	345,977	-	137,384	208,593	-
Net OPEB liability	-	41,029	-	41,029	-
Total other long-term liabilities	370,339	68,144	161,746	276,737	-
Total Business-Type Activities	\$ 21,445,410	\$ 68,144	\$ 1,435,040	\$ 20,078,514	\$ 1,179,350

**CITY OF RIO GRANDE CITY, TEXAS
NOTES TO THE FINACIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2018**

NOTE 8 DUE TO STATE

The Texas Comptroller of Public Accounts notified the City of Rio Grande City in February 2016 of a claim for refund of sales taxes paid in prior years by a local business. The claim was based on the location of transaction involving personal property on which sales taxes were paid being outside of the City of Rio Grande City. The City of Rio Grande City and the Texas Comptroller of Public Accounts agreed on a repayment of the claim totaling \$1,220,289 and the City paid \$59,820 in the year ended September 30, 2018.

The City has agreed to make monthly payments each year as follows:

Year	Payment Amount
2019	\$ 143,568
2020	143,568
2021	143,568
2022	143,568
2023	143,568
2025	143,568
2025	143,568
2026	11,925
Total	<u>\$ 1,016,901</u>

NOTE 9 FUND DEFICITS

At September 30, 2018, Special Revenue Funds – Forfeiture Fund had a deficit fund balance of (\$16,484), SRF Airport Fund had a deficit fund balance of (\$68), TDA Contract No. 7215419 had a deficit fund balance of (\$113), and the Boys & Girls Club Fund had a deficit fund balance of (\$146,266). The Capital Projects Reserve Fund had a deficit fund balance of (\$60).

NOTE 10 HEALTH CARE COVERAGE

During the year ended September 30, 2018, employees of the City were covered by a health insurance plan (the Plan). The City paid premiums of \$347 per month per employee to the Plan. Employees, at their option, authorized payroll withholdings to pay premiums for dependents. The Plan was authorized by Article 3.51-5, Texas Insurance Code and was documented by contractual agreement.

The contract between the City and the licensed insurer is renewable October 1, 2017, 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, 2017, and have been filed with the Texas State Board of Insurance, Austin, Texas and are public record.

**CITY OF RIO GRANDE CITY, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2018**

NOTE 11 PENSION PLAN

A. Plan Description

The City of Rio Grande City participates as one of 883 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.

B. 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 payment 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.

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:

	Plan Year 2017	Plan Year 2018
Employee Deposit Rate	6.00%	6.00%
Matching Ratio (City to Employee)	1.5 to 1	1.5 to 1
Years Required for Vesting	5	5
Service Retirement Eligibility (Expressed as Age / Years of Service)	60/5,0/20	60/5,0/20
Updated Service Credit	100% Repeating, Transfers	100% Repeating, Transfers
Annuity Increase (to Retirees)	70% of CPI Repeating	70% of CPI Repeating

**CITY OF RIO GRANDE CITY, TEXAS
NOTES TO THE FINACIAL STATEMENTS
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Employees covered by benefit terms

At the December 31, 2017 valuation and measurement date, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefits	15
Inactive employees entitled to but not yet receiving benefits	81
Active employees	156
Total	<u>252</u>

C. 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 7.19% and 7.06% in calendar years 2017 and 2018, respectively. The City's contributions to TMRS for the year ended September 30, 2018, were \$373,087 and were equal to the required contributions.

D. Net Pension Liability

The City's Net Pension Liability (NPL) was measured as of December 31, 2017, and the Total Pension Liability (TPL) used to calculate the Net Pension Liability was determined by an actuarial valuation as of that date.

Actuarial assumptions:

The Total Pension Liability in the December 31, 2017 actuarial valuation was determined using the following actuarial assumptions:

Inflation 2.5% per year

Overall Payroll Growth 3.0% 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 Table, with Blue Collar 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.

**CITY OF RIO GRANDE CITY, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
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The actuarial assumptions were developed primarily from the actuarial investigation of the experience of TMRS over the four year period from December 31, 2010 to December 31, 2014. They were adopted in 2015 and first used in December 31, 2015 actuarial valuation. The post-retirement mortality assumption for healthy annuitants and Annuity Purchase Rate (APRs) are based on the Mortality Experience Investigation Study covering 2009 through 2011, and dated December 31, 2013. In conjunction with these changes first used in the December 31, 2013 valuation, the System adopted the Entry Age Normal actuarial cost method and a one-time change to the amortization policy. 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). The target allocation and best estimate of real rates of return for each major asset class in fiscal year 2018 are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return (Arithmetic)
Domestic Equity	17.5%	4.55%
International Equity	17.5%	6.35%
Core Fixed Income	10.0%	1.00%
Non-Core Fixed Income	20.0%	3.90%
Real Return	10.0%	3.80%
Real Estate	10.0%	4.50%
Absolute Return	10.0%	3.75%
Private Equity	5.0%	7.50%
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.

**CITY OF RIO GRANDE CITY, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2018**

Changes in the Net Pension Liability:

	Increase (Decrease)		
	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability
	(a)	(b)	(a)-(b)
Balance at 12/31/2016	\$ 8,815,841	\$ 7,352,851	\$ 1,462,990
Changes for the year:			
Service cost	614,800	-	614,800
Interest	608,326	-	608,326
Change of benefit terms	-	-	-
Difference between expected and actual experience	(93,791)	-	(93,791)
Changes of assumptions	-	-	-
Contributions - employer	-	379,671	(379,671)
Contributions - employee	-	316,635	(316,635)
Net investment income	-	1,019,516	(1,019,516)
Benefit payments, including refunds of employee contributions	(222,015)	(222,015)	-
Administrative expense	-	(5,281)	5,281
Other changes	-	(268)	268
Net changes	907,320	1,488,258	(580,938)
Balance at 12/31/2017	\$ 9,723,161	\$ 8,841,109	\$ 882,052

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 Discount Rate (5.75%)	Discount Rate (6.75%)	1% Increase in Discount Rate (7.75%)
City's net pension liability	\$ 2,723,590	\$ 882,052	\$ (575,639)

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.tmr.com.

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

For the year ended September 30, 2018, the City recognized pension expense of \$224,597.

**CITY OF RIO GRANDE CITY, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
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At September 30, 2018, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience (net of current year amortization)	\$ -	\$ 525,701
Changes in actuarial assumptions	13,848	-
Difference between projected and actual investment earnings (net of current year amortization)	-	242,296
Contributions subsequent to the measurement date	284,035	-
Total	<u>\$ 297,883</u>	<u>\$ 767,997</u>

\$284,035 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, 2018. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended December 31:

2019	\$ (191,125)
2020	(204,462)
2021	(194,483)
2022	(149,638)
2023	(14,441)
Thereafter	-

NOTE 12 OTHER POST EMPLOYMENT BENEFITS (OPEB)

Texas Municipal Retirement System ("TMRS") administers a defined benefit group-term life insurance plan known as the Supplemental Death Benefits Fund ("SDBF"). This is a voluntary program in which participating member cities may elect, by ordinance, to provide group-term life insurance coverage for their active members, including or not including retirees. The death benefit for active employees provides a lump-sum payment approximately equal to the employee's annual salary (calculated based on the employee's actual earnings, for the 12-month period preceding the month of death). The death benefit for retirees is considered an other post-employment benefit ("OPEB") and is a fixed amount of \$7,500. As the SDBF covers both active and retiree participants, with no segregation of assets, the SDBF is considered to be an unfunded OPEB plan (i.e. no assets are accumulated).

