

CITY OF RIO GRANDE CITY, TEXAS

*ANNUAL FINANCIAL REPORT*

*FOR THE YEAR ENDED SEPTEMBER 30, 2005*

Submitted by:  
Maria C. Barrera, CPA  
Finance Director

City of Rio Grande City, Texas  
Annual Financial Report  
For The Year Ended September 30, 2005

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For The Year Ended September 30, 2005

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**CITY OF RIO GRANDE CITY, TEXAS**

*LIST OF PRINCIPAL OFFICIALS*

*SEPTEMBER 30, 2005*

Elected Officials

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<u>Name</u>	<u>Office</u>
Kevin D. Hiles	Mayor
Ruben O. Villarreal	Mayor Pro Tem
Lupe Amador, Jr.	Councilman
Eloy R. Garcia	Councilman
Hernan R. Garza III	Councilman
Ruben D. Saenz	Councilman

Appointed Officials

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<u>Name</u>	<u>Position</u>
Juan F. Zuniga	City Administrator
Holly D. Guerrero	City Secretary
Jacqueline R. Salinas	City Attorney
Byron A. (Dutch) Piper	Chief of Police
Arnulfo Garcia	Municipal Court Judge

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*Financial Section*

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**Raul Hernandez**  
Certified Public Accountant  
301A N. King St., Suite 109 Alice, Texas 78332  
Office (361) 668-8810 Fax (361) 668-3900

### **Independent Auditor's Report on Financial Statements**

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

Members of the City Council:

I have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of City of Rio Grande City, Texas as of and for the year ended September 30, 2005, which collectively comprise the City of Rio Grande City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of City of Rio Grande City, Texas's management. My responsibility is to express opinions on these financial statements based on my audit.

I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in GOVERNMENT AUDITING STANDARDS, issued by the Comptroller General of the United States. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. I believe that my audit provides a reasonable basis for my opinions.

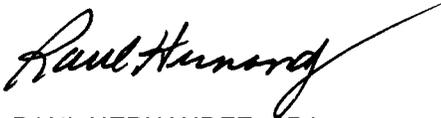
In my opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of City of Rio Grande City, Texas as of September 30, 2005, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with GOVERNMENT AUDITING STANDARDS, I have also issued my report dated June 29, 2006, on my consideration of City of Rio Grande City, Texas's internal control over financial reporting and on my tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of my testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with GOVERNMENT AUDITING STANDARDS and should be read in conjunction with this report in considering the results of my audit.

The Management's Discussion and Analysis and the budgetary information identified as Required Supplementary Information in the table of contents are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. I have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, I did not audit the information and express no opinion on it.

My audit was performed for the purpose of forming opinions on the financial statements which collectively comprise the City of Rio Grande City, Texas's basic financial statements. The accompanying schedule of expenditures of federal awards required by U. S. Office of Management and Budget Circular A-133, AUDITS OF STATES, LOCAL GOVERNMENTS AND NON-PROFIT ORGANIZATIONS and the combining and individual fund financial statements and supporting schedules listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. This information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in my opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole. The introductory section and the statistical tables have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, I express no opinion on them.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Raul Hernandez", with a long, sweeping flourish extending to the right.

RAUL HERNANDEZ, CPA

June 29, 2006

# CITY OF RIO GRANDE CITY

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## MANAGEMENT'S DISCUSSION AND ANALYSIS

The Management's Discussion and Analysis (MD&A) offers readers of the City financial statements a narrative overview and analysis of the City's financial activities for the fiscal year ended September 30, 2005. Readers are encouraged to consider the information presented here in conjunction with additional information furnished in the financial statements and notes to the financial statements (which immediately follow this discussion). The implementation of the new financial reporting requirements of GASB Statement No. 34 (Basic Financial Statements-and Management's Discussion and Analysis-for State and Local Governments) makes the City's September 30, 2005 Annual Financial Report significantly different than those of previous years. New sections include this Management's Discussion and Analysis, the Government-wide Statement of Net Assets, the Government-wide Statement of Activities, the concept of major fund reporting, and the reporting of infrastructure capital assets and long term debt liabilities in the governmental activities. These concepts are explained throughout this discussion and analysis.

## FINANCIAL HIGHLIGHTS

- The assets of the City of Rio Grande exceeded its liabilities at the close of the most recent fiscal year by \$18,389,102 (net assets), of which \$143,760 is restricted for debt service.
- As of the close of the current fiscal year, the City of Rio Grande governmental funds reported combined ending fund balances of \$1,117,342, which represents a favorable unreserved fund balance.
- The City of Rio Grande City's total debt decreased by \$493,994 during the current fiscal year. The key factors in this decrease include \$224,621 for capital lease payments and \$193,000 for revenue bond principle payments.

## OVERVIEW OF THE FINANCIAL STATEMENTS

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

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

# CITY OF RIO GRANDE CITY

- *Fiduciary fund* statements provide information about the financial relationships in which the City acts solely as a *trustee or agent* for the benefit of others, to whom the resources in question belong. The City did not have any fiduciary fund financial statements at September 30, 2005

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

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

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

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

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

# CITY OF RIO GRANDE CITY

## Government-wide Statements

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

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

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

## Fund Financial Statements

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

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

The City has the following kinds of funds:

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

# CITY OF RIO GRANDE CITY

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

## **Condensed Financial Information**

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

**CITY OF RIO GRANDE CITY**

**FINANCIAL ANALYSIS OF THE CITY AS A WHOLE**

**Net Assets.** The City's combined net assets were \$18,389,102 at September 30, 2005 (See Table A-1)

**Table A-1  
City's Net Assets**

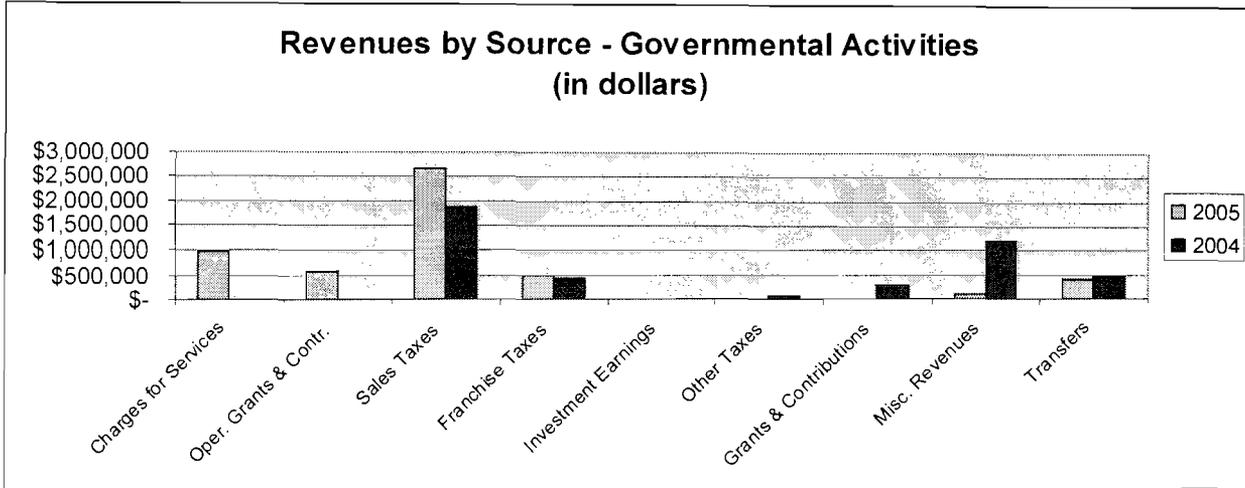
	Governmental Activities		Business-type Activities		Total Primary Government	
	2005	2004	2005	2004	2005	2004
<b>Current assets:</b>						
Cash/Cash equivalents	\$ 1,022,774	\$ 255,173	\$ 396,225	\$ 430,431	\$ 1,418,999	\$ 685,604
Investments – Current	-	-	-	116,830	-	116,830
Taxes Receivables	75,094	-	9,338	-	84,432	-
Accounts Receivable	558,762	331,538	649,765	616,328	1,208,527	947,866
Internal Balances	(107,275)	(68,383)	107,275	66,836	-	(1,547)
Inventories	-	-	24,445	17,478	24,445	17,478
Prepaid Items	-	1,375	1,133	-	1,133	1,375
Deferred Charges	-	-	25,716	27,240	25,716	27,240
<b>Total current assets:</b>	<u>1,549,355</u>	<u>519,703</u>	<u>1,213,897</u>	<u>1,275,143</u>	<u>2,763,252</u>	<u>1,794,846</u>
<b>Non-current assets:</b>						
Restricted Assets:						
Cash	-	-	179,453	-	179,453	-
Investment	-	-	372,687	-	372,687	-
Capital Assets	9,266,914	9,388,513	12,868,372	12,847,912	22,135,285	22,236,425
Less Accumulated Depreciation	(1,047,808)	(889,852)	(1,760,914)	(1,676,894)	(2,808,722)	(2,566,746)
<b>Total non-current assets:</b>	<u>8,219,106</u>	<u>8,498,661</u>	<u>11,659,597</u>	<u>11,171,018</u>	<u>19,878,703</u>	<u>19,669,679</u>
<b>Total Assets</b>	<u>9,768,461</u>	<u>9,018,364</u>	<u>12,873,494</u>	<u>12,446,161</u>	<u>22,641,955</u>	<u>21,464,525</u>
<b>Current Liabilities</b>						
Accounts payable and other current liabilities	326,999	55,230	111,648	210,534	438,647	265,764
Intergovernmental Payable	-	21,513	-	-	-	21,513
Accrued Interest Payable	-	-	25,811	27,735	25,811	27,735
Due to Other Government Agencies	13,860	-	-	-	13,860	-
Unearned Revenue	91,155	-	8,255	-	99,410	-
Liabilities Payable from Restricted Assets	-	-	162,987	-	162,987	-
Deferred Revenues	-	46,887	-	8,255	-	55,142
Notes Payable – Current	-	-	-	13,719	-	13,719
Other Current Liabilities	-	-	-	130,526	-	130,526
<b>Total current liabilities</b>	<u>432,014</u>	<u>123,630</u>	<u>308,701</u>	<u>390,769</u>	<u>740,715</u>	<u>514,399</u>
<b>Long-term liabilities:</b>						
Due within one year	793,110	-	208,694	2,555,993	1,001,804	2,555,993
Due in more that one year	364,335	997,234	2,146,000	-	2,510,335	997,234
<b>Total Liabilities</b>	<u>1,589,459</u>	<u>1,120,864</u>	<u>2,663,395</u>	<u>2,946,762</u>	<u>4,252,854</u>	<u>4,067,626</u>
<b>Net Assets:</b>						
Invested in capital assets	7,061,662	3,607,277	8,752,763	5,465,909	15,814,425	9,073,186
Restricted For:						
Debt Service	-	-	143,760	117,070	143,760	117,070
Unrestricted	1,117,341	-	1,313,576	4,650,682	2,430,917	4,650,682
<b>Total Net Assets</b>	<u>\$ 8,179,003</u>	<u>\$ 3,607,277</u>	<u>\$ 10,210,099</u>	<u>\$ 10,233,661</u>	<u>\$ 18,389,102</u>	<u>\$ 13,840,938</u>

# CITY OF RIO GRANDE CITY

The \$2,430,917 unrestricted net assets represent resources available to fund the programs of the City next year.

