

CITY OF RIO GRANDE CITY, TEXAS

AUDITED ANNUAL FINANCIAL REPORT

FOR THE YEAR ENDED SEPTEMBER 30, 2014

Raul Hernandez & Company, P.C.
CERTIFIED PUBLIC ACCOUNTANTS

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Financial Section

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RAUL HERNANDEZ & COMPANY, P.C.
Certified Public Accountants
5422 Holly Rd
Corpus Christi, Texas 78411
Office (361) 980-0428 Fax (361) 980-1002

Independent Auditors' Report

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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Rio Grande City, Texas ("the City of Rio Grande City") as of and for the year ended September 30, 2014, and the related notes to the financial statements, which collectively comprise the City of Rio Grande City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of City of Rio Grande City, Texas as of September 30, 2014, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis, budgetary comparison information, and schedules of the City of Rio Grande City's identified as Required Supplementary Information in the table of contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the Required Supplementary Information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

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

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated January 13, 2016 on our consideration of City of Rio Grande City, Texas's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering City of Rio Grande City, Texas's internal control over financial reporting and compliance.

Respectfully submitted,

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

Raul Hernandez & Company, P.C.

Corpus Christi, Texas
January 13, 2016

Management's Discussion & Analysis (MD&A)

CITY OF RIO GRANDE CITY, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS
September 30, 2014

Our discussion and analysis of the City's financial performance provides an overview of the City's financial activities for the fiscal year ended September 30, 2014. Please read it in conjunction with the City's financial statements, which follow this section.

Financial Highlights

- The City's total net position increased by \$3,587,244 for the year, which is a change of 1.7%. The governmental activities increase was \$3,436,044 while the business-type activities showed an increase of \$151,200.
- Last year's decrease in sales tax revenues of (\$3,085,451) was followed by an increase in sales tax revenues of \$1,555,253 for 2014.
- There were a few changes in both revenues and certain expenses of the utility fund. Charges for services revenues decreased by \$35,581. In addition, personnel services increased \$95,249, while materials & supplies decreased in the amount of (\$604,577).
- The City added \$7,763,778 to capital assets during the year, with the vast majority of those additions related to construction projects for construction in progress as part of road construction in the governmental activities. Capital additions include reconstruction on taxiways & runways for the airport, multi-use complex, buildings & improvements, reconstruction on infrastructure, and waterline upgrades, among others. Depreciation expense of \$514,577 was also recorded for the year.

Overview of the Financial Statements

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

Government-wide financial statements

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

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

CITY OF RIO GRANDE CITY, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS
(Continued)

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

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

Fund financial statements

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

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

Notes to the financial statements

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

Condensed Financial Information

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

CITY OF RIO GRANDE CITY, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS
(Continued)

Government-wide net position

	Governmental Activities		Business-type Activities		Total Primary Government	
	2014	2013	2014	2013	2014	2013
Current and other assets	\$ 7,442,034	4,956,273	3,387,747	3,704,402	10,829,781	8,660,675
Capital assets	13,469,097	11,899,802	31,273,654	31,776,824	44,742,751	43,676,626
Total assets	20,911,131	16,856,075	34,661,401	35,481,226	55,572,532	52,337,301
Long-term liabilities	8,070,573	6,753,564	21,426,442	22,249,618	29,497,015	29,003,182
Other liabilities	590,969	1,288,966	495,428	643,277	1,086,397	1,932,243
Total liabilities	8,661,542	8,042,530	21,921,870	22,892,895	30,583,412	30,935,425
Net position:						
Invested in capital assets, net of debt	5,398,524	5,146,238	9,847,212	9,523,206	15,245,736	14,669,444
Restricted	1,129,810	267,655	-	-	1,129,810	267,655
Unrestricted	5,721,255	3,399,652	2,892,319	3,065,125	8,613,574	6,464,777
Total net position	\$ 12,249,589	8,813,545	12,739,531	12,588,331	24,989,120	21,401,876

The City's governmental activities showed a decrease in net position of \$3,436,044. Capital assets for governmental activities increased by \$1,569,295.