The member 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 employee's entire careers.

**CITY OF RIO GRANDE CITY, TEXAS
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Employees covered by benefit terms

At the December 31, 2017 valuation and measurement date, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefits	8
Inactive employees entitled to but not yet receiving benefits	12
Active employees	156
Total	<u>176</u>

Contributions

Employees for the City of Rio Grande City were required to contribute 0.00% of their annual gross earnings during the fiscal year. The contribution rates for the City were 0.13% and 0.14% in calendar year 2017 and 2018, respectively. The City's contributions to TMRS for the year ended September 30, 2018 were \$7,243 and were equal to the required contributions.

Net Pension Liability

The City's Net OPEB Liability was measured as of December 31, 2017, and the Total OPEB Liability used to calculate the Net OPEB Liability was determined by an actuarial valuation as of that date.

Actuarial assumptions:

The Total OPEB Liability in the December 31, 2017 actuarial valuation was determined using the following actuarial assumptions:

Inflation	2.5% per year
Overall Payroll Growth	3.50% to 10.5% per year - including inflation
Discount rate*	3.31%
Retiree's share of benefit related costs	\$0
<i>*The discount rate was based on the Fidelity Index's "20-Year Municipal GO AA Index" rate as of December 31, 2017.</i>	

Administrative Expenses - All administrative expenses are paid through the Pension Trust and accounted for under reporting requirements under GASB Statement No. 68.

Mortality rates – service retirees - RP2000 Combined Mortality Table with Blue Collar Adjustments with male rates multiplied by 109% and female rates multiplied by 103% and projected on a fully generational basis with scale BB.

Mortality rates – disabled retirees – RP2000 Combined Mortality Table with Blue Collar Adjustment with male rates multiplied by 109% and female rates multiplied by 103% with a 3 year set-forward for both males and females. The rates are projected on a fully generational basis with scale BB to account for future mortality improvements subject to the 3% floor.

**CITY OF RIO GRANDE CITY, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2018**

Discount Rate:

The discount rate used to measure the Total OPEB Liability was 3.31%. 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 OPEB 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 OPEB plan investments was applied to all periods of projected benefit payments to determine the Total OPEB Liability.

Total OPEB Liability:

	Increase (Decrease) Total OPEB Liability
Balance at 12/31/2016	\$ 124,021
Changes for the year:	
Service cost	15,304
Interest	4,967
Change of benefit terms	-
Difference between expected and actual experience	-
Changes of assumptions	14,866
Contributions - employer	-
Contributions - employee	-
Net investment income	-
Benefit payments,	-
including refunds of employee contributions	14,338
Administrative expense	-
Other changes	-
Net changes	49,475
Balance at 12/31/2017	\$ 173,496

Sensitivity of the Total OPEB Liability to Changes in the Discount Rate

The following presents the total OPEB liability of the City, calculated using the discount rate of 3.31%, as well as what the City's total OPEB liability would be if it were calculated using a discount rate that is 1 percentage point lower (2.31%) or 1 percentage point higher (4.31%) than the current rate:

	1% Decrease in Discount Rate (2.31%)	Discount Rate (3.31%)	1% Increase in Discount Rate (4.31%)
City's total OPEB liability	\$ 197,762	\$ 173,496	\$ 128,655

**CITY OF RIO GRANDE CITY, TEXAS
NOTES TO THE FINACIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2018**

OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEBs

For the year ended September 30, 2018, the City recognized OPEB expense in the amount of \$22,102.

At September 30, 2018, the City reported deferred outflows of resources and deferred inflows of resources related to OPEBs from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience (net of current year amortization)	\$ -	\$ -
Changes in actuarial assumptions	13,035	-
Difference between projected and actual investment earnings (net of current year amortization)	-	-
Contributions subsequent to the measurement date	5,632	-
Total	<u>\$ 18,667</u>	<u>\$ -</u>

\$5,632 reported as deferred outflows of resources related to OPEBs resulting from contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability for the year ended September 30, 2018. Other amounts reported as deferred outflows and inflows of resources related to OPEBs will be recognized in OPEB expense as follows:

Year ended December 31:

2019	\$ 1,831
2020	1,831
2021	1,831
2022	1,831
2023	1,831
Thereafter	3,380

NOTE 13 CONSTRUCTION AND IMPROVEMENT COMMITMENTS

Construction and Improvement Commitments

At September 30, 2018, the City had the following significant remaining contractual commitments for construction and improvement projects:

Project	Remaining Commitment	Financing Sources
Infrastructure Improvements Project	\$ 83,052	Department of Commerce - Economic Development Administration
Los Olmos Drainage Project	3,650	General Fund
Port of Entry Access Road Project	342,670	Economic Development Fund
North Fairgrounds Water Line Project	3,186	Public Utilities Fund
Lift Station Rehabilitation Project	20,800	Public Utilities Fund
VFW 10" Force Main Sewer Line	8,959	Public Utilities Fund
Total	\$ 462,316	

**CITY OF RIO GRANDE CITY, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2018**

NOTE 14 RISK MANAGEMENT

The City is exposed to various risks of loss related to torts, theft, damage or destruction of assets, errors and omissions, injuries to employees, and natural disasters. During fiscal year 2018, the City obtained general liability coverage at a cost that is considered to be economically justifiable by joining together with other governmental entities in the State as a member of the Texas Municipal League Intergovernmental Risk Pool (TML). TML is a self-funded pool operating as a common risk management and insurance program. The City pays an annual premium to TML for its above insurance coverage. The agreement for the formation of TML provides that TML will be self-sustaining through member premiums and will reinsure through commercial companies for claims in excess of acceptable risk levels; however, each category of coverage has its own level of reinsurance. The City 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 from these risks have not exceeded coverage in any of the past three fiscal 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 \$1,077,592. Utility customer deposits held at year end totaled \$267,199.

NOTE 15 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 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.