**Revenues.** The City's total revenues were \$7,828,195. A significant portion, 50.81 percent, of the City's revenue comes from charges for services. 34.08 percent comes from sales taxes and 7.42 percent relates to grant revenue. (See Figure A-2 and Table A-2)

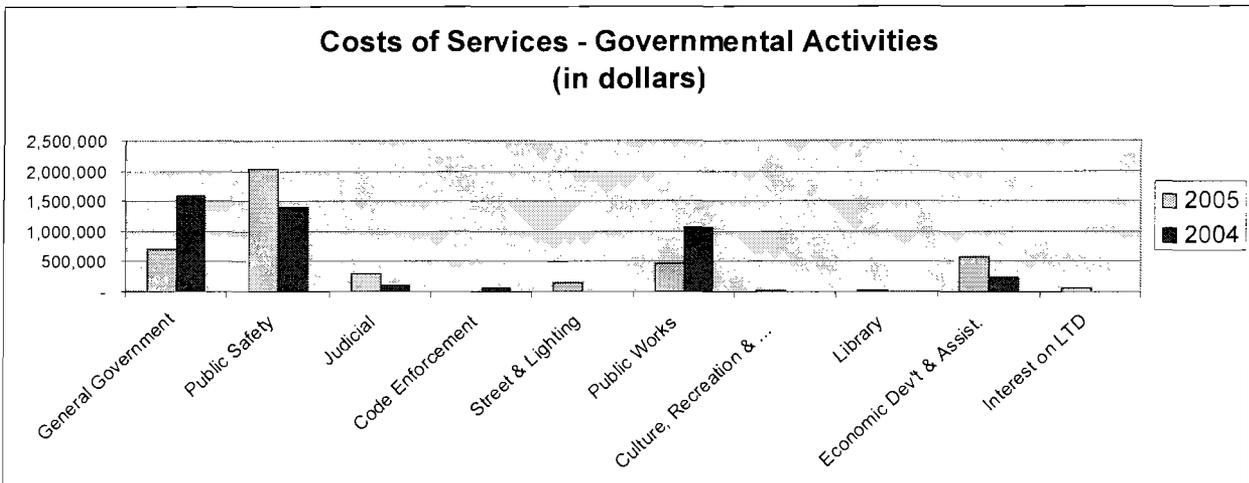
**Figure A-2**



**Governmental Activities**

- Sales taxes for the year totaled \$2,668,186.
- Charges for services for the year totaled \$978,871.
- Grant revenues & contributions for the year totaled \$581,231.

**Figure A-3**



## CITY OF RIO GRANDE CITY

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

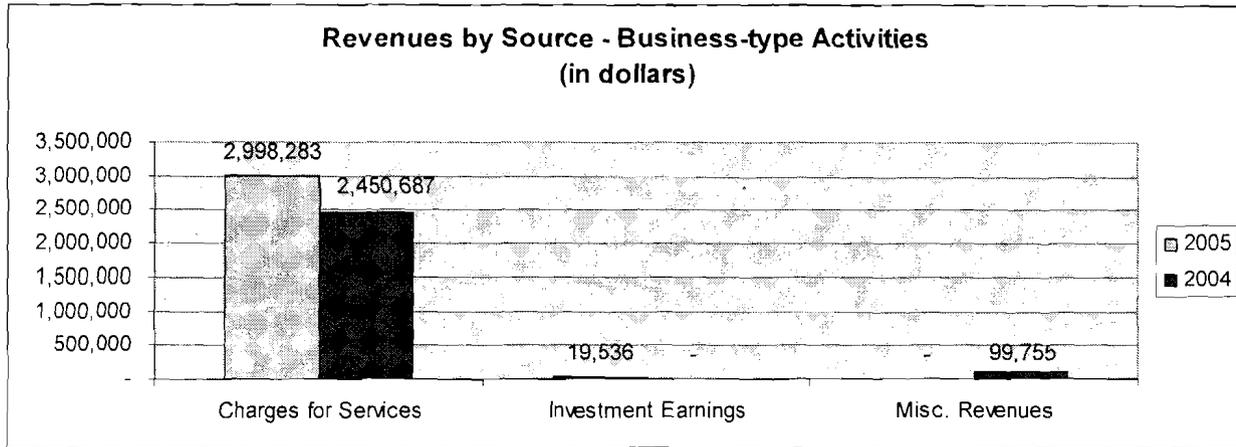
	Governmental Activities		Business-type Activities		Total Primary Government	
	2005	2004	2005	2004	2005	2004
<b>Revenues:</b>						
<b>Program:</b>						
Charges for services	\$ 978,871	\$ -	\$ 2,998,283	\$ 2,450,687	\$ 3,977,154	\$ 2,450,687
Operating Grants and Contributions	581,231	-	-	-	581,231	-
<b>General:</b>						
Sales Taxes	2,668,186	1,868,970	-	-	2,668,186	1,868,970
Franchise Taxes	477,510	441,849	-	-	477,510	441,849
Investment Earnings	14,242	3,780	19,536	-	33,778	3,780
Other Taxes	-	63,976	-	-	-	63,976
Grants & Contributions Not Restricted	-	272,235	-	-	-	272,235
Miscellaneous Revenues	90,336	1,191,460	-	99,755	90,336	1,291,215
Transfers	394,180	468,745	(394,180)	(140,000)	-	328,745
<b>Total Revenues</b>	<b>5,204,556</b>	<b>4,311,015</b>	<b>2,623,639</b>	<b>2,410,442</b>	<b>7,828,195</b>	<b>6,721,457</b>
<b>Cost of Services:</b>						
General Government	689,488	1,579,430	-	-	689,488	1,579,430
Public Safety	2,025,790	1,403,884	-	-	2,025,790	1,403,884
Judicial	294,000	103,016	-	-	294,000	103,016
Code Enforcement	-	54,145	-	-	-	54,145
Streets and Lighting	157,306	-	-	-	157,306	-
Public Works	458,651	1,065,070	-	-	458,651	1,065,070
Culture, Recreation & Parks	21,596	-	-	-	21,596	-
Library	31,519	-	-	-	31,519	-
Economic Development and Assistance	562,311	230,781	-	-	562,311	230,781
Interest on Long-term Debt	59,469	-	-	-	59,469	-
Water, Sewer, & Sanitation	-	-	1,912,939	2,512,437	1,912,939	2,512,437
<b>Total Cost of Services</b>	<b>4,300,130</b>	<b>4,436,326</b>	<b>1,912,939</b>	<b>2,512,437</b>	<b>6,213,069</b>	<b>6,948,763</b>
Change in net assets	904,426	(125,311)	710,700	(101,995)	1,615,126	(227,306)
Net assets - beginning	3,607,275	6,339,736	10,233,659	10,330,654	13,840,934	16,670,390
Prior Period Adjustment	3,667,302	(2,607,149)	(734,260)	5,000	2,933,042	(2,602,149)
Net assets - ending	<u>\$ 8,179,003</u>	<u>\$ 3,607,276</u>	<u>\$ 10,210,099</u>	<u>\$ 10,233,659</u>	<u>\$ 18,389,102</u>	<u>\$ 13,840,935</u>

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

- The Cost of all governmental activities this year was \$4,300,130.
- However, the amount that our taxpayers paid for these activities through Sales Taxes was approximately \$2,668,186.
- \$2,025,790 of these costs were for public safety, which increased by \$621,906, from the prior year.

# CITY OF RIO GRANDE CITY

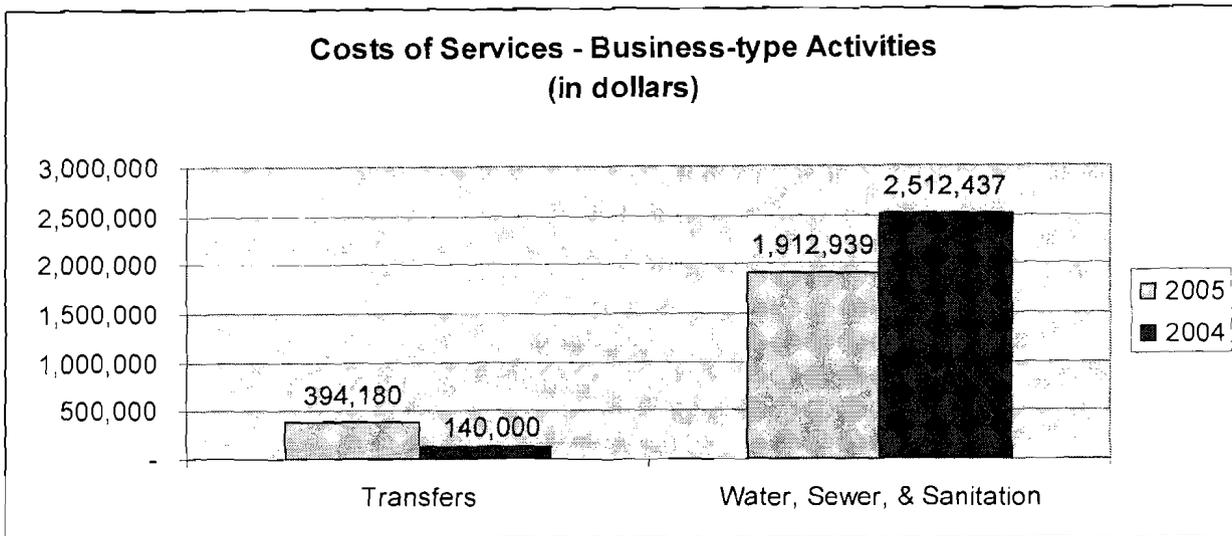
Figure A-4



**Business-type activities.** Business type activities increased for the City's net assets by \$710,700. Key elements of this increase are as follows:

- Charges for services for the year totaled \$2,998,283. The increase was due primarily resulted from a combination of a modest increase in demand and of the addition of new customers and increased usage on the part of several of the largest current customers.
- Other services included investment earnings of \$19,536
- Expenses for the City's enterprise fund totaled \$1,912,939, with the majority of the costs charges to water, sewer, and sanitation expenses.

Figure A-5



# CITY OF RIO GRANDE CITY

## FINANCIAL ANALYSIS OF GOVERNMENTAL FUNDS

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

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

As of the end of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$1,117,342, an increase of \$721,720 compared with the prior year. As shown on page 30 the general funds' unreserved fund balance resulted in a negative of (\$298,837). The *unreserved fund balance*, used as a management and budgetary tool, is available for spending at the City's discretion. A major factor in causing the significant decrease to fund balance was due to the retirement of a principle for debt during the year in the amount of \$257,831.

The General fund is the chief operating fund of the City. At the end of the current fiscal year, unreserved fund balance of the General Fund was reduced to (\$298,837) in contrast to (\$161,736) in the prior year. As a measure of the general fund's liquidity, we compare both unreserved fund balance and total fund balance to total fund expenditures.

## FINANCIAL ANALYSIS OF THE CITY'S FUNDS

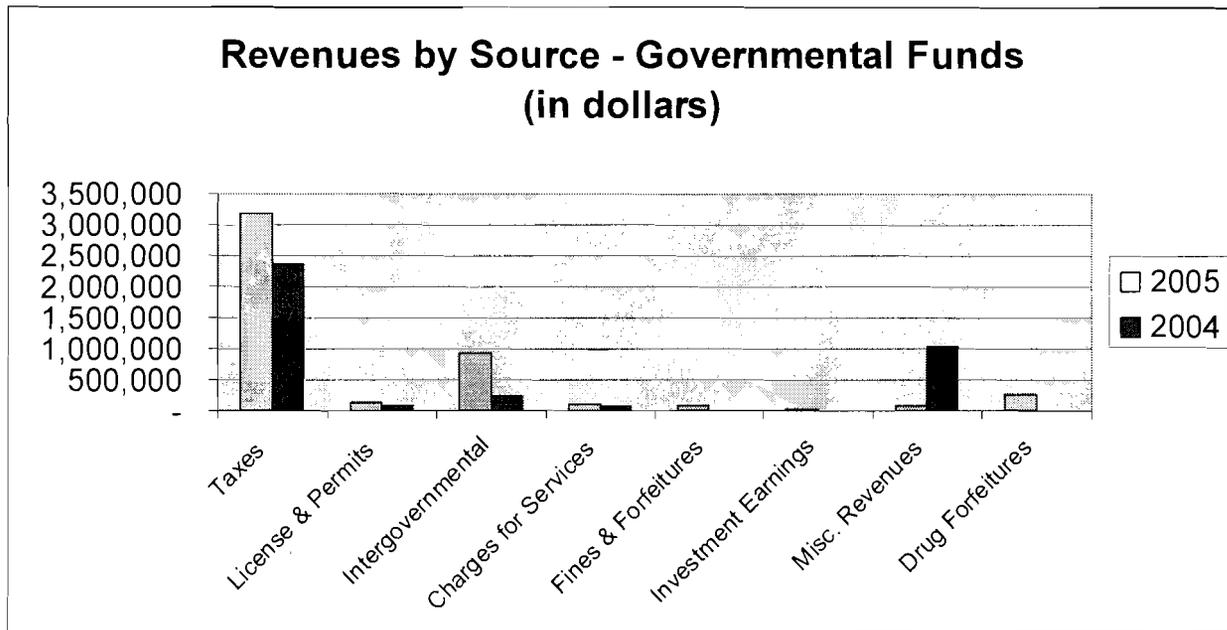
### Revenues

Revenues from governmental fund types totaled \$4,810,376, an increase of 20.13% over the preceding year. The most significant portion in governmental fund revenue sources was derived from general sales & use taxes, which totaled \$2,668,186. This was primarily due to the City's increased effort to collect current year taxes. The most significant increase in actual revenues was also from general sales & use taxes.