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

Government-wide changes in net position

	Governmental Activities		Business-type Activities		Total Primary Government	
	2014	2013	2014	2013	2014	2013
Change in net assets						
Total revenues	\$ 10,623,988	8,044,697	4,931,725	5,028,221	15,555,713	13,072,918
Total expenses	(8,431,189)	(7,183,091)	(3,537,191)	(3,642,106)	(11,968,380)	(10,825,197)
Change before transfers	2,192,799	861,606	1,394,534	1,386,115	3,587,333	2,247,721
Transfers	1,243,334	1,551,044	(1,243,334)	(1,551,044)	-	-
Special Items - Resources		(20,622,529)		20,622,529		-
Special Items - Uses		21,345,000		(21,345,000)		-
Change in net position	3,436,133	3,135,121	151,200	(887,400)	3,587,333	2,247,721
Net position - beginning	8,813,456	6,914,793	12,588,331	13,475,731	21,401,787	20,390,524
Reclass of Beg Net Position	-	(1,236,458)	-	-	-	(1,236,458)
Net position - ending	\$ 12,249,589	8,813,456	12,739,531	12,588,331	24,989,120	21,401,787

CITY OF RIO GRANDE CITY, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS
(Continued)

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

	Governmental Activities		Business-type Activities		Total Primary Government	
	2014	2013	2014	2013	2014	2013
Revenues						
Program revenues:						
Charges for services	\$ 1,967,115	-	4,929,778	4,894,197	6,896,893	4,894,197
General revenues:						
Maintenance and						
Operations Taxes	2,815,478	1,986,427	-	-	2,815,478	1,986,427
Debt Service Taxes	592,324	790,420	-	-	592,324	790,420
Grants	874,727	1,082,927	-	-	874,727	1,082,927
Sales tax	4,276,271	2,721,018	-	-	4,276,271	2,721,018
Franchise taxes	-	643,536	-	-	-	643,536
Investment Earnings	4,854	6,343	1,947	-	6,801	6,343
Miscellaneous	93,219	814,026	-	134,024	93,219	948,050
Total revenues	\$ <u>10,623,988</u>	<u>8,044,697</u>	<u>4,931,725</u>	<u>5,028,221</u>	<u>15,555,713</u>	<u>13,072,918</u>

Last year's decrease in sales tax revenues of (\$3,085,451) was followed by an increase in sales tax revenues of \$1,555,253 for 2014. The decrease in the sales tax was due to changes in the economical conditions in the City of Rio Grande City.

There were a few changes in both revenues and certain expenses of the utility fund. Charges for services revenues decreased by \$35,581. In addition, personnel services increased \$95,249, while materials & supplies decreased in the amount of (\$604,577).

There was an increase of \$35,581 for service revenues. There was an increase in the utility fund personnel costs of (\$95,249) was attributed to several vacant positions.

CITY OF RIO GRANDE CITY, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS
(Continued)

	Governmental Activities		Business-type Activities		Total Primary Government	
	2014	2013	2014	2013	2014	2013
Expenses						
General Government	\$ 1,530,897	1,007,427	-	-	1,530,897	1,007,427
Judicial	136,927	137,784	-	-	136,927	137,784
Public safety	3,165,442	3,765,661	-	-	3,165,442	3,765,661
Public works	979,914	(47,368)	-	-	979,914	(47,368)
Highways and Streets	182,206	146,870	-	-	182,206	146,870
Culture and Recreation	316,814	312,808	-	-	316,814	312,808
Libraries	237,268	214,454	-	-	237,268	214,454
Conservation & Development	316,895	308,551	-	-	316,895	308,551
Economic Development	841,154	722,331	-	-	841,154	722,331
Bond Interest & Cap Outlay	723,672	614,573	-	-	723,672	614,573
Utility Fund	-	-	3,537,191	3,642,106	3,537,191	3,642,106
Total expenses	\$ <u>8,431,189</u>	<u>7,183,091</u>	<u>3,537,191</u>	<u>3,642,106</u>	<u>11,968,380</u>	<u>10,825,197</u>

General Fund departmental expenses (net of depreciation) had an overall increase due to a two percent cost of living increase, a contribution to TxDOT for HWY 44 beautification and improvements, and an increase in general liability insurance premiums. Public works, however, experienced a decrease in expenses by (\$1,027,282) in 2014, which was a result of the filling of vacancies from 2013.