**CITY OF RIO GRANDE CITY, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2018**

NOTE 16 PRIOR PERIOD ADJUSTMENTS

During the year 2018, the City adopted GASB Statement No. 75 for *Accounting and Financial Reporting for Post-employment Benefits Other Than Pensions*. Adoption of GASB 75 required a prior period adjustment to report the effect of GASB 75 retroactively. A prior period adjustment of (\$90,371) was made to the government wide statements which decreased the ending net position and a prior period adjustment of (\$27,991) was made to the enterprise funds which decreased the ending net position and fund balance. Additionally, a prior period adjustment of (\$66,388) was made to the General Fund which decreased the ending net position and fund balance. An adjustment of \$147,013 was made to the Economic Development Fund, which increased the ending fund balance and net position and an adjustment of \$92 was made to the DHS Stonegarden fund which increased the ending net position and fund balance. An adjustment of \$387,188 was also made to the Enterprise Fund which increased the ending fund balance and net position.

NOTE 17 FUND BALANCE RESTRICTED OR COMMITTED TO OTHER PURPOSES

Some fund balance restrictions and commitments have been grouped together under the heading of other or various purposes. Those amounts are detailed below:

Restricted Fund Balance:	
Federal of State Funds Grant Restriction	\$ 876,606
Retirement of Long-Term Debt	514,074
Other Restricted Fund Balance	39,684
Committed	
Construction	1,748,020
Assigned	1,348,419
Unassigned	409,455
Total Fund Balance	<u><u>\$4,936,258</u></u>

NOTE 18 EVALUATION OF SUBSEQUENT EVENTS

The Council has evaluated subsequent events through August 28, 2019 the date which the financial statements were available to be issued.

REQUIRED SUPPLEMENTARY INFORMATION

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CITY OF RIO GRANDE CITY
 SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE -
 BUDGET AND ACTUAL - GENERAL FUND
 FOR THE YEAR ENDED SEPTEMBER 30, 2018

Data Control Codes	Budgeted Amounts		Actual Amounts (GAAP BASIS)	Variance With Final Budget Positive or (Negative)	
	Original	Final			
REVENUES:					
Taxes:					
5110	Property Taxes	\$ 1,567,528	\$ 1,567,528	\$ 1,617,245	\$ 49,717
5111	Delinquent Property Taxes	306,173	306,173	176,053	(130,120)
5112	AD Valorem Tax Relief Revenue	885,057	885,057	964,173	79,116
5120	General Sales and Use Taxes	1,770,114	1,770,114	1,988,167	218,053
5170	Franchise Tax	552,670	552,670	588,469	35,799
5190	Penalty and Interest on Taxes	123,202	123,202	118,259	(4,943)
5200	Licenses and Permits	134,335	134,335	115,976	(18,359)
5300	Intergovernmental Revenue and Grants	180,000	180,000	129,418	(50,582)
5400	Charges for Services	97,330	97,330	132,589	35,259
5510	Fines	95,561	95,561	235,692	140,131
5610	Investment Earnings	500	500	16,926	16,426
5700	Other Revenue	27,127	27,127	56,682	29,555
5020	Total Revenues	5,739,597	5,739,597	6,139,649	400,052
EXPENDITURES:					
Current:					
0110	Mayor and Council	10,250	10,250	10,615	(365)
0111	City Manager	275,322	275,322	255,897	19,425
0120	Administration	1,092,348	1,092,348	1,162,408	(70,060)
0130	City Secretary	90,126	90,126	82,284	7,842
0140	Finance	152,531	152,531	168,321	(15,790)
0150	Personnel	65,928	65,928	57,032	8,896
0160	Planning	402,335	402,335	377,356	24,979
0170	Judicial	155,823	155,823	139,904	15,919
0210	Police	2,576,361	2,576,361	2,310,668	265,693
0220	Fire Protection	877,640	877,640	916,084	(38,444)
0300	Public Works	743,611	743,611	724,302	19,309
0310	Highway and Streets	199,650	199,650	174,280	25,370
0510	Culture, recreation and parks	448,351	448,351	357,576	90,775
0520	Library	263,163	263,163	280,536	(17,373)
Debt Service:					
0710	Principal on Debt	-	-	288,688	(288,688)
0720	Interest on Debt	-	-	11,757	(11,757)
6030	Total Expenditures	7,353,439	7,353,439	7,317,708	35,731
1100	Excess (Deficiency) of Revenues Over (Under) Expenditures	(1,613,842)	(1,613,842)	(1,178,059)	435,783
OTHER FINANCING SOURCES (USES):					
7912	Sale of Real and Personal Property	375,000	375,000	365,260	(9,740)
7915	Transfers In	1,245,000	1,245,000	1,472,448	227,448
8911	Transfers Out (Use)	(5,400)	(5,400)	(6,875)	(1,475)
7080	Total Other Financing Sources (Uses)	1,614,600	1,614,600	1,830,833	216,233
1200	Net Change in Fund Balances	758	758	652,774	652,016
0100	Fund Balance - October 1 (Beginning)	(79,731)	(79,731)	(79,731)	-
1300	Prior Period Adjustment	-	-	(66,388)	(66,388)
3000	Fund Balance - September 30 (Ending)	\$ (78,973)	\$ (78,973)	\$ 506,655	\$ 585,628

CITY OF RIO GRANDE CITY
SCHEDULE OF CHANGES IN NET PENSION LIABILITY AND RELATED RATIOS
TEXAS MUNICIPAL RETIREMENT SYSTEM
FOR THE YEAR ENDED SEPTEMBER 30, 2018

	FY 2018 Plan Year 2017	FY 2017 Plan Year 2016	FY 2016 Plan Year 2015	FY 2015 Plan Year 2014
A. Total Pension Liability				
Service Cost	\$ 614,800	\$ 564,952	\$ 544,128	\$ 492,276
Interest (on the Total Pension Liability)	608,326	556,171	526,651	513,277
Changes of Benefit Terms	-	-	-	-
Difference between Expected and Actual Experience	(93,791)	(166,728)	(209,742)	(660,921)
Changes of Assumptions	-	-	27,426	-
Benefit Payments, Including Refunds of Employee Contributions	(222,015)	(191,301)	(174,484)	(184,520)
Net change in Total Pension Liability	\$ 907,320	\$ 763,094	\$ 713,979	\$ 160,112
Total Pension Liability - Beginning	8,815,841	8,052,747	7,338,768	7,178,656
Total Pension Liability - Ending	\$ 9,723,161	\$ 8,815,841	\$ 8,052,747	\$ 7,338,768
B. Total Fiduciary Net Position				
Contributions - Employer	\$ 379,671	\$ 359,708	\$ 390,073	\$ 359,165
Contributions - Employee	316,635	291,714	286,383	261,514
Net Investment Income	1,019,516	436,680	8,788	299,025
Benefit Payments, Including Refunds of Employee Contributions	(222,015)	(191,301)	(174,484)	(184,520)
Administrative Expense	(5,281)	(4,932)	(5,353)	(3,120)
Other	(268)	(266)	(264)	(257)
Net Change in Plan Fiduciary Net Position	\$ 1,488,258	\$ 891,603	\$ 505,143	\$ 731,807
Plan Fiduciary Net Position - Beginning	7,352,851	6,461,248	5,956,105	5,224,298
Plan Fiduciary Net Position - Ending	\$ 8,841,109	\$ 7,352,851	\$ 6,461,248	\$ 5,956,105
C. Net Pension Liability	\$ 882,052	\$ 1,462,990	\$ 1,591,499	\$ 1,382,663
D. Plan Fiduciary Net Position as a Percentage of Total Pension Liability	90.93%	83.40%	80.24%	81.16%
E. Covered Payroll	\$ 5,277,254	\$ 4,861,895	\$ 4,773,052	\$ 4,358,940
F. Net Pension Liability as a Percentage of Covered Payroll	16.71%	30.09%	33.34%	31.72%

Note: GASB 68, Paragraph 46, a and b requires that the data in this schedule be presented for the time period covered by the measurement date rather than the governmental entity's current fiscal year.