The City's primary source of revenue consists of taxes, which comprise 66.44% of the City's total revenues. In addition, general sales & use taxes and intergovernmental revenues comprise 55.47% and 19.09% of total revenues, respectively. The City departments that charge for services include park & recreational, public safety, streets & lighting, and public works, which are all an important part of the City's revenues. They are an integral part of the City's ability to provide the services to which citizens have become accustomed. (See Figure A-6 and Table A-3)

# CITY OF RIO GRANDE CITY

**Figure A-6**



**Table A-3  
Governmental Funds – Revenues by Source**

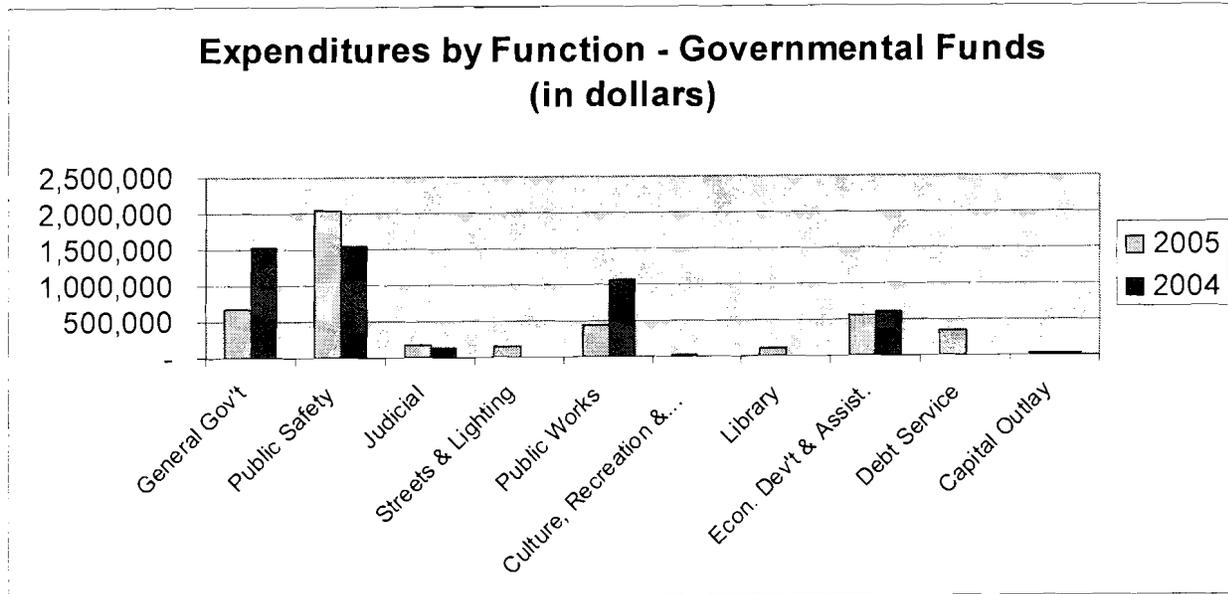
	<u>FY 2005</u>	<u>FY 2004</u>	<u>Increase (Decrease)</u>
Taxes:			
General Sales & Use Taxes	\$ 2,668,186	\$ 1,868,970	\$ 799,216
Hotel Occupancy Taxes	50,348	-	50,348
Other Taxes – Franchise Taxes	477,510	505,825	(28,315)
License & Permits	118,907	89,461	29,446
Intergovernmental	918,363	245,254	673,109
Charges for Services	112,795	91,249	21,546
Fines and Forfeitures	88,372	-	88,372
Investment Earnings	14,242	3,780	10,462
Miscellaneous Revenues	90,336	1,037,731	(947,395)
Drug Forfeitures	271,317	-	271,317
<b>Total Revenues</b>	<u>\$ 4,810,376</u>	<u>\$ 3,842,270</u>	<u>\$ 968,106</u>

# CITY OF RIO GRANDE CITY

## Expenditures

The increase in public safety was the result of monies spent for law enforcement forfeiture funds and fire safety. The City's primary expenditures were for public safety, general government, and economic development & assistance. Public safety now accounts for over 44.94% of total expenditures. General government accounts for 14.85% of revenue, while 12.33% is a part of economic development & assistance. (See Figure A-7 and Table A-4)

Figure A-7



# CITY OF RIO GRANDE CITY

**Table A-4  
Governmental Funds – Expenditures by Function**

	<u>FY 2005</u>	<u>FY 2004</u>	<u>Increase (Decrease)</u>
Current:			
General Government	\$ 677,354	\$ 1,530,213	\$ (852,859)
Public Safety	2,049,512	1,549,271	500,241
Judicial	182,887	129,871	53,016
Streets and Lighting	157,306	-	157,306
Public Works	438,265	1,057,411	(619,146)
Culture, Recreation & Parks	21,596	-	21,596
Library	101,280	-	101,280
Economic Development and Assistance	562,311	604,636	(42,325)
Debt Service:			
Principal	279,168	-	279,168
Interest and Fiscal Charges	59,469	-	59,469
Capital Outlay:			
Capital Outlay	31,552	14,693	16,859
<b>Total Expenditures</b>	<u><u>\$ 4,560,700</u></u>	<u><u>\$ 4,886,095</u></u>	<u><u>\$ (325,395)</u></u>

Other financing sources from the City came from:

**Table A-5  
Other Financing Resources**

	<u>FY 2005</u>	<u>FY 2004</u>	<u>Increase (Decrease)</u>
Operating Transfers In	\$ 584,948	\$ 628,995	\$ (44,047)
Operating Transfers Out	(190,768)	(160,250)	30,518
Loan Proceeds	6,972	70,833	(63,861)
Capital Leases	70,442	328,984	(258,542)
Capital-related Debt Issued	-	(79,502)	(79,502)
	<u><u>\$ 471,594</u></u>	<u><u>\$ 789,060</u></u>	<u><u>\$ (317,466)</u></u>

# CITY OF RIO GRANDE CITY

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

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

## **General Fund Budgetary Highlights**

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

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

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

## **CAPITAL ASSETS AND DEBT ADMINISTRATION**

### **Capital Assets**

At the end of 2005, the City had invested \$22,135,285 in a broad range of capital assets, including land, construction in progress, infrastructure, buildings, improvements, and equipment. (See Table A-6.)

The capital assets of the City are those assets (land, construction in progress, infrastructure, buildings, improvements, and equipment), which are used in the performance of the City's functions including infrastructure assets. At September 30, 2005 net capital assets of the governmental activities totaled \$19,326,563. Depreciation on capital assets is recognized in the Government-wide financial statements. Accumulated depreciation for infrastructure, buildings, improvements, and equipment totaled \$2,808,723. More detailed information about the City's capital assets is presented in the notes to the financial statements on page 39.

# CITY OF RIO GRANDE CITY

## Table A-6 City's Capital Assets

	Governmental Activities		Business-type Activities		Total Primary Government	
	2005	2004	2005	2004	2005	2004
Land	\$ 851,810	\$ 851,810	\$ 339,036	\$ 339,036	\$ 1,190,846	\$ 1,190,846
Construction in Progress	530,834	461,075	-	-	530,834	461,075
Infrastructure	5,284,055	5,284,055	11,682,840	11,682,840	16,966,895	16,966,895
Buildings	594,667	594,667	599,223	599,223	1,193,890	1,193,890
Improvements	-	-	-	-	-	-
Equipment	2,005,547	2,196,906	247,273	226,814	2,252,820	2,423,719
<b>Total at historical cost</b>	<u>9,266,914</u>	<u>9,388,513</u>	<u>12,868,372</u>	<u>12,847,912</u>	<u>22,135,285</u>	<u>22,236,425</u>
Total Accumulated Depreciation	1,047,808	889,852	1,760,914	1,676,894	2,808,723	2,566,746
<b>Net Capital Assets</b>	<u>\$8,219,105</u>	<u>\$8,498,661</u>	<u>\$11,107,457</u>	<u>\$11,171,018</u>	<u>\$19,326,563</u>	<u>\$19,669,679</u>

### Long Term Debt

At year-end the City had \$1,157,446 in capital leases obligations, and other long-term liabilities outstanding in governmental activities as shown in Table A-7. The City also had \$2,354,694 in revenue bonds payable, and capital leases under business-type activities. Under governmental activities, the City's total debt decreased by \$201,754 from 2004. Under business-type activities, the City's total debt also decreased by \$214,827. More detailed information about the City's debt is presented in the notes to the financial statements on page 41.

## Table A-7 Long Term Debt

	2005	2004	Increase (Decrease) 2005-2004
<b>Governmental Activities:</b>			
Capital Leases	\$ 587,116	\$ 741,295	\$ (154,179)
Notes	570,330	617,905	(47,575)
<b>Total governmental activities</b>	<u>\$1,157,446</u>	<u>\$1,357,446</u>	<u>(201,754)</u>
<b>Business-type Activities:</b>			
Revenue bonds payable	\$2,350,000	\$2,543,000	(193,000)
Capital leases	4,694	12,802	(8,108)
Notes	-	13,719	(13,719)
<b>Total business-type activities</b>	<u>\$2,354,694</u>	<u>\$2,569,521</u>	<u>\$ (214,827)</u>

# CITY OF RIO GRANDE CITY

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

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

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

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

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

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

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

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

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

## **CONTACTING THE CITY'S FINANCIAL MANAGEMENT**

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

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*Basic Financial Statements*

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## CITY OF RIO GRANDE CITY, TEXAS

## STATEMENT OF NET ASSETS

SEPTEMBER 30, 2005

	Governmental Activities	Business-type Activities	Total
<b>ASSETS:</b>			
<i>Cash and Cash Equivalents</i>	\$ 1,022,774	\$ 396,225	\$ 1,418,999
<i>Taxes Receivables ( net of allowances for uncollectibles):</i>	75,094	9,338	84,432
<i>Accounts Receivable</i>	558,762	649,765	1,208,527
<i>Internal Balances</i>	(107,275)	107,275	--
<i>Inventories</i>	--	24,445	24,445
<i>Prepaid items</i>	--	1,133	1,133
<i>Deferred Charges</i>	--	25,716	25,716
<i>Restricted Assets:</i>			
<i>Cash</i>	--	179,453	179,453
<i>Investment</i>	--	372,687	372,687
<i>Capital Assets ( net of accumulated depreciation):</i>			
<i>Land</i>	851,810	339,036	1,190,846
<i>Buildings and System</i>	435,520	577,948	1,013,468
<i>Machinery and Equipment</i>	1,116,886	161,441	1,278,327
<i>Infrastructure</i>	5,284,055	10,029,032	15,313,087
<i>Construction in Progress</i>	530,836	--	530,836
<b>Total Assets</b>	<b>9,768,462</b>	<b>12,873,494</b>	<b>22,641,956</b>
<b>LIABILITIES:</b>			
<i>Accounts Payable and Other Current Liabilities</i>	326,999	111,648	438,647
<i>Accrued Interest Payable</i>	--	25,811	25,811
<i>Due to Other Government Agencies</i>	13,860	--	13,860
<i>Unearned Revenue</i>	91,155	8,255	99,410
<i>Liabilities Payable from Restricted Assets</i>	--	162,987	162,987
<i>Noncurrent Liabilities-</i>			
<i>Due within one year</i>	793,110	208,694	1,001,804
<i>Due in more than one year</i>	364,335	2,146,000	2,510,335
<b>Total Liabilities</b>	<b>1,589,459</b>	<b>2,663,395</b>	<b>4,252,854</b>
<b>NET ASSETS</b>			
<i>Invested in Capital Assets, Net of Related Debt</i>	7,061,662	8,752,763	15,814,425
<i>Restricted For:</i>			
<i>Debt Service</i>	--	143,760	143,760
<i>Unrestricted</i>	1,117,341	1,313,576	2,430,917
<b>Total Net Assets</b>	<b>\$ 8,179,003</b>	<b>\$ 10,210,099</b>	<b>\$ 18,389,102</b>

The accompanying notes are an integral part of this statement.