Note: Only four years of data are presented in accordance with GASBS #68, paragraph 138. "The information for all periods for the 10-year schedules that are required to be presented as required supplementary information may not be available initially. In these cases, during the transition period, that information should be presented for as many years as are available. The schedules should not include information that is not measured in accordance with the requirements of this Statement."

CITY OF RIO GRANDE CITY
SCHEDULE OF CONTRIBUTIONS
TEXAS MUNICIPAL RETIREMENT SYSTEM
FOR THE FISCAL YEAR 2018

EXHIBIT G-3

	2018	2017	2016	2015
Actuarially Determined Contribution	\$ 373,087	\$ 359,708	\$ 390,073	\$ 359,165
Contributions in Relation to the Actuarially Determined Contributions	(373,087)	(359,708)	(390,073)	(359,165)
Contribution Deficiency (Excess)	\$ -	\$ -	\$ -	\$ -
Covered Payroll	\$ 5,261,713	\$ 4,861,895	\$ 4,773,052	\$ 4,358,940
Contributions as a Percentage of Covered Payroll	7.09%	7.40%	8.17%	8.24%

Note: GASB 68, Paragraph 81 requires that the data in this schedule be presented as of the governmental entity's respective fiscal years as opposed to the time periods covered by the measurement dates ending December 31 for the respective fiscal years.

Note: In accordance with GASB 68, Paragraph 138, the years of data presented this reporting period are those for which data is available. "The information for all periods for the 10-year schedules that are required to be presented as required supplementary information may not be available initially. In these cases, during the transition period, that information should be presented for as many years as are available. The schedules should not include information that is not measured in accordance with the requirements of this Statement."

CITY OF RIO GRANDE CITY
NOTES TO SCHEDULE OF CONTRIBUTIONS
FOR THE YEAR ENDED SEPTEMBER 30, 2018

Valuation Date: 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	24 years
Asset Valuation Method	10 Year smoothed market; 15% soft corridor
Inflation	2.5%
Salary Increases	3.5% to 10.5% including inflation
Investment Rate of Return	6.75%
Retirement Age	Experience-based table based on 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: There were no benefit changes during the year.

CITY OF RIOGRANDE CITY
SCHEDULE OF CHANGES IN THE TOTAL OPEB LIABILITY AND RELATED RATIOS
TEXAS MUNICIPAL RETIREMENT SYSTEM
FOR THE YEAR ENDED SEPTEMBER 30, 2018

	FY 2018 Plan Year 2017
Total OPEB Liability	
Service Cost	\$ 15,304
Interest on the Total OPEB Liability	4,967
Changes of Benefit Terms	-
Difference between Expected and Actual Experience	-
Changes of Assumptions	14,866
Benefit Payments*	14,338
Net Change in Total OPEB Liability	49,475
Total OPEB Liability - Beginning	124,021
Total OPEB Liability - Ending	\$ 173,496
Covered Payroll	\$ 5,277,254
Total OPEB Liability as a Percentage of Covered Payroll	3.29%

*The Supplemental Death Benefit Fund is considered to be an unfunded OPEB plan under GASB 75. Because of this benefit payments are treated as being equal to the employer's yearly contributions for retirees.

Note: GASB Codification, Vol. 2, P52.139 states that the information on this schedule should be determined as of the measurement date of the plan.

As required by GASB 75, this schedule will be built prospectively as the information becomes available until 10 years of information is presented.

CITY OF RIO GRANDE CITY
NOTES TO SCHEDULE OF OPEB CONTRIBUTIONS
FOR THE YEAR ENDED SEPTEMBER 30, 2018

Valuation Date:

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	17 years
Asset Valuation Method	10 Year smoothed market; 15% soft corridor
Inflation	2.5%
Salary Increases	3.5% to 10.5% including inflation
Investment Rate of Return	6.75%
Retirement Age	Experience-based table based on rates that are specific to the City's plan of
Mortality	RP2000 Combined Mortality Table with Blue Collar Adjustment with male
Other Information:	There were no benefit changes during the year.

OTHER SUPPLEMENTARY INFORMATION

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CITY OF RIO GRANDE CITY, TEXAS
NOTES TO THE REQUIRED SUPPLEMENTARY 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 balance 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, compiled and presented to the City Council for approval. The City Council conducts departmental budget reviews, adjusts budget request to final form and conducts a public hearing in the City Administrative 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 2018 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) is on an object class basis. More comprehensive accounting of activity on the budgetary basis is provided in a separate report, which is available for public inspection in the City's administration building.

CITY OF RIO GRANDE CITY, TEXAS
NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION

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 Area (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 Byrnes 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.

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.

Boys and Girls Club Fund is used to account for revenues and expenditures which may be used for the operations of the club.

Texas Department of Agriculture (TDA) Contract NO. 7215419 is used to account for revenues and expenditures of funds received by the TDA for the construction or improvement of the Sanitary Sewer Project.

Municipal Court Security Fund accounts for the receipt and use of fines which may only be used for municipal court security.

Municipal Court Technology Fund accounts for the receipt and use of fines which may only be used for municipal technology.

Park Fee Fund accounts for the receipt and use of fees which may only be used for municipal park improvements.

Economic Development Administration (EDA) Contract NO. 08-79-05074 is used to account for revenue and expenditures of funds received by the EDA for the construction or improvement of the City’s infrastructure.

CITY OF RIO GRANDE CITY, TEXAS
NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION

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 to provide the interest and sinking fund reserve.