**CITY OF RIO GRANDE CITY, TEXAS**

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED SEPTEMBER 30, 2005

Functions/Programs	Expenses	Program Revenues	
		Charges for Services	Operating Grants and Contributions
<b>PRIMARY GOVERNMENT:</b>			
Governmental Activities:			
General Government	\$ 689,488	\$ 231,702	\$ 25,341
Public Safety	2,025,790	608,449	243,074
Judicial	294,000	88,372	--
Streets and Lighting	157,306	--	--
Public Works	458,651	--	--
Culture, Recreation & Parks	21,596	--	--
Library	31,519	--	--
Economic Development and Assistance	562,311	50,348	312,816
Interest on Long-term Debt	59,469	--	--
Total Governmental Activities	<u>4,300,130</u>	<u>978,871</u>	<u>581,231</u>
Business-type Activities:			
Water, Sewer, & Sanitation	1,912,939	2,998,283	--
Total Primary Government	<u>\$ 6,213,069</u>	<u>\$ 3,977,154</u>	<u>\$ 581,231</u>

General Revenues:  
*Sales Taxes*  
*Franchise Taxes*  
*Investment Earnings*  
*Miscellaneous Revenues*  
*Transfers*  
 Total General Revenues

**Change in Net Assets**

Net Assets - Beginning  
 Prior Period Adjustment  
 Net Assets - Ending

The accompanying notes are an integral part of this statement.

Net (Expense) Revenue and Changes in Net Assets

<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
\$ (432,445)		\$ (432,445)
(1,174,267)		(1,174,267)
(205,628)		(205,628)
(157,306)		(157,306)
(458,651)		(458,651)
(21,596)		(21,596)
(31,519)		(31,519)
(199,147)		(199,147)
(59,469)		(59,469)
<u>(2,740,028)</u>		<u>(2,740,028)</u>
--	\$ 1,085,344	1,085,344
<u>(2,740,028)</u>	<u>1,085,344</u>	<u>(1,654,684)</u>
2,668,186	--	2,668,186
477,510	--	477,510
14,242	19,536	33,778
90,336	--	90,336
394,180	(394,180)	--
<u>3,644,454</u>	<u>(374,644)</u>	<u>3,269,810</u>
<u>904,426</u>	<u>710,700</u>	<u>1,615,126</u>
3,607,275	10,233,659	17,508,236
3,667,302	(734,260)	(734,260)
<u>\$ 8,179,003</u>	<u>\$ 10,210,099</u>	<u>\$ 18,389,102</u>

**CITY OF RIO GRANDE CITY, TEXAS**  
**BALANCE SHEET - GOVERNMENTAL FUNDS**  
**SEPTEMBER 30, 2005**

	General Fund	Economic Development Corp Fund	Other Governmental Funds	Total Governmental Funds
<b>ASSETS AND OTHER DEBITS</b>				
<b>Assets:</b>				
<i>Cash and Cash Equivalents</i>	\$ --	\$ 258,561	\$ 764,214	\$ 1,022,775
<i>Receivables ( net of allowances for uncollectibles):</i>	244,161	57,428	332,266	633,855
<i>Due from Other Funds</i>	141,899	151,314	135,878	429,091
<b>Restricted Assets:</b>				
<b>Total Assets and Other Debits</b>	<b>\$ 386,060</b>	<b>\$ 467,303</b>	<b>\$ 1,232,358</b>	<b>\$ 2,085,721</b>
<b>LIABILITIES AND FUND BALANCES:</b>				
<b>Liabilities:</b>				
<i>Accounts Payable</i>	\$ 189,425	\$ 8,335	\$ 129,238	\$ 326,998
<i>Due to Other Funds</i>	390,457	2,673	143,236	536,366
<i>Due to Other Governmental Agencies</i>	13,860	--	--	13,860
<i>Deferred Revenue</i>	91,155	--	--	91,155
<b>Total Liabilities</b>	<b>684,897</b>	<b>11,008</b>	<b>272,474</b>	<b>968,379</b>
<b>Fund Balances:</b>				
<b>Reserved Fund Balances:</b>				
<b>Unreserved</b>	(298,837)	456,295	--	157,458
<b>Unreserved, reported in nonmajor:</b>				
<i>Special Revenue Funds</i>	--	--	959,884	959,884
<b>Total Fund Balance</b>	<b>(298,837)</b>	<b>456,295</b>	<b>959,884</b>	<b>1,117,342</b>
<b>Total Liabilities and Fund Balance</b>	<b>\$ 386,060</b>	<b>\$ 467,303</b>	<b>\$ 1,232,358</b>	<b>\$ 2,085,721</b>

The accompanying notes are an integral part of this statement.

**CITY OF RIO GRANDE CITY, TEXAS**

RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET  
TO THE STATEMENT OF NET ASSETS  
SEPTEMBER 30, 2005

Total fund balances - governmental funds balance sheet	\$ 1,117,342
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets used in governmental activities are not reported in the funds.	8,219,106
Payables for capital leases which are not due in the current period are not reported in the funds.	(807,504)
Payables for notes which are not due in the current period are not reported in the funds.	<u>(349,941)</u>
Net assets of governmental activities - statement of net assets	<u>\$ 8,179,003</u>

The accompanying notes are an integral part of this statement.

**CITY OF RIO GRANDE CITY, TEXAS**  
**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES**  
**IN FUND BALANCES - GOVERNMENTAL FUNDS**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2005**

	General Fund	Economic Development Corp Fund	Other Governmental Funds	Total Governmental Funds
<b>Revenue:</b>				
<b>Taxes:</b>				
<i>General Sales and Use Taxes</i>	\$ 2,001,140	\$ 667,046	\$ --	\$ 2,668,186
<i>Hotel Occupancy Taxes</i>	--	--	50,348	50,348
<i>Other Taxes - Franchise Taxes</i>	477,510	--	--	477,510
<i>License and Permits</i>	118,907	--	--	118,907
<i>Intergovernmental</i>	49,858	--	868,505	918,363
<i>Charges for Services</i>	112,795	--	--	112,795
<i>Fines and Forfeitures</i>	88,372	--	--	88,372
<i>Investment Earnings</i>	91	4,140	10,011	14,242
<i>Miscellaneous Revenues</i>	77,005	13,331	--	90,336
<i>Drug Forfeitures</i>	--	--	271,317	271,317
<b>Total revenues</b>	<u>2,925,678</u>	<u>684,517</u>	<u>1,200,181</u>	<u>4,810,376</u>
<b>Expenditures:</b>				
<b>Current:</b>				
<i>General Government</i>	677,354	--	--	677,354
<i>Public Safety</i>	1,768,588	--	280,924	2,049,512
<i>Judicial</i>	111,545	--	71,342	182,887
<i>Streets and Lighting</i>	157,306	--	--	157,306
<i>Public Works</i>	438,265	--	--	438,265
<i>Culture, Recreation &amp; Parks</i>	21,596	--	--	21,596
<i>Library</i>	96,770	--	4,510	101,280
<i>Economic Development and Assistance</i>	--	200,836	361,475	562,311
<b>Debt Service:</b>				
<i>Principal</i>	253,599	21,336	4,233	279,168
<i>Interest and Fiscal Charges</i>	53,511	254	5,704	59,469
<b>Capital Outlay:</b>				
<i>Capital Outlay</i>	--	--	31,552	31,552
<b>Total Expenditures</b>	<u>3,578,534</u>	<u>222,426</u>	<u>759,740</u>	<u>4,560,700</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>(652,856)</u>	<u>462,091</u>	<u>440,441</u>	<u>249,676</u>
<b>Other Financing Sources (Uses):</b>				
<i>Operating Transfers In</i>	452,778	--	132,170	584,948
<i>Operating Transfers Out</i>	(7,170)	(183,598)	--	(190,768)
<i>Loan Proceeds</i>	6,972	--	--	6,972
<i>Capital Leases</i>	38,540	--	31,902	70,442
<b>Total Other Financing Sources (Uses)</b>	<u>491,120</u>	<u>(183,598)</u>	<u>164,072</u>	<u>471,594</u>
<b>Net Change in Fund Balances</b>	(161,736)	278,493	604,513	721,270
Fund Balances - Beginning	(137,101)	177,802	355,371	396,072
<b>Fund Balances - Ending</b>	<u>\$ (296,837)</u>	<u>\$ 456,295</u>	<u>\$ 959,884</u>	<u>\$ 1,117,342</u>

The accompanying notes are an integral part of this statement.

**CITY OF RIO GRANDE CITY, TEXAS**

*RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,  
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS  
TO THE STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED SEPTEMBER 30, 2005*

Net change in fund balances - total governmental funds	\$ 721,270
Amounts reported for governmental activities in the statement of activities ("SOA") are different because:	
Capital outlays are not reported as expenses in the SOA.	139,357
The depreciation of capital assets used in governmental activities is not reported in the funds.	(157,956)
Revenues in the SOA not providing current financial resources are not reported as revenues in the funds.	(77,413)
Repayment of capital lease principal is an expenditure in the funds but is not an expense in the SOA.	224,621
Repayment of loan principal is an expenditure in the funds but is not an expense in the SOA.	54,547
	<u>904,426</u>
Change in net assets of governmental activities - statement of activities	\$ <u>904,426</u>

The accompanying notes are an integral part of this statement.

## CITY OF RIO GRANDE CITY, TEXAS

## STATEMENT OF NET ASSETS

## ENTERPRISE FUND

SEPTEMBER 30, 2005

	Enterprise Fund
	Water, Sewer & Sanitation Fund
<b>ASSETS:</b>	
<b>Current Assets:</b>	
<i>Cash and Cash Equivalents</i>	\$ 396,225
<i>Interest Receivables</i>	1,083
<i>Receivables ( net of allowances for uncollectibles):</i>	658,020
<i>Due from other funds</i>	107,275
<i>Inventories</i>	24,445
<i>Prepaid items</i>	1,133
<i>Deferred Charges</i>	25,716
<b>Total Current Assets</b>	<u>1,213,897</u>
<b>Noncurrent Assets:</b>	
<b>Restricted Cash, Cash Equivalents and Investments-</b>	
<i>Cash</i>	179,453
<i>Investments</i>	372,687
<b>Capital Assets: (net of accumulated depreciation)</b>	
<i>Land</i>	339,036
<i>Infrastructure</i>	10,029,032
<i>Buildings</i>	577,948
<i>Machinery and Equipment</i>	161,441
<b>Total Noncurrent Assets</b>	<u>11,659,597</u>
<b>Total Assets</b>	<u>\$ 12,873,494</u>
<b>LIABILITIES:</b>	
<b>Current Liabilities:</b>	
<i>Accounts payable</i>	\$ 111,648
<i>Accrued interest payable</i>	25,811
<i>Deferred revenue</i>	8,255
<b>Total Current Liabilities</b>	<u>145,714</u>
<b>Current Liabilities Payable from Restricted Assets-</b>	
<i>Customer Deposits</i>	162,987
<b>Total Current Liabilities Payable From Restricted Assets</b>	<u>162,987</u>
<b>Noncurrent Liabilities:</b>	
<i>Due within one year</i>	208,694
<i>Due in more than one year</i>	2,146,000
<b>Total Noncurrent Liabilities</b>	<u>2,517,681</u>
<b>Total Liabilities</b>	<u>2,663,395</u>
<b>NET ASSETS:</b>	
<i>Investment in Capital Assets, Net of Related Debt</i>	8,752,763
<i>Restricted for Debt Service</i>	143,760
<i>Unrestricted</i>	1,313,576
<b>Total Net Assets</b>	<u>\$ 10,210,099</u>

**CITY OF RIO GRANDE CITY, TEXAS**  
**STATEMENT OF REVENUES, EXPENSES, AND CHANGES**  
**IN FUND NET ASSETS - ENTERPRISE FUND**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2005**

	Enterprise Fund <u>Water, Sewer &amp; Sanitation Fund</u>
<b>OPERATING REVENUES:</b>	
Charges for Sales and Services:	
<i>Water Sales</i>	\$ 1,948,695
<i>Sewer Charges</i>	924,145
<i>Sanitation Charges</i>	28,116
<i>Other Services</i>	116,863
<b>Total Operating Revenues</b>	<u>3,017,819</u>
<b>OPERATING EXPENSES:</b>	
Administration	
<i>Personal Services - Salaries and Wages</i>	105,486
<i>Personal Services - Employee Benefits</i>	21,466
<i>Purchased Professional and Technical Services</i>	2,789
<i>Other Purchased Services</i>	97,067
<b>Total Administration</b>	<u>226,808</u>
Billings and Collections	
<i>Personal Services - Salaries and Wages</i>	61,336
<i>Personal Services - Employee Benefits</i>	20,931
<i>Other Purchased Services</i>	7,856
<i>Supplies</i>	23,752
<b>Total Billings and Collectins</b>	<u>113,875</u>
Water System	
<i>Personal Services - Salaries and Wages</i>	234,897
<i>Personal Services - Employee Benefits</i>	73,310
<i>Purchased Professional and Technical Services</i>	39,754
<i>Other Purchased Services</i>	527,140
<i>Supplies</i>	114,186
<b>Total Water System</b>	<u>989,287</u>
Sewer System	
<i>Personal Services - Salaries and Wages</i>	64,992
<i>Personal Services - Employee Benefits</i>	17,800
<i>Purchased Professional and Technical Services</i>	47,290
<i>Other Purchased Services</i>	201,445
<i>Supplies</i>	44,084
<b>Total Sewer System</b>	<u>375,611</u>
<i>Depreciation Expense</i>	84,020
<b>Total Operating Expenses</b>	<u>1,789,601</u>
<b>Operating Income</b>	<u>1,228,218</u>
<b>NON-OPERATING REVENUES (EXPENSES):</b>	
<i>Interest Expense</i>	(123,338)
<b>Total Non-operating Revenues (Expenses)</b>	<u>(123,338)</u>
<b>Income before Transfers</b>	1,104,880
<i>Interfund Operating Transfers In</i>	--
<i>Interfund Operating Transfers Out</i>	(394,180)
<b>Change in Net Assets</b>	<u>710,700</u>
<b>Total Net Assets - Beginning</b>	10,233,659
<b>Prior Period Adjustment</b>	(734,260)
<b>Total Net Assets - Ending</b>	<u>\$ 10,210,099</u>

The accompanying notes are an integral part of this statement.