CITY OF RIOGRANDE CITY
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
SEPTEMBER 30, 2018

Data Control Codes	201 Hotel Occupancy Tax Fund	203 Forfeiture Fund	204 HIDTA Task Force Fund	209 Treasury Forfeiture Fund
ASSETS				
1010 Cash and Cash Equivalents	\$ 387,967	\$ 41,640	\$ 760	\$ 81,667
1050 Taxes Receivable	-	-	-	-
1051 Allowance for Uncollectible Taxes (credit)	-	-	-	-
1150 Accounts Receivable Net	13,313	-	-	-
1260 Due from Other Governments	-	-	82,935	-
1300 Due from Other Funds	-	10,525	-	-
1000 Total Assets	<u>\$ 401,280</u>	<u>\$ 52,165</u>	<u>\$ 83,695</u>	<u>\$ 81,667</u>
LIABILITIES				
2010 Accounts Payable	\$ 1,001	\$ 687	\$ -	\$ -
2020 Wages and Salaries Payable	519	-	-	-
2080 Due to Other Funds	21,826	67,940	82,965	-
2090 Due to State	-	22	-	-
2000 Total Liabilities	<u>23,346</u>	<u>68,649</u>	<u>82,965</u>	<u>-</u>
DEFERRED INFLOWS OF RESOURCES				
2601 Unavailable Revenue - Property Taxes	-	-	-	-
2600 Total Deferred Inflows of Resources	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
FUND BALANCES				
Restricted Fund Balance:				
3450 Federal or State Funds Grant Restriction	-	-	730	81,667
3480 Retirement of Long-Term Debt	-	-	-	-
3490 Other Restricted Fund Balance	-	-	-	-
Committed Fund Balance:				
3510 Construction	-	-	-	-
Assigned Fund Balance:				
3590 Other Assigned Fund Balance	377,934	-	-	-
3600 Unassigned Fund Balance	-	(16,484)	-	-
3000 Total Fund Balances	<u>377,934</u>	<u>(16,484)</u>	<u>730</u>	<u>81,667</u>
4000 Total Liabilities, Deferred Inflows & Fund Balances	<u>\$ 401,280</u>	<u>\$ 52,165</u>	<u>\$ 83,695</u>	<u>\$ 81,667</u>

210 Police Training Fund	211 Border Security Grants Fund	212 DHS Stonegarden Fund	214 SRF Airport Fund	216 PEG Fee Fund	219 Boys & Girls Club Fund	220 TDA Contract NO 7215419	221 Mun Court Security Fund
\$ 9,719	\$ 7,669	\$ 6,342	\$ 3	\$ 9,783	\$ 21,963	\$ 7,047	\$ -
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	4,174	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	13,020
<u>\$ 9,719</u>	<u>\$ 7,669</u>	<u>\$ 6,342</u>	<u>\$ 3</u>	<u>\$ 13,957</u>	<u>\$ 21,963</u>	<u>\$ 7,047</u>	<u>\$ 13,020</u>
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
-	-	-	-	-	717	-	-
-	317	-	71	-	167,512	7,160	-
-	-	-	-	-	-	-	-
<u>-</u>	<u>317</u>	<u>-</u>	<u>71</u>	<u>-</u>	<u>168,229</u>	<u>7,160</u>	<u>-</u>
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
9,719	7,352	6,342	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	13,957	-	-	13,020
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	(68)	-	(146,266)	(113)	-
<u>9,719</u>	<u>7,352</u>	<u>6,342</u>	<u>(68)</u>	<u>13,957</u>	<u>(146,266)</u>	<u>(113)</u>	<u>13,020</u>
<u>\$ 9,719</u>	<u>\$ 7,669</u>	<u>\$ 6,342</u>	<u>\$ 3</u>	<u>\$ 13,957</u>	<u>\$ 21,963</u>	<u>\$ 7,047</u>	<u>\$ 13,020</u>

CITY OF RIO GRANDE CITY
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
SEPTEMBER 30, 2018

Data Control Codes	222 Mun Court Technology Fund	223 Park Fee Fund	307 EDA Grant NO 087905074	Total Nonmajor Special Revenue Funds
ASSETS				
1010 Cash and Cash Equivalents	\$ -	\$ 13,941	\$ 770,796	\$ 1,359,297
1050 Taxes Receivable	-	-	-	-
1051 Allowance for Uncollectible Taxes (credit)	-	-	-	-
1150 Accounts Receivable Net	-	-	-	17,487
1260 Due from Other Governments	-	-	-	82,935
1300 Due from Other Funds	12,707	51,980	-	88,232
1000 Total Assets	<u>\$ 12,707</u>	<u>\$ 65,921</u>	<u>\$ 770,796</u>	<u>\$ 1,547,951</u>
LIABILITIES				
2010 Accounts Payable	\$ -	\$ -	\$ -	\$ 1,688
2020 Wages and Salaries Payable	-	-	-	1,236
2080 Due to Other Funds	-	130	-	347,921
2090 Due to State	-	-	-	22
2000 Total Liabilities	<u>-</u>	<u>130</u>	<u>-</u>	<u>350,867</u>
DEFERRED INFLOWS OF RESOURCES				
2601 Unavailable Revenue - Property Taxes	-	-	-	-
2600 Total Deferred Inflows of Resources	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
FUND BALANCES				
Restricted Fund Balance:				
3250 Federal or State Funds Grant Restriction	-	-	770,796	876,606
3280 Retirement of Long-Term Debt	-	-	-	-
3290 Other Restricted Fund Balance	12,707	-	-	39,684
Committed Fund Balance:				
3410 Construction	-	-	-	-
Assigned Fund Balance:				
3590 Other Assigned Fund Balance	-	-	-	377,934
3600 Unassigned Fund Balance	-	65,791	-	(97,140)
3000 Total Fund Balances	<u>12,707</u>	<u>65,791</u>	<u>770,796</u>	<u>1,197,084</u>
4000 Total Liabilities, Deferred Inflows & Fund Balances	<u>\$ 12,707</u>	<u>\$ 65,921</u>	<u>\$ 770,796</u>	<u>\$ 1,547,951</u>

500 Debt Service Fund	601 Water Plant Project Fund	602 Capital Projects Reserve Fund	605 2013 Wastewater Project Fund	Total Nonmajor Capital Project Funds	Total Nonmajor Governmental Funds
\$ 558,019	\$ -	\$ -	\$ 1,739,788	\$ 1,739,788	\$ 3,657,104
335,746	-	-	-	-	335,746
(16,787)	-	-	-	-	(16,787)
-	-	-	-	-	17,487
-	-	-	-	-	82,935
90,849	11,745	-	-	11,745	190,826
<u>\$ 967,827</u>	<u>\$ 11,745</u>	<u>\$ -</u>	<u>\$ 1,739,788</u>	<u>\$ 1,751,533</u>	<u>\$ 4,267,311</u>
\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1,688
-	-	-	-	-	1,236
134,795	3,513	60	-	3,573	486,289
-	-	-	-	-	22
<u>134,795</u>	<u>3,513</u>	<u>60</u>	<u>-</u>	<u>3,573</u>	<u>489,235</u>
318,958	-	-	-	-	318,958
<u>318,958</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>318,958</u>
-	-	-	-	-	876,606
514,074	-	-	-	-	514,074
-	-	-	-	-	39,684
-	8,232	-	1,739,788	1,748,020	1,748,020
-	-	-	-	-	377,934
-	-	(60)	-	(60)	(97,200)
<u>514,074</u>	<u>8,232</u>	<u>(60)</u>	<u>1,739,788</u>	<u>1,747,960</u>	<u>3,459,118</u>
<u>\$ 967,827</u>	<u>\$ 11,745</u>	<u>\$ -</u>	<u>\$ 1,739,788</u>	<u>\$ 1,751,533</u>	<u>\$ 4,267,311</u>