**CITY OF RIO GRANDE CITY, TEXAS**

## STATEMENT OF CASH FLOWS

## PROPRIETARY FUNDS

FOR THE YEAR ENDED SEPTEMBER 30, 2005

## Business-type Activities

## Enterprise Fund

Water, Sewer  
& Sanitation  
Fund**Cash Flows from Operating Activities:**

Cash Received from Customers	\$ 2,934,605
Cash Payments to Employees for Services	(405,075)
Cash Payments to Other Suppliers for Goods and Services	(1,375,622)
Net Cash Provided (Used) by Operating Activities	<u>1,153,908</u>

**Cash Flows from Non-capital Financing Activities:**

Proceeds (Payments) from (for) Borrowings	(338,165)
Transfers From (To) Other Funds	(394,180)
Net Cash Provided (Used) by Non-capital Financing Activities	<u>(732,345)</u>

**Cash Flows from Capital and Related Financing Activities:**

Proceeds from Issuance of Long-term Debt	--
Acquisition or Construction of Capital Assets	(20,459)
Net Cash Provided (Used) for Capital & Related Financing Activities	<u>(20,459)</u>

**Cash Flows from Investing Activities:**

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

Net Increase (Decrease) in Cash and Cash Equivalents	401,104
Cash and Cash Equivalents at Beginning of Year	547,261
Cash and Cash Equivalents at End of Year	<u>948,365</u>

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

Operating Income (Loss)	1,228,218
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities	
Depreciation	84,020
Change in Assets and Liabilities:	
Decrease (Increase) in Receivables	(42,775)
Decrease (Increase) in Inventories	(6,967)
Decrease (Increase) in Prepaid Expenses	26,107
Increase (Decrease) in Accounts Payable	(119,972)
Increase (Decrease) in Due to From Other Funds	(40,439)
Increase (Decrease) in Unearned Revenue	25,716
Total Adjustments	<u>(74,310)</u>
Net Cash Provided (Used) by Operating Activities	<u>1,153,908</u>

The accompanying notes are an integral part of this statement.

**CITY OF RIO GRANDE CITY, TEXAS**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2005**

A. Summary of Significant Accounting Policies

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

1. Reporting Entity

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

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

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

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

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

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

2. Basis of Presentation, Basis of Accounting

a. Basis of Presentation

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

**CITY OF RIO GRANDE CITY, TEXAS**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2005**

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

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

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

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

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

Economic Development Corporation Fund. This fund is a special revenue fund to account for the 1/2 cent sales and use tax for economic and industrial development. Since the sales and use tax is approved specifically for such expenditures, the EDC fund is considered a Special Revenue Fund.

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

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

b. Measurement Focus, Basis of Accounting

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

Governmental Fund Financial Statements: Governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. The City of Rio Grande City considers all revenues reported in the governmental funds to be available if the revenues are collected within sixty days after year-end. The City of Rio Grande City does not consider revenues collected after its year-end to be available in the current period. Revenues from local sources consist primarily of sales taxes. Revenues and revenues received from the State are recognized under the susceptible-to-accrual concept.

**CITY OF RIO GRANDE CITY, TEXAS**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2005**

Miscellaneous revenues are recorded as revenue when received in cash because they are generally not measurable until actually received. Investment earnings are recorded as earned, since they are both measurable and available. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, claims and judgments, and compensated absences, which are recognized as expenditures to the extent they have matured. General capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

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

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

3. Financial Statement Amounts

a. Cash and Cash Equivalents

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

b. Inventories and Prepaid Items

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

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

d. Capital Assets

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

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

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

**CITY OF RIO GRANDE CITY, TEXAS**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2005**

e. Receivable and Payable Balances

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

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

g. Interfund Activity

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

h. Use of Estimates

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

B. Compliance and Accountability

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

Following are funds having deficit fund balances or fund net assets at year end, if any, along with remarks which address such deficits:

<u>Fund Name</u>	<u>Deficit Amount</u>
General Fund	\$ (298,837)

C. Deposits and Investments

The City of Rio Grande City's funds are required to be deposited and invested under the terms of a depository contract. The depository bank deposits for safekeeping and trust with the City of Rio Grande City's agent bank approved pledged securities in an amount sufficient to protect City of Rio Grande City funds on a day-to-day basis during the period of the contract. The pledge of approved securities is waived only to the extent of the depository bank's dollar amount of Federal Deposit Insurance Corporation ("FDIC") insurance.

Cash Deposits:

At September 30, 2005, the carrying amount of the City of Rio Grande City's deposits (cash, certificates of deposit, and interest-bearing savings accounts included in temporary investments) was \$1,971,139 and the bank balance was \$2,000,457. The City of Rio Grande City's cash deposits at September 30, 2005 and during the year ended September 30, 2005, were entirely covered by FDIC insurance or by pledged collateral held by the City of Rio Grande City's agent bank in the City of Rio Grande City's name.

**CITY OF RIO GRANDE CITY, TEXAS**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2005**

Investments:

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

D. Capital Assets

Capital asset activity for the period ended September 30, 2005, was as follows:

	Beginning Balances	Increases	Decreases	Ending Balances
<u>Governmental activities:</u>				
<i>Capital assets not being depreciated:</i>				
Land	\$ 851,810	\$ --	\$ --	\$ 851,810
Construction in progress	461,075	69,758	--	530,833
Total capital assets not being depreciated	<u>1,312,885</u>	<u>69,758</u>	<u>--</u>	<u>1,382,643</u>
<i>Capital assets being depreciated:</i>				
Infrastructure	5,284,055	--	--	5,284,055
Buildings and improvements	594,667	--	--	594,667
Equipment	2,196,906	69,597	260,956	2,005,547
Total capital assets being depreciated	<u>8,075,628</u>	<u>69,597</u>	<u>260,956</u>	<u>7,884,269</u>
Less accumulated depreciation for:				
Infrastructure	--	--	--	--
Buildings and improvements	(148,639)	(10,508)	--	(159,147)
Equipment	(741,210)	(147,449)	--	(888,659)
Vehicles	--	--	--	--
Total accumulated depreciation	<u>(889,849)</u>	<u>(157,957)</u>	<u>--</u>	<u>(1,047,806)</u>
Total capital assets being depreciated, net	<u>7,185,779</u>	<u>(88,360)</u>	<u>260,956</u>	<u>6,836,463</u>
Governmental activities capital assets, net	<u>\$ 8,498,664</u>	<u>\$ (18,602)</u>	<u>\$ 260,956</u>	<u>\$ 8,219,106</u>

Depreciation was charged to governmental functions as follows:

Administration/City Hall	\$ 11,733
Municipal Court	403
Finance Department	111,113
Fire Department	13,727
Police Department	595
Public Works	20,386
	<u>\$ 157,957</u>

**CITY OF RIO GRANDE CITY, TEXAS**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2005**

	Beginning Balances	Increases	Decreases	Ending Balances
<b>Business-type activities:</b>				
<i>Capital assets not being depreciated:</i>				
Land	\$ 339,035	\$ --	\$ --	\$ 339,035
Total capital assets not being depreciated	<u>339,035</u>	<u>--</u>	<u>--</u>	<u>339,035</u>
<i>Capital assets being depreciated:</i>				
Infrastructure	11,682,840	--	--	11,682,840
Buildings and improvements	599,223	--	--	599,223
Equipment	226,813	25,000	4,541	247,272
Total capital assets being depreciated	<u>12,508,876</u>	<u>25,000</u>	<u>4,541</u>	<u>12,529,335</u>
Less accumulated depreciation for:				
Infrastructure	(1,589,033)	(64,774)	--	(1,653,807)
Buildings and improvements	(18,406)	(2,869)	--	(21,275)
Equipment	(69,454)	(16,378)	--	(85,832)
Total accumulated depreciation	<u>(1,676,893)</u>	<u>(84,021)</u>	<u>--</u>	<u>(1,760,914)</u>
Total capital assets being depreciated, net	<u>10,831,983</u>	<u>(59,021)</u>	<u>4,541</u>	<u>10,768,421</u>
Business-type activities capital assets, net	<u>\$ 11,171,018</u>	<u>\$ (59,021)</u>	<u>\$ 4,541</u>	<u>\$ 11,107,456</u>

**E. Interfund Balances and Activity**

**1. Due To and From Other Funds**

Balances due to and due from other funds at September 30, 2005, consisted of the following:

Due To Fund	Due From Fund	Amount	Purpose
General Fund	Economic Development Corp	\$ 151,314	Short-term loans
General Fund	Hotel Occupancy Tax Fund	135,878	Short-term loans
General Fund	EF-PUD	103,265	Short-term loans
Economic Development Corp	EF-PUD	2,673	Short-term loans
Hotel Occupancy Tax Fund	EF-PUD	1,337	Short-term loans
HIDTA	General Fund	121,063	Short-term loans
ORCA 724659	General Fund	20,197	Short-term loans
Drug Forfeiture Fund	General Fund	638	Short-term loans
TCF Contract #723242	General Fund	1	Short-term loans
	Total	<u>\$ 536,366</u>	

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

**2. Transfers To and From Other Funds**

Transfers to and from other funds at September 30, 2005, consisted of the following:

Transfers From	Transfers To	Amount	Reason
General fund	EF-PUD	\$ 269,180	Supplement other funds sources
General fund	Economic Development Corp	183,598	Supplement other funds sources
TCF Contract #723242	General fund	7,170	Supplement other funds sources
EF-PUD	Special Litigation Fund	125,000	Supplement other funds sources
	Total	<u>\$ 584,948</u>	

**CITY OF RIO GRANDE CITY, TEXAS**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2005**

F. Short-Term Debt Activity

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

G. Long-Term Obligations

1. Long-Term Obligation Activity

Long-term obligations include debt and other long-term liabilities. Changes in long-term obligations for the period ended September 30, 2005, are as follows:

Renewal note payable to Texas State Bank dated 11-04-04, payable in eleven monthly installments of \$1,051, including interest at 4.275%, with remaining unpaid balance due at maturity, secured by real estate	\$ 88,815
Renewal note payable to Texas State Bank dated 01-19-05, payable in eleven monthly installments of \$2,253, including interest at 4.72%, with remaining unpaid balance due at maturity, secured by real estate	189,573
Renewal note payable to Texas State Bank dated 2/10/05, payable in 11 monthly payments of \$2,365 including interest of 4.95%, with remaining balance due at maturity, secured by real estate	291,942
\$600,000 1989 Waterworks and Sewer System Revenue Serial Bonds due in annual installments ranging from \$25,000 to \$60,000 from 07-10-00 through 2012, interest at 7.5% to 8.5%	355,000
\$2,100,000 1991 Waterworks and Sewer System Revenue Serial Bonds due in annual installments ranging from \$110,000 to \$170,000 from 07-10-00 through 2012, interest at 5.5%	1,040,000
\$210,000 1992 Waterworks and Sewer System Revenue Serial Bonds due in annual installments ranging from \$10,000 to \$15,000 from 07-10-00 through 2012, interest at 5.5%	95,000
\$173,000 1996 Waterworks and Sewer System Revenue Serial Bonds due in annual installments ranging from \$5,000 to \$15,000 from 07-10-00 through 2016, interest ranging from 5.69% to 6.74%	121,000
\$811,000 1996A Waterworks and Sewer System Revenue Serial Bonds due in annual installments ranging from \$8,000 to \$46,000 from 07-10-00 through 2035, interest at 5.125%	739,000
Capital Leases (Note H)	
Payable out of the General Fund	587,116
Payable out of the Utility Fund	4,694
Total Long-term debt	<u>\$ 3,512,140</u>

**CITY OF RIO GRANDE CITY, TEXAS**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2005**

The following is a summary of long-term debt activity for September 30, 2005.