CITY OF RIOGRANDE CITY
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCES - NONMAJOR GOVERNMENTAL FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2018

Data Control Codes	201 Hotel Occupancy Tax Fund	203 Forfeiture Fund	204 HIDTA Task Force Fund	209 Treasury Forfeiture Fund
REVENUES:				
Taxes:				
5110 Property Taxes	\$ -	\$ -	\$ -	\$ -
5111 Delinquent Property Taxes	-	-	-	-
5170 Franchise Tax	-	-	-	-
5177 Hotel/Motel Tax	92,877	-	-	-
5190 Penalty and Interest on Taxes	-	-	-	-
5300 Intergovernmental Revenue and Grants	-	-	307,548	-
5510 Fines	-	-	-	-
5520 Forfeits	-	185,301	-	35,696
5610 Investment Earnings	5,044	518	-	750
5700 Other Revenue	-	11,183	-	-
5020 Total Revenues	<u>97,921</u>	<u>197,002</u>	<u>307,548</u>	<u>36,446</u>
EXPENDITURES:				
Current:				
General Government:				
0120 Administration	-	-	-	-
Public Safety:				
0210 Police	-	47,206	307,548	2,545
Conservation and Development:				
0650 Economic Development and Assistance	125,509	-	-	-
Debt Service:				
0710 Principal on Debt	-	-	-	-
0720 Interest on Debt	-	-	-	-
0790 Other Debt Service	-	-	-	-
6030 Total Expenditures	<u>125,509</u>	<u>47,206</u>	<u>307,548</u>	<u>2,545</u>
1100 Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>(27,588)</u>	<u>149,796</u>	<u>-</u>	<u>33,901</u>
OTHER FINANCING SOURCES (USES):				
7912 Sale of Real and Personal Property	-	200	-	-
7915 Transfers In	-	-	-	-
8911 Transfers Out (Use)	-	(75,000)	-	-
7080 Total Other Financing Sources (Uses)	<u>-</u>	<u>(74,800)</u>	<u>-</u>	<u>-</u>
1200 Net Change in Fund Balance	(27,588)	74,996	-	33,901
0100 Fund Balance - October 1 (Beginning)	405,522	(91,480)	730	47,766
1300 Prior Period Adjustment	-	-	-	-
3000 Fund Balance - September 30 (Ending)	<u>\$ 377,934</u>	<u>\$ (16,484)</u>	<u>\$ 730</u>	<u>\$ 81,667</u>

210 Police Training Fund	211 Border Security Grants Fund	212 DHS Stonegarden Fund	214 SRF Airport Fund	216 PEG Fee Fund	219 Boys & Girls Club Fund	220 TDA Contract NO 7215419	221 Mun Court Security Fund
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
-	-	-	-	-	-	-	-
-	-	-	-	16,324	-	-	-
-	-	-	-	-	-	-	-
2,425	-	194,482	-	-	-	-	-
-	-	-	-	-	-	-	4,652
-	-	-	-	-	-	-	-
125	98	11	-	238	24	-	-
-	-	-	-	-	42,895	93,182	-
<u>2,550</u>	<u>98</u>	<u>194,493</u>	<u>-</u>	<u>16,562</u>	<u>42,919</u>	<u>93,182</u>	<u>4,652</u>
-	-	-	4,469	19,777	134,956	-	-
1,393	74	-	-	-	-	-	-
-	-	-	-	-	-	86,181	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
<u>1,393</u>	<u>74</u>	<u>-</u>	<u>4,469</u>	<u>19,777</u>	<u>134,956</u>	<u>86,181</u>	<u>-</u>
<u>1,157</u>	<u>24</u>	<u>194,493</u>	<u>(4,469)</u>	<u>(3,215)</u>	<u>(92,037)</u>	<u>7,001</u>	<u>4,652</u>
-	-	-	-	-	-	-	-
-	-	-	4,432	-	-	-	-
-	(780)	(183,796)	-	-	-	-	-
-	(780)	(183,796)	4,432	-	-	-	-
1,157	(756)	10,697	(37)	(3,215)	(92,037)	7,001	4,652
8,562	8,108	(4,447)	(31)	17,172	(54,229)	(7,114)	8,368
-	-	92	-	-	-	-	-
<u>\$ 9,719</u>	<u>\$ 7,352</u>	<u>\$ 6,342</u>	<u>\$ (68)</u>	<u>\$ 13,957</u>	<u>\$ (146,266)</u>	<u>\$ (113)</u>	<u>\$ 13,020</u>

CITY OF RIOGRANDE CITY
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCES - NONMAJOR GOVERNMENTAL FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2018

Data Control Codes	222 Mun Court Technology Fund	223 Park Fee Fund	307 EDA Grant NO 087905074	Total Nonmajor Special Revenue Funds
REVENUES:				
Taxes:				
5110 Property Taxes	\$ -	\$ -	\$ -	\$ -
5111 Delinquent Property Taxes	-	-	-	-
5170 Franchise Tax	-	-	-	16,324
5177 Hotel/Motel Tax	-	-	-	92,877
5190 Penalty and Interest on Taxes	-	-	-	-
5300 Intergovernmental Revenue and Grants	-	-	-	504,455
5510 Fines	6,200	-	-	10,852
5520 Forfeits	-	-	-	220,997
5610 Investment Earnings	-	164	-	6,972
5700 Other Revenue	-	19,809	6,164	173,233
5020 Total Revenues	<u>6,200</u>	<u>19,973</u>	<u>6,164</u>	<u>1,025,710</u>
EXPENDITURES:				
Current:				
General Government:				
0120 Administration	-	129	-	159,331
Public Safety:				
0210 Police	-	-	-	358,766
Conservation and Development:				
0650 Economic Development and Assistance	-	-	368	212,058
Debt Service:				
0710 Principal on Debt	-	-	-	-
0720 Interest on Debt	-	-	-	-
0790 Other Debt Service	-	-	-	-
6030 Total Expenditures	<u>-</u>	<u>129</u>	<u>368</u>	<u>730,155</u>
1100 Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>6,200</u>	<u>19,844</u>	<u>5,796</u>	<u>295,555</u>
OTHER FINANCING SOURCES (USES):				
7912 Sale of Real and Personal Property	-	-	-	200
7915 Transfers In	-	-	765,000	769,432
8911 Transfers Out (Use)	-	-	-	(259,576)
7080 Total Other Financing Sources (Uses)	<u>-</u>	<u>-</u>	<u>765,000</u>	<u>510,056</u>
1200 Net Change in Fund Balance	6,200	19,844	770,796	805,611
0100 Fund Balance - October 1 (Beginning)	6,507	45,947	-	391,381
1300 Prior Period Adjustment	-	-	-	92
3000 Fund Balance - September 30 (Ending)	<u>\$ 12,707</u>	<u>\$ 65,791</u>	<u>\$ 770,796</u>	<u>\$ 1,197,084</u>