	Beginning Balance	Increases	Decreases	Ending Balance	Amounts Due Within One Year
<b>Governmental activities:</b>					
Capital leases	\$ 741,295	\$ 70,442	\$ 224,621	\$ 587,116	222,780
Notes	617,905	6,971	54,546	570,330	570,330
Total governmental activities	\$ 1,359,200	\$ 77,413	\$ 279,167	\$ 1,157,446	\$ 793,110
<b>Business-type activities:</b>					
Revenue bonds	\$ 2,543,000	\$ --	\$ 193,000	\$ 2,350,000	204,000
Capital leases	12,802	--	8,108	4,694	4,694
Notes	13,719	--	13,719	--	--
Total business-type activities	\$ 2,569,521	\$ --	\$ 214,827	\$ 2,354,694	\$ 208,694

2. Debt Service Requirements

Debt service requirements on long-term debt at September 30, 2005, are as follows:

Year Ending September 30,	Governmental Activities		
	Principal	Interest	Total
2006	\$ 793,110	\$ 21,847	\$ 814,957
2007	80,174	14,213	94,387
2008	44,427	11,264	55,691
2009	37,245	9,407	46,652
2010 & thereafter	202,490	18,906	221,396
Totals	\$ 1,157,446	\$ 75,637	\$ 1,233,083

Year Ending September 30,	Business-type Activities		
	Principal	Interest	Total
2006	\$ 208,694	\$ 115,809	\$ 324,503
2007	215,000	106,133	321,133
2008	226,000	95,957	321,957
2009	233,000	85,353	318,353
2010 & thereafter	1,472,000	666,346	2,138,346
Totals	\$ 2,354,694	\$ 1,069,598	\$ 3,424,292

H. Capital Leases Payable

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

**CITY OF RIO GRANDE CITY, TEXAS**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2005**

Commitments under capitalized lease agreements for facilities and equipment provide for minimum future lease payments as of , 2005, as follows:

<u>Year Ending September 30:</u>	
2006	\$ 254,015
2007	94,387
2008	55,691
2009	46,652
2010	46,652
2011-2014	174,744
	<hr/> 672,141
Less amount representing interest	80,331
Present value of minimum lease payments	<u>\$ 591,810</u>

The effective interest rate on capital leases is 6.390%.

Capital lease obligations at September 30, 2005, are composed of the following:

Capital lease payable to Federal Signal corporation dated 10-02-95, payable in 10 annual installments of \$27,440 including interest at 6.39%, secured by E-one pumper truck	\$ 25,792
Capital lease payable to Federal Signal Corporation dated 11-10-95, in 10 annual installments of \$9,687, including interest at 6.39%, secured by Mini-pumper truck	9,105
Capital lease payable to Motrola Credit Corporation dated 07-08-99, payable in 47 monthly installments of \$8,721, including interest at 5.79%, secured by a communications system	108,775
Capital lease payable to Ford Motor Credit dated 12-19-01, payable in 48 monthly installments of \$1,658, including interest at 5.3%, secured by two police vehicles	3,293
Capital lease payable to Ford Motor Credit dated 11-26-02, payable in 48 monthly installments of \$551, including interest at 6.25%, secured by one police vehicle	7,267
Capital lease payable to Southside Bank dated 04-15-03, payable in 120 monthly installments of \$3,888 including interest of 4.711%, secured by (1) pumper truck and (1) tanker truck	339,766
Capital lease payable to Ford Motor Credit dated 04-20-04, payable in 36 monthly installments \$847 including interest of 4.8%, secured by (1) unmarked police vehicle	14,680
Capital lease payable to Hale County State Bank dated 02-20-04, payable in 36 monthly installments of \$784 including interest of 4.0%, secured by municipal court software	14,666
Capital lease payable to First State Bank of Shallowater dated 06-09-04, payable in 36 monthly installments of \$351 including interest of 4.1%, secured by municipal court computer hardware	7,885

**CITY OF RIO GRANDE CITY, TEXAS**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2005**

Capital lease payable to Ford Motor Credit dated 04-15-03, payable in 12 quarterly installments of \$2,260, including interest at 6.65%, secured by one pick-up truck	27,669
Capital lease payable to Ford Motor Credit dated 12-03-04, payable in 36 monthly installments of \$1,137.32, including interest at 4.2%, secured by (1) police vehicle.	28,218
Capital lease in the Enterprise fund payable to Ford Motor Credit dated 04-15-03, payable in 12 quarterly installments of \$2,259.57, including interest at 6.65%, secured by (1) pickup truck.	<u>4,694</u>
	<u>\$ 591,810</u>

I. Risk Management

The City of Rio Grande City is exposed to various risks of loss related to torts, theft, damage or destruction of assets, errors and omissions, injuries to employees, and natural disasters. During fiscal year 2005, the City of Rio Grande City obtained general liability coverage at a cost that is considered to be economically justifiable by joining together with other governmental entities in the State as a member of the Texas Municipal League Intergovernmental Risk Pool ("TML"). TML is a self-funded pool operating as a common risk management and insurance program. The City of Rio Grande City pays an annual premium to TML for its above insurance coverage. The agreement for the formation of TML provides that TML will be self-sustaining through member premiums and will reinsure through commercial companies for claims in excess of acceptable risk levels; however, each category of coverage has its own level of reinsurance. The City of Rio Grande City continues to carry commercial insurance for other risks of loss. There were no significant reductions in commercial insurance coverage in the past fiscal year and settled claims resulting from these risks have not exceeded coverage in any of the past three fiscal years.

J. Concentrations of Credit Risk

Proprietary fund accounts receivables are concentrated with the geographic service area of the utility system, which is within the City of Rio Grande City. Those receivables are not concentrated within any individually significant customers. The City requires a deposit from each utility customer prior to establishing service. The net amount of proprietary fund accounts receivable at year end after deducting receivables for the allowance for doubtful accounts and after including estimated amounts for service provided but not yet billed at year end was \$649,765. Utility customer deposits held at year end totaled \$162,987.

K. Pension Plan

1. Plan Description

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

**CITY OF RIO GRANDE CITY, TEXAS**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2005**

2. Funding Policy

Plan members are required to contribute 5% of their annual covered salary. The City of Rio Grande City is required to contribute at an actuarially determined rate; the current rate is 5% of annual covered payroll. The City of Rio Grande City's contributions to the TMRS for the years ending September 30, 2005, 2004 and 2003 were \$92,415, \$90,454 and \$45,590, respectively, and were equal to the required contributions for each year.

3. Annual Pension Cost

The City of Rio Grande City's annual pension cost of \$92,415 for the Plan was equal to the City of Rio Grande City's required and actual contributions. Under the state law governing TMRS, the actuary annually determines the City of Rio Grande City's contribution rate. This rate consists of the normal cost contribution rate and the prior service contribution rate, both of which are calculated to be a level percent of payroll from year to year. The normal cost contribution rate finances the currently accruing monetary credits due to the City of Rio Grande City matching percent, which are the obligation of the City of Rio Grande City as of an employee's retirement date, not at the time the employee's contributions are made. The normal cost contribution rate is the actuarially determined percent of payroll necessary to satisfy the obligation of the City of Rio Grande City to each employee at the time his/her retirement becomes effective. The prior service contribution rate amortizes the unfunded (overfunded) actuarial liability (asset) over the remainder of the plan's 25-year amortization period. When the City of Rio Grande City periodically adopts updated service credits and increases in annuities in effect, the increased unfunded actuarial liability is to be amortized over a new 25-year period. Currently, the unfunded actuarial liability is being amortized over the 25-year period which began January 1997. The unit credit actuarial cost method is used for determining the City of Rio Grande City's contribution rate. Since the City of Rio Grande City needs to know its contribution rate in advance to budget for it, there is a one-year delay between the actuarial valuation that is the basis for the rate and the calendar year when the rate goes into effect (i.e., December 31, 1997 valuation is effective for rates beginning January 1999). Since the TMRS does not value the assets of individual cities, the actuarial assumptions used to set the required contribution rate of the City of Rio Grande City are based on TMRS as a whole. For the December 31, 1997 valuation date, an 8% investment rate of return was assumed. No assumptions were made for projected salary increases, inflation or cost of living adjustments.

4. Trend Information for the Plan

Fiscal Year Ending	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
September 30, 2003	\$ 45,590	100%	\$ --
September 30, 2004	90,454	100%	--
September 30, 2005	92,415	100%	--

L. Health Care Coverage

During the year ended September 30, 2005, employees of the City of Rio Grande City were covered by a health insurance plan (the Plan). The City of Rio Grande City paid premiums of \$263 per month per employee to the Plan. Employees, at their option, authorized payroll withholdings to pay premiums for dependents. All premiums were paid to a licensed insurer. The Plan was authorized by Article 3.51-2, Texas Insurance Code and was documented by contractual agreement.

The contract between the City of Rio Grande City and the licensed insurer is renewable March 1, 2006, and terms of coverage and premium costs are included in the contractual provisions.

Latest financial statements for the Blue Cross Blue Shield are available for the year ended December 31, 2005, have been filed with the Texas State Board of Insurance, Austin, Texas, and are public records.

**CITY OF RIO GRANDE CITY, TEXAS**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2005**

M. Commitments and Contingencies

1. Contingencies

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

N. Litigation

Some cases have been filed against the City. The City's potential loss for a number of the cases is minimal, either in the potential for an unfavorable outcome or the potential loss in the event of loss. Counsel for the City is unable to reasonably predict the outcome in favor of or against the City at this time for all the outstanding cases, and is not able to estimate a range of potential loss for all the cases.

O. Prior Period Adjustments

The City of Rio Grande City, Texas did not report amounts for property, plant and equipment in the City's financial statements for the fiscal year ended September 30, 2004 in accordance with generally accepted accounting principles. The result was that the ending balances of capital assets and net assets were understated in the prior year for the governmental activities and proprietary funds.

During the current year ended September 30, 2005 the City has correctly reported amounts for capital assets in the financial statements. Beginning balances have been restated to increase capital assets and net assets by \$3,667,302 in the general fund and a decrease of \$(734,260) in the proprietary fund, respectively.

P. Tax Levy

On September 29, 2006 the City Council of the City Rio Grande City, Texas levied and adopted a tax rate on \$100 assessed valuation for maintenance and operation of the City government for the year ending December 31, 2005. A tax rate of \$.0.29 cents was approved by the City Council to provide the revenue requirements for the ensuing year.

## *Required Supplementary Information*

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

**CITY OF RIO GRANDE CITY, TEXAS  
 REQUIRED SUPPLEMENTARY INFORMATION  
 September 30, 2005**

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

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

**CITY OF RIO GRANDE CITY, TEXAS**

GENERAL FUND

BUDGETARY COMPARISON SCHEDULE

FOR THE YEAR ENDED SEPTEMBER 30, 2005

EXHIBIT B-1

Page 1 of 3

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>REVENUE:</b>				
Taxes:				
<i>General Sales and Use Taxes</i>	\$ 1,938,500	\$ 1,938,500	\$ 2,001,140	\$ 62,640
<i>Other Taxes - Franchise Taxes</i>	390,515	390,515	477,510	86,995
License and Permits	166,210	166,210	118,907	(47,303)
Intergovernmental	158,000	158,000	49,858	(108,142)
Charges for Services	5,000	5,000	112,795	107,795
Fines and Forfeitures	102,500	102,500	88,372	(14,128)
Investment Earnings	100	100	91	(9)
Miscellaneous Revenues	58,172	58,172	77,005	18,833
<b>Total revenues</b>	<b>2,818,997</b>	<b>2,818,997</b>	<b>2,925,678</b>	<b>106,681</b>
<b>EXPENDITURES:</b>				
<b>General Government</b>				
<b>Mayor and Council</b>				
<i>Supplies</i>	--	--	798	(798)
<i>Other Services and Charges</i>	8,100	8,100	13,648	(5,548)
<i>Capital Outlay</i>	500	500	--	500
<b>Total Mayor and Council</b>	<b>8,600</b>	<b>8,600</b>	<b>14,446</b>	<b>(5,846)</b>
<b>Administration</b>				
<i>Personal Services</i>	61,075	61,075	59,740	1,335
<i>Supplies</i>	14,500	14,500	20,352	(5,852)
<i>Other Services and Charges</i>	210,380	210,380	248,534	(38,154)
<i>Capital Outlay</i>	--	3,000	--	3,000
<b>Total Administration</b>	<b>285,955</b>	<b>288,955</b>	<b>328,626</b>	<b>(39,671)</b>
<b>City Secretary</b>				
<i>Personal Services</i>	44,002	44,002	47,755	(3,753)
<i>Supplies</i>	4,000	4,000	--	4,000
<i>Other Services and Charges</i>	2,350	2,350	5,264	(2,914)
<b>Total City Secretary</b>	<b>50,352</b>	<b>50,352</b>	<b>53,019</b>	<b>(2,667)</b>
<b>Finance</b>				
<i>Personal Services</i>	101,547	101,547	78,300	23,247
<i>Supplies</i>	--	--	1,110	(1,110)
<i>Other Services and Charges</i>	3,200	3,200	3,717	(517)
<b>Total Finance</b>	<b>104,747</b>	<b>104,747</b>	<b>83,127</b>	<b>21,620</b>
<b>Personnel</b>				
<i>Personal Services</i>	37,905	37,905	36,622	1,283
<i>Other Services and Charges</i>	400	400	29	371
<b>Total Personnel</b>	<b>38,305</b>	<b>38,305</b>	<b>36,651</b>	<b>1,654</b>
<b>Code Enforcement</b>				
<i>Personal Services</i>	52,997	52,997	34,910	18,087
<i>Supplies</i>	550	550	2,236	(1,686)
<i>Other Services and Charges</i>	5,300	5,300	22,624	(17,324)
<b>Total Code Enforcement</b>	<b>58,847</b>	<b>58,847</b>	<b>59,770</b>	<b>(923)</b>
<b>City Administrator</b>				
<i>Personal Services</i>	93,943	93,943	100,048	(6,105)
<i>Other Services and Charges</i>	1,000	1,000	1,667	(667)
<b>Total City Administrator</b>	<b>94,943</b>	<b>94,943</b>	<b>101,715</b>	<b>(6,772)</b>
<b>Total General Government</b>	<b>641,749</b>	<b>644,749</b>	<b>677,354</b>	<b>(32,605)</b>

**CITY OF RIO GRANDE CITY, TEXAS**  
**GENERAL FUND**  
**BUDGETARY COMPARISON SCHEDULE**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2005**

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>Judicial</b>				
<b>Municipal Court</b>				
<i>Personal Services</i>	84,395	84,395	89,058	(4,663)
<i>Supplies</i>	2,150	2,150	4,857	(2,707)
<i>Other Services and Charges</i>	11,990	11,990	17,630	(5,640)
<i>Total Municipal Court</i>	98,535	98,535	111,545	(13,010)
<b>Total Judicial</b>	98,535	98,535	111,545	(13,010)
<b>Public Safety</b>				
<b>Police Department</b>				
<i>Personal Services</i>	1,074,890	1,074,890	970,002	104,888
<i>Supplies</i>	53,050	53,050	88,408	(35,358)
<i>Other Services and Charges</i>	67,720	67,720	105,541	(37,821)
<i>Capital Outlay</i>	500	500	37,546	(37,046)
<i>Total Police Department</i>	1,196,160	1,196,160	1,201,497	(5,337)
<b>Fire Department</b>				
<i>Personal Services</i>	499,336	499,336	476,753	22,583
<i>Supplies</i>	14,250	14,250	30,113	(15,863)
<i>Other Services and Charges</i>	49,800	49,700	59,725	(10,025)
<i>Capital Outlay</i>	--	--	500	(500)
<i>Total Fire Department</i>	563,386	563,286	567,091	(3,805)
<b>Total Public Safety</b>	1,759,546	1,759,446	1,768,588	(9,142)
<b>Street Lighting</b>				
<i>Other Services and Charges</i>	55,000	55,000	157,306	(102,306)
<b>Total Street Lighting</b>	55,000	55,000	157,306	(102,306)
<b>Public Works</b>				
<i>Personal Services</i>	306,618	308,996	312,936	(3,940)
<i>Supplies</i>	65,400	65,400	84,568	(19,168)
<i>Other Services and Charges</i>	57,550	57,550	40,781	16,789
<i>Capital Outlay</i>	12,500	12,500	--	12,500
<b>Total Public Works</b>	442,068	444,446	438,265	6,181
<b>Culture, Recreation &amp; Parks</b>				
<b>Parks Department</b>				
<i>Other Services and Charges</i>	47,000	47,000	21,596	25,404
<i>Total Parks Department</i>	47,000	47,000	21,596	25,404
<b>Total Culture, Recreation &amp; Parks</b>	47,000	47,000	21,596	25,404
<b>Library</b>				
<i>Other Services and Charges</i>	5,500	5,500	27,009	(21,509)
<i>Capital Outlay</i>	--	--	69,781	(69,781)
<b>Total Library</b>	5,500	5,500	96,790	(91,290)
<b>Debt Service:</b>				
<i>Principal</i>	215,144	215,144	253,599	(38,455)
<i>Interest and Fiscal Charges</i>	64,809	52,991	53,511	(520)
<b>Total Expenditures</b>	3,329,351	3,322,811	3,578,534	(255,723)
Excess (Deficiency) of Revenues				
Over (Under) Expenditures	(510,354)	(503,814)	(652,856)	(149,042)

**CITY OF RIO GRANDE CITY, TEXAS**  
 GENERAL FUND  
 BUDGETARY COMPARISON SCHEDULE  
 FOR THE YEAR ENDED SEPTEMBER 30, 2005

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
OTHER FINANCING SOURCES (USES):				
<i>Transfers In</i>	512,225	517,603	452,778	(64,825)
<i>Transfers Out</i>	(1,000)	(1,000)	(7,170)	6,170
<i>Loan Proceeds</i>	--	--	6,972	(6,972)
<i>Capital Leases</i>	--	--	38,540	(38,540)
Total Other Financing Sources (Uses)	511,225	516,603	491,120	25,483
Net Change in Fund Balances	871	12,789	(161,736)	(174,525)
Fund Balances - Beginning	--	--	(137,101)	(137,101)
Fund Balances - Ending	\$ 871	\$ 12,789	\$ (298,837)	\$ (311,626)

**CITY OF RIO GRANDE CITY, TEXAS**  
**ECONOMIC DEVELOPMENT CORPORATION FUND**  
**BUDGETARY COMPARISON SCHEDULE**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2005**

EXHIBIT B-2

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>REVENUE:</b>				
Taxes:				
<i>General Sales and Use Taxes</i>	\$ 646,050	\$ 646,050	\$ 667,046	\$ 20,996
Investment Earnings	3,500	3,500	4,140	640
Miscellaneous Revenues	--	--	13,331	13,331
Total revenues	<u>649,550</u>	<u>649,550</u>	<u>684,517</u>	<u>34,967</u>
<b>EXPENDITURES:</b>				
<b>Economic Development and Assistance</b>				
<i>Personal Services</i>	74,435	71,435	38,222	33,213
<i>Supplies</i>	2,000	2,000	4,678	(2,678)
<i>Other Services and Charges</i>	421,150	413,150	157,936	255,214
Total Economic Development and Assistance	<u>497,585</u>	<u>486,585</u>	<u>200,836</u>	<u>285,749</u>
<i>Debt Service:</i>				
<i>Principal</i>	100,000	100,000	21,336	78,664
<i>Interest and Fiscal Charges</i>	--	--	254	(254)
<b>Total Expenditures</b>	<u>597,585</u>	<u>586,585</u>	<u>222,426</u>	<u>364,159</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>51,965</u>	<u>62,965</u>	<u>462,091</u>	<u>399,126</u>
<b>OTHER FINANCING SOURCES (USES):</b>				
<i>Transfers In</i>	28,035	28,035	--	(28,035)
<i>Transfers Out</i>	(180,000)	(185,378)	(183,598)	(1,780)
<i>Loan Proceeds</i>	100,000	100,000	--	100,000
Total Other Financing Sources (Uses)	<u>(51,965)</u>	<u>(57,343)</u>	<u>(183,598)</u>	<u>126,255</u>
Net Change in Fund Balances	--	5,622	278,493	272,871
Fund Balances - Beginning	177,802	(177,802)	177,802	355,604
Fund Balances - Ending	<u>\$ 177,802</u>	<u>\$ (172,180)</u>	<u>\$ 456,295</u>	<u>\$ 628,475</u>

*Combining Statements and Budget Comparisons  
as Supplementary Information*

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

**CITY OF RIO GRANDE CITY, TEXAS**

COMBINING BALANCE SHEET

NONMAJOR SPECIAL REVENUE FUNDS

SEPTEMBER 30, 2005

	Hotel Occupancy Tax Fund	Special Litigation Fund	Forfeiture Fund
<b>ASSETS AND OTHER DEBITS</b>			
<b>Assets:</b>			
<i>Cash and Cash Equivalents</i>	\$ 61,545	\$ 7,140	\$ 42,595
<i>Receivables ( net of allowances for uncollectibles):</i>	11,767	50,000	--
<i>Due from Other Funds</i>	135,878	--	--
<b>Restricted Assets:</b>			
<b>Total Assets and Other Debits</b>	<b>\$ 209,190</b>	<b>\$ 57,140</b>	<b>\$ 42,595</b>
<b>LIABILITIES AND FUND BALANCES:</b>			
<b>Liabilities:</b>			
<i>Accounts Payable</i>	\$ --	\$ --	\$ --
<i>Due to Other Funds</i>	1,337	--	638
<b>Total Liabilities</b>	<b>1,337</b>	<b>--</b>	<b>638</b>
<b>Fund Balances:</b>			
<b>Reserved Fund Balances:</b>			
<b>Unreserved, reported in nonmajor:</b>			
<i>Special Revenue Funds</i>	207,853	57,140	41,957
<b>Total Fund Balance</b>	<b>207,853</b>	<b>57,140</b>	<b>41,957</b>
<b>Total Liabilities and Fund Balance</b>	<b>\$ 209,190</b>	<b>\$ 57,140</b>	<b>\$ 42,595</b>

HIDTA Task Force Fund	Historical Preservation Fund	Treasury Forfeiture Fund	RGC Police Department Fund	Revolving Loan Fund
\$ --	\$ 4,824	\$ 187,065	\$ 413	\$ 460,632
121,063	--	--	--	--
--	--	--	--	--
<u>\$ 121,063</u>	<u>\$ 4,824</u>	<u>\$ 187,065</u>	<u>\$ 413</u>	<u>\$ 460,632</u>
\$ --	\$ --	\$ --	\$ --	\$ --
121,063	--	--	--	--
<u>121,063</u>	<u>--</u>	<u>--</u>	<u>--</u>	<u>--</u>
--	4,824	187,065	413	460,632
--	<u>4,824</u>	<u>187,065</u>	<u>413</u>	<u>460,632</u>
<u>\$ 121,063</u>	<u>\$ 4,824</u>	<u>\$ 187,065</u>	<u>\$ 413</u>	<u>\$ 460,632</u>