500 Debt Service Fund	601 Water Plant Project Fund	602 Capital Projects Reserve Fund	605 2013 Wastewater Project Fund	Total Nonmajor Capital Project Funds	Total Nonmajor Governmental Funds
\$ 449,068	\$ -	\$ -	\$ -	\$ -	\$ 449,068
43,683	-	-	-	-	43,683
-	-	-	-	-	16,324
-	-	-	-	-	92,877
28,350	-	-	-	-	28,350
-	-	-	-	-	504,455
-	-	-	-	-	10,852
-	-	-	-	-	220,997
6,947	-	-	17,666	17,666	31,585
-	-	-	-	-	173,233
<u>528,048</u>	<u>-</u>	<u>-</u>	<u>17,666</u>	<u>17,666</u>	<u>1,571,424</u>
-	-	-	263	263	159,594
-	-	-	-	-	358,766
-	-	-	-	-	212,058
360,000	-	-	-	-	360,000
246,757	-	-	-	-	246,757
33,675	-	-	-	-	33,675
<u>640,432</u>	<u>-</u>	<u>-</u>	<u>263</u>	<u>263</u>	<u>1,370,850</u>
<u>(112,384)</u>	<u>-</u>	<u>-</u>	<u>17,403</u>	<u>17,403</u>	<u>200,574</u>
-	-	-	-	-	200
1,274,624	-	-	2,443	2,443	2,046,499
<u>(1,126,642)</u>	<u>-</u>	<u>-</u>	<u>(2,872)</u>	<u>(2,872)</u>	<u>(1,389,090)</u>
<u>147,982</u>	<u>-</u>	<u>-</u>	<u>(429)</u>	<u>(429)</u>	<u>657,609</u>
35,598	-	-	16,974	16,974	858,183
478,476	8,232	(60)	1,722,814	1,730,986	2,600,843
-	-	-	-	-	92
<u>\$ 514,074</u>	<u>\$ 8,232</u>	<u>\$ (60)</u>	<u>\$ 1,739,788</u>	<u>\$ 1,747,960</u>	<u>\$ 3,459,118</u>

CITY OF RIO GRANDE CITY
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL - ECONOMIC DEVELOPMENT CORPORATION
FOR THE YEAR ENDED SEPTEMBER 30, 2018

Data Control Codes	Budgeted Amounts		Actual	Variance With
	Original	Final	GAAP BASIS (See Note)	Final Budget Positive or (Negative)
REVENUES:				
5120 General Sales and Use Taxes	\$ 1,198,557	\$ 1,198,557	\$ 964,203	\$ (234,354)
5300 Intergovernmental Revenue and Grants	-	-	300,000	300,000
5610 Investment Earnings	-	-	17,556	17,556
5700 Other Revenue	-	-	17,918	17,918
5020 Total Revenues	1,198,557	1,198,557	1,299,677	101,120
EXPENDITURES:				
0600 Conservation and Development	1,620,459	1,620,459	1,051,560	568,899
6030 Total Expenditures	1,620,459	1,620,459	1,051,560	568,899
1100 Excess (Deficiency) of Revenues Over (Under) Expenditures	(421,902)	(421,902)	248,117	670,019
OTHER FINANCING SOURCES (USES):				
8911 Transfers Out (Use)	(1,040,000)	(1,040,000)	(1,009,760)	30,240
7080 Total Other Financing Sources (Uses)	(1,040,000)	(1,040,000)	(1,009,760)	30,240
1200 Change in Fund Balance	(1,461,902)	(1,461,902)	(761,643)	700,259
0100 Fund Balance - October 1 (Beginning)	1,585,115	1,585,115	1,585,115	-
1300 Prior Period Adjustment	-	-	147,013	147,013
3000 Fund Balance - September 30 (Ending)	\$ 123,213	\$ 123,213	\$ 970,485	\$ 847,272

REPORT ON INTERNAL CONTROL AND COMPLIANCE

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Raul Hernandez and Company, P.C.
Certified Public Accountants
5402 Holly Rd., Suite 102
Corpus Christi, Texas 78411

**Independent Auditor's Report on Internal Control over Financial Reporting and
On Compliance and Other Matters Based on an Audit of Financial Statements
Performed In Accordance With Government Auditing Standards**

City Council
City of Rio Grande City, Texas
5332 E US HWY 83
Rio Grande City, Texas 78582

Members of the City Council:

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 City of Rio Grande City, Texas, as of and for the year ended September 30, 2018, and the related notes to the financial statements, which collectively comprise City of Rio Grande City, Texas's basic financial statements and have issued our report thereon dated August 28, 2019.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City of Rio Grande City, Texas'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 of Rio Grande City, Texas's internal control. Accordingly, we do not express an opinion on the effectiveness of the City of Rio Grande City, Texas'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 have not been identified. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control that we consider to be 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 deficiency described in the accompanying schedule of findings and questioned costs as item 2018-001, 2018-002, 2018-003 and 2018-004 to be a material weakness.

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 accompanying schedule of findings and questioned costs as items 2018-001, 2018-002, 2018-003 and 2018-004 to be significant deficiencies.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Rio Grande City, Texas'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 item(s) 2018-001, 2018-002, 2018-003 and 2018-004.

City of Rio Grande City, Texas's Response to Findings

City of Rio Grande City, Texas's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. City of Rio Grande City, Texas'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.

Respectfully submitted,

A handwritten signature in blue ink that reads "Raul Hernandez & Company, P.C.".

Raul Hernandez & Company, P.C.

Corpus Christi, TX
August 28, 2019

**CITY OF RIO GRANDE, TEXAS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED SEPTEMBER 30, 2018**

A. Summary of Auditor's Results

1. Financial Statements

Type of auditor's report issued:

Unmodified

Internal control over financial reporting:

One or more material weaknesses identified?

 X Yes No

One or more significant deficiencies identified that are not considered to be material weaknesses?

 X Yes None Reported

Noncompliance material to financial statements noted?

 X Yes No

2. Federal Awards - N/A

Internal control over major programs:

One or more material weaknesses identified?

 Yes X No

One or more significant deficiencies identified that are not considered to be material weaknesses?

 Yes X None Reported

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

Unmodified

Any audit findings disclosed that are required to be reported in accordance with Title 2 U.S. Code of Federal Regulations (CFR) Part 200?

 Yes X No

Identification of major programs:

CFDA Number(s)

Name of Federal Program or Cluster

Dollar threshold used to distinguish between type A and type B programs:

\$750,000

Auditee qualified as low-risk auditee?