## CITY OF RIO GRANDE CITY, TEXAS

COMBINING BALANCE SHEET

NONMAJOR SPECIAL REVENUE FUNDS

SEPTEMBER 30, 2005

	Street Improvements Fund #724659	TCF Contract #723242 Fund	Total Nonmajor Special Revenue Funds (See Exhibit A-3)
<b>ASSETS AND OTHER DEBITS</b>			
<b>Assets:</b>			
<i>Cash and Cash Equivalents</i>	\$ --	\$ --	\$ 764,214
<i>Receivables ( net of allowances for uncollectibles):</i>	149,426	10	332,266
<i>Due from Other Funds</i>	--	--	135,878
<b>Restricted Assets:</b>			
<b>Total Assets and Other Debits</b>	<u>\$ 149,426</u>	<u>\$ 10</u>	<u>\$ 1,232,358</u>
<b>LIABILITIES AND FUND BALANCES:</b>			
<b>Liabilities:</b>			
<i>Accounts Payable</i>	\$ 129,229	\$ 9	\$ 129,238
<i>Due to Other Funds</i>	20,197	1	143,236
<b>Total Liabilities</b>	<u>149,426</u>	<u>10</u>	<u>272,474</u>
<b>Fund Balances:</b>			
<b>Reserved Fund Balances:</b>			
<b>Unreserved, reported in nonmajor:</b>			
<i>Special Revenue Funds</i>	--	--	959,884
<b>Total Fund Balance</b>	<u>--</u>	<u>--</u>	<u>959,884</u>
<b>Total Liabilities and Fund Balance</b>	<u>\$ 149,426</u>	<u>\$ 10</u>	<u>\$ 1,232,358</u>

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**CITY OF RIO GRANDE CITY, TEXAS**  
**COMBINING STATEMENT OF REVENUES, EXPENDITURES,**  
**AND CHANGES IN FUND BALANCES**  
**NONMAJOR SPECIAL REVENUE FUNDS**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2005**

	Hotel Occupancy Tax Fund	Special Litigation Fund	Forfeiture Fund
<b>Revenue:</b>			
<i>Taxes:</i>			
<i>Hotel Occupancy Taxes</i>	\$ 50,348	\$ --	\$ --
<i>Intergovernmental</i>	--	--	9,485
<i>Investment Earnings</i>	896	174	668
<i>Drug Forfeitures</i>	--	--	53,607
<b>Total revenues</b>	<b>51,244</b>	<b>174</b>	<b>63,760</b>
<b>Expenditures:</b>			
<i>Current:</i>			
<i>Public Safety</i>	--	--	39,492
<i>Judicial</i>	--	71,342	--
<i>Library</i>	--	--	--
<i>Economic Development and Assistance</i>	41,489	--	--
<i>Debt Service:</i>			
<i>Principal</i>	--	--	4,233
<i>Interest and Fiscal Charges</i>	--	--	5,704
<i>Capital Outlay:</i>			
<i>Capital Outlay</i>	--	--	31,552
<b>Total Expenditures</b>	<b>41,489</b>	<b>71,342</b>	<b>80,981</b>
Excess (Deficiency) of Revenues			
Over (Under) Expenditures	9,755	(71,168)	(17,221)
<b>Other Financing Sources (Uses):</b>			
<i>Operating Transfers In</i>	--	125,000	--
<i>Capital Leases</i>	--	--	31,902
<b>Total Other Financing Sources (Uses)</b>	<b>--</b>	<b>125,000</b>	<b>31,902</b>
<b>Net Change in Fund Balances</b>	<b>9,755</b>	<b>53,832</b>	<b>14,681</b>
<b>Fund Balances - Beginning</b>	<b>198,098</b>	<b>3,308</b>	<b>27,276</b>
<b>Fund Balances - Ending</b>	<b>\$ 207,853</b>	<b>\$ 57,140</b>	<b>\$ 41,957</b>

HIDTA Task Force Fund	Historical Preservation Fund	Treasury Forfeiture Fund	RGC Police Department Fund	Revolving Loan Fund
\$ --	\$ --	\$ --	\$ --	\$ --
206,668	--	--	2,404	337,132
--	125	1,171	25	6,952
--	--	217,710	--	--
<u>206,668</u>	<u>125</u>	<u>218,881</u>	<u>2,429</u>	<u>344,084</u>
206,668	--	31,816	2,948	--
--	--	--	--	--
--	4,510	--	--	--
--	--	--	--	--
--	--	--	--	--
--	--	--	--	--
<u>206,668</u>	<u>4,510</u>	<u>31,816</u>	<u>2,948</u>	<u>--</u>
--	(4,385)	187,065	(519)	344,084
--	--	--	--	--
--	--	--	--	--
--	--	--	--	--
--	(4,385)	187,065	(519)	344,084
--	9,209	--	932	116,548
<u>\$ --</u>	<u>\$ 4,824</u>	<u>\$ 187,065</u>	<u>\$ 413</u>	<u>\$ 460,632</u>

**CITY OF RIO GRANDE CITY, TEXAS**  
**COMBINING STATEMENT OF REVENUES, EXPENDITURES,**  
**AND CHANGES IN FUND BALANCES**  
**NONMAJOR SPECIAL REVENUE FUNDS**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2005**

	Street Improvements Fund #724659	TCF Contract #723242 Fund	Total Nonmajor Special Revenue Funds (See Exhibit A-5)
<b>Revenue:</b>			
<b>Taxes:</b>			
<i>Hotel Occupancy Taxes</i>	\$ --	\$ --	\$ 50,348
<i>Intergovernmental</i>	312,816	--	868,505
<i>Investment Earnings</i>	--	--	10,011
<i>Drug Forfeitures</i>	--	--	271,317
<b>Total revenues</b>	<u>312,816</u>	<u>--</u>	<u>1,200,181</u>
<b>Expenditures:</b>			
<b>Current:</b>			
<i>Public Safety</i>	--	--	280,924
<i>Judicial</i>	--	--	71,342
<i>Library</i>	--	--	4,510
<i>Economic Development and Assistance</i>	312,816	7,170	361,475
<b>Debt Service:</b>			
<i>Principal</i>	--	--	4,233
<i>Interest and Fiscal Charges</i>	--	--	5,704
<b>Capital Outlay:</b>			
<i>Capital Outlay</i>	--	--	31,552
<b>Total Expenditures</b>	<u>312,816</u>	<u>7,170</u>	<u>759,740</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>--</u>	<u>(7,170)</u>	<u>440,441</u>
<b>Other Financing Sources (Uses):</b>			
<i>Operating Transfers In</i>	--	7,170	132,170
<i>Capital Leases</i>	--	--	31,902
<b>Total Other Financing Sources (Uses)</b>	<u>--</u>	<u>7,170</u>	<u>164,072</u>
<b>Net Change in Fund Balances</b>	<u>--</u>	<u>--</u>	<u>604,513</u>
Fund Balances - Beginning	--	--	355,371
Fund Balances - Ending	<u>\$ --</u>	<u>\$ --</u>	<u>\$ 959,884</u>

### *Other Supplementary Information*

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

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**Raul Hernandez**  
Certified Public Accountant  
301A N. King St., Suite 109 Alice, Texas 78332  
Office (361) 668-8810 Fax (361) 668-3900

### **Independent Auditor's Report**

Report on Internal Control over Financial Reporting and on Compliance and  
Other Matters Based on an Audit of Financial Statements Performed in  
Accordance with Government Auditing Standards

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

Members of the City Council:

I have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of City of Rio Grande City, Texas as of and for the year ended September 30, 2005, which collectively comprise the City of Rio Grande City, Texas's basic financial statements and have issued my report thereon dated June 29, 2006. I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in GOVERNMENT AUDITING STANDARDS, issued by the Comptroller General of the United States.

#### Internal Control Over Financial Reporting

In planning and performing my audit, I considered City of Rio Grande City, Texas's internal control over financial reporting in order to determine my auditing procedures for the purpose of expressing my opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. My consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. I noted no matters involving the internal control over financial reporting and its operation that I considered to be material weaknesses.

#### Compliance and Other Matters

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

I also noted other matters that I reported to management of City of Rio Grande City, Texas in a separate letter dated June 29, 2006.

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

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Raul Hernandez". The signature is written in a cursive style with a long, sweeping tail that extends to the right.

RAUL HERNANDEZ, CPA

June 29, 2006

**Raul Hernandez**  
Certified Public Accountant  
301A N. King St., Suite 109 Alice, Texas 78332  
Office (361) 668-8810 Fax (361) 668-3900

**Independent Auditor's Report**

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

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

Members of the City Council:

Compliance

I have audited the compliance of City of Rio Grande City, Texas with the types of compliance requirements described in the U. S. OFFICE OF MANAGEMENT AND BUDGET (OMB) CIRCULAR A-133 COMPLIANCE SUPPLEMENT that are applicable to each of its major federal programs for the year ended September 30, 2005. City of Rio Grande City, Texas's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of City of Rio Grande City, Texas's management. My responsibility is to express an opinion on City of Rio Grande City, Texas's compliance based on my audit.

I conducted my audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in GOVERNMENT AUDITING STANDARDS, issued by the Comptroller General of the United States; and OMB Circular A-133, AUDITS OF STATES, LOCAL GOVERNMENTS, AND NON-PROFIT ORGANIZATIONS. Those standards and OMB Circular A-133 require that I plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about City of Rio Grande City, Texas's compliance with those requirements and performing such other procedures as I considered necessary in the circumstances. I believe that my audit provides a reasonable basis for my opinion. My audit does not provide a legal determination on City of Rio Grande City, Texas's compliance with those requirements.

In my opinion, City of Rio Grande City, Texas complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended September 30, 2005.

Internal Control Over Compliance

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

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

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

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Raul Hernandez", with a long, sweeping flourish extending to the right.

RAUL HERNANDEZ, CPA

June 29, 2006

**CITY OF RIO GRANDE CITY, TEXAS**  
*SCHEDULE OF FINDINGS AND QUESTIONED COSTS*  
*FOR THE YEAR ENDED SEPTEMBER 30, 2005*

A. Summary of Auditor's Results

1. Financial Statements

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

Material weakness(es) identified?      Yes   X   No

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

Noncompliance material to financial statements noted?      Yes   X   No

2. Federal Awards

Internal control over major programs:

Material weakness(es) identified?      Yes   X   No

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

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

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

Identification of major programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
14.228	U.S. Dept of HUD- ORCA-STreet Improvements

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

Auditee qualified as low-risk auditee?      Yes   X   No

B. Financial Statement Findings

NONE

C. Federal Award Findings and Questioned Costs

NONE

**CITY OF RIO GRANDE CITY, TEXAS**  
*SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS*  
*FOR THE YEAR ENDED SEPTEMBER 30, 2005*

<u>Finding/Recommendation</u>	<u>Current Status</u>	<u>Management's Explanation If Not Implemented</u>
1. The General Fund had a deficit balance at year end.	Not Corrected	The City adopted a property tax rate which will help increase revenues and reduce deficit
2. As indicated on the opinion letter, the City's property plant and equipment balances in its general ledger were materially different from the amounts determined by a physical inventory taken. The balances in the City's ledger were not adjusted.	Corrected	

**CITY OF RIO GRANDE CITY, TEXAS**  
*CORRECTIVE ACTION PLAN*  
*FOR THE YEAR ENDED SEPTEMBER 30, 2005*

N/A

**CITY OF RIO GRANDE CITY, TEXAS**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2005**

**EXHIBIT D-1**

Federal Grantor/ Pass-Through Grantor/ Program Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
<b><u>U. S. ENVIRONMENTAL PROTECTION AGENCY</u></b>			
Passed Through n/a:			
Border Environment Cooperation Commission	66.931	TAA03-016	\$ 143,444
Total U. S. Environmental Protection Agency			<u>143,444</u>
<b><u>U. S. DEPARTMENT OF HOUSING &amp; URBAN DEVELOPMENT</u></b>			
Passed Through Office of Rural Community Affairs:			
Street Improvements	14.228	724659	312,816
Total U. S. Department of Housing & Urban Development			<u>312,816</u>
<b><u>U. S. DEPARTMENT OF AGRICULTURE</u></b>			
Passed Through n/a:			
Empowerment Zone	10.772	9.1-6.16	78,953
Total U. S. Department of Agriculture			<u>78,953</u>
<b><u>OFFICE OF NATIONAL DRUG CONTROL POLICY</u></b>			
Passed Through n/a:			
High Intensity Drug Trafficking Area Task Force	07.999	14PSSP616	86,676
High Intensity Drug Trafficking Area Task Force	07.999	15PSSP616	119,991
Total Passed Through n/a			<u>206,668</u>
Total Office of National Drug Control Policy			<u>206,668</u>
<b>TOTAL EXPENDITURES OF FEDERAL AWARDS</b>			<b>\$ <u>741,881</u></b>

The accompanying notes are an integral part of this schedule.

**CITY OF RIO GRANDE CITY, TEXAS**

*NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED SEPTEMBER 30, 2005*

Basis of Presentation

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

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