 Yes X No

**CITY OF RIO GRANDE, TEXAS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED SEPTEMBER 30, 2018**

B. Financial Statement Findings

Finding No. 2018-001

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 City Council, and preparation of the City's annual financial statements.

Condition: 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. Finding is a repeat from prior fiscal year.

Cause: Due to the turnover of key individuals 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 adjustments.

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.

Management Response: Finance director has the experience and knowledge to keep the finance department up to date. The hiring of a new independent Auditor has helped bring the city current with its' audit reports and will allow the finance department to concentrate on current financials and not have to work with past years financials. Duties have been segregated within the finance department to make sure all reconciliations, journal entries and year end reconciliation schedules are made on a timely manner.

**CITY OF RIO GRANDE, TEXAS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED SEPTEMBER 30, 2018**

Finding No. 2018-002

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 States of America applicable to state and local governments (GAAP).

Condition: 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. Finding is a repeat from prior fiscal year.

Cause: Lack of communication between departments and coordination during the year and at year-end for audit.

Effect: Account balances were misstated.

Context: Accounts receivable, revenue and expenditures related to the grants were not reconciled at year-end.

Recommendation: Departments and finance should review amounts received and expended on a regular basis, reconciled at year-end, and adjusted as deemed necessary.

Management Response: All grants submitted for reimbursement go through the finance director to ensure proper reconciliation to general ledger. With audit reports now being up to date the finance department will be the one approving all grants submitted for reimbursements. This will ensure that all ledger accounts reconcile with end of year reconciliation schedules.

Finding No. 2018-003

Criteria: The City is required to maintain policies and procedures to track an asset's cost, depreciation and the disposal of assets.

Condition: The City has not prepared written policies for accounting of fixed asset additions and deletions. During the audit, we noted that the procedures to accurately account for current year additions and deletions were not adequate. While the City did hire a fixed asset management company to inventory the City's fixed assets, we had to perform an extended analysis of the detail ledgers searching for many fixed asset additions which management inadvertently omitted. The fixed asset records were updated to account for these additions during the audit. A similar finding was issued in the prior year's audit report.

Cause: Management did not exercise due care in accurately accounting for fixed asset additions and deletions during the fiscal year.

Effect: Some capital assets may not be accurately identified and recorded.

Context: While the City did hire a fixed asset management company to inventory the fixed assets, it is management's responsibility to accurately track current year additions and deletions.

Recommendation: The City should develop fixed asset accounting policies and enhance its procedures to accurately track current year fixed asset additions and deletions. Management should coordinate with the fixed asset management company to ensure that all current year additions and deletions have been recorded on the City's fixed asset records.

Management Response: The City is continuing to develop a fixed asset policy. Also, the city has hired personnel that will be responsible to follow these procedures and ensure that all additions and deletions of assets are properly maintained and up to date.

**CITY OF RIO GRANDE, TEXAS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED SEPTEMBER 30, 2018**

Finding No. 2018-004

Criteria: Bonds compliance requires that fiscal records are kept on a GAAP basis; must be audited by an independent CPA and must file audit reports within 120 days with the City Council. 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: No audited report was submitted within the required 120 days. Finding is a repeat from prior fiscal year.

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: The City should submit the audit report on a timely manner.

Management Response: The City's new independent auditor has brought the city up to date with the latest audit report. The new finance director helped bring the city current with their audit reports and will continue to work with auditors to make sure that all future reports are completed within the 120-day period.

C. Federal Award Findings and Questioned Costs
NONE

**CITY OF RIO GRANDE, TEXAS
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED SEPTEMBER 30, 2018**

Finding No. 2017-001

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 City Council, and preparation of the City's annual financial statements.

Condition: 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. Finding is a repeat from prior fiscal year.

Cause: Due to the turnover of key individuals 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 adjustments.

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.

Management Response: 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.

Status: Finding has been reported during the current fiscal year ending September 30, 2018.

**CITY OF RIO GRANDE, TEXAS
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED SEPTEMBER 30, 2018**

Finding No. 2017-002

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 States of America applicable to state and local governments (GAAP).

Condition: 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. Finding is a repeat from prior fiscal year.

Cause: Lack of communication between departments and coordination during the year and at year-end for audit.

Effect: Account balances were misstated.

Context: Accounts receivable, revenue and expenditures related to the grants were not reconciled at year-end.

Recommendation: Departments and finance should review amounts received and expended on a regular basis, reconciled at year-end, and adjusted as deemed necessary.

Management Response: 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.

Status: Finding has been reported during the current fiscal year ending September 30, 2018.

**CITY OF RIO GRANDE, TEXAS
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED SEPTEMBER 30, 2018**

Finding No. 2017-003

Criteria: The City is required to maintain policies and procedures to track an asset's cost, depreciation and the disposal of assets.

Condition: The City has not prepared written policies for accounting of fixed asset additions and deletions. During the audit, we noted that the procedures to accurately account for current year additions and deletions were not adequate. While the City did hire a fixed asset management company to inventory the City's fixed assets, we had to perform an extended analysis of the detail ledgers searching for many fixed asset additions which management inadvertently omitted. The fixed asset records were updated to account for these additions during the audit. A similar finding was issued in the prior year's audit report.

Cause: Management did not exercise due care in accurately accounting for fixed asset additions and deletions during the fiscal year.

Effect: Some capital assets may not be accurately identified and recorded.

Context: While the City did hire a fixed asset management company to inventory the fixed assets, it is management's responsibility to accurately track current year additions and deletions.

Recommendation: The City should develop fixed asset accounting policies and enhance its procedures to accurately track current year fixed asset additions and deletions. Management should coordinate with the fixed asset management company to ensure that all current year additions and deletions have been recorded on the City's fixed asset records.

Management Response: The City is developing a fixed asset policy and will continue to utilize the services of the fixed asset management company. Management has assigned the responsibilities of tracking current year additions and deletions to one of its staff members.

Status: Finding has been reported during the current fiscal year ending September 30, 2018.

**CITY OF RIO GRANDE, TEXAS
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED SEPTEMBER 30, 2018**

Finding No. 2017-004

Criteria: Bonds compliance requires that fiscal records are kept on a GAAP basis; must be audited by an independent CPA and must file audit reports within 120 days with the City Council. 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: No audited report was submitted within the required 120 days. Finding is a repeat from prior fiscal year.

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: The City should submit the audit report on a timely manner.

Management Response: The City is currently working with Independent Auditors to be in compliance and have yearly audits performed within the 120-day period. A new Finance Director was hired and is working on gathering information to be in compliance with the 120-day period requirement.

Status: Finding has been reported during the current fiscal year ending September 30, 2018.

**CITY OF RIO GRANDE CTY, TEXAS
CORRECTIVE ACTION PLAN
FOR THE YEAR ENDED SEPTEMBER 30, 2018**

Management will undertake the proper steps to maintain accurate financial records, overall internal control and timely financial reporting.

The City Manager is the contact person and will oversee corrective action.

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