Financial Analysis of the City's Funds

The City did experience high sales tax increases. Towards the last four months of 2015 and into 2016, the sales have been decreasing compared to the previous year (2014). We attribute some of this loss in local sales to the lay-off of pipe liners. Many residents were working in the pipe lines and would send the money to their families.

The city has maintained the same tax rate for the past three fiscal years, and adopted a conservative budget for 2015-2016.

The resignation of previous Mayor Ruben O. Villarreal prompted a Special Election in 2015 that was not budgeted, and the money received from the sales tax of the gas line going into Mexico allowed to purchase a building for the relocation of City Hall. The General Fund participated with \$927,00. The Public Utility Fund participated with \$400,00. The RGC Economic Development Corporation purchased Suite B from the City and paid \$400,000.

The RGC EDC re-constructed the courtyard at the Kelsey Bass Building, furthering the tourism efforts in the Historic Main Street. In 2015 we were funded a grant for \$1.2 million from the Economic Development Administration for drainage improvements that would protect public infrastructure and support new business development.

CITY OF RIO GRANDE CITY, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS
(Continued)

The City completed a Texas Department of Agriculture grant, (Project #713408) for \$293,417 that provided first time sewer service to 29 homes. Currently, the city is completing applications to the Texas Water Development Board for funding to replace an elevated water storage tank.

Regarding the other governmental funds, the debt service fund levied taxes sufficient to cover the governmental debt service requirements as well as a portion of the utility fund debt service (which was transferred to the utility fund) and ended the year with a \$88,416 fund balance. The debt service fund has fund balance greater than the annual debt service requirement of the governmental debt. The capital depreciation fund was established and has been maintained with transfers from the general fund to set aside excess sales tax revenue to be used for major capital expenditures.

As discussed above, the utility fund's operations ended the year with a \$151,200 increase in net position. Of course that net increase is also after the annual transfer from the general fund to the utility fund, which amounted to \$1,243,334 this year. The utility fund has net position of \$12,739,531 at the end of the year. However, \$9,847,212 is restricted for investment in capital assets, net of related debt. Unrestricted net position of \$2,892,319 represents over 3 months in terms of the utility system's annual expenses including net transfers out.

General Fund Budgetary Highlights

The City Council approved various amendments to the original budget prior to the end of the year. Appropriations for expenditures including transfers out were by \$12,312,057 in the final budget.

Capital Asset and Debt Administration

Capital assets

The following capital asset information is presented net of depreciation. More detailed information can be found on pages 42 and 43 in the notes to the financial statements.

	Governmental Activities		Business-type Activities		Total Primary Government	
	2014	2013	2014	2013	2014	2013
Land	\$ 1,075,865	1,075,865	339,036	339,036	1,414,901	1,414,901
Infrastructure, net	1,274,393	528,601	34,037,080	34,037,080	35,311,473	34,565,681
Buildings, net	8,526,433	2,846,529	1,592,023	1,583,800	10,118,456	4,430,329
Machinery and Equipment, net	2,592,405	1,768,903	651,888	525,042	3,244,293	2,293,945
Capital Assets, net	-	-	(5,346,373)	(4,708,134)	(5,346,373)	(4,708,134)
Construction in Progress	-	5,679,904	-	-	-	5,679,904
Other Assets	-	150	-	824	-	974
Total revenues	\$ 13,469,096	11,899,952	31,273,654	31,777,648	44,742,750	43,677,600

CITY OF RIO GRANDE CITY, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS
(Continued)

The City added approximately \$7,989,845 to capital assets during the year, with the vast majority of those additions related to construction projects for construction in progress as part of road construction in the governmental activities. Capital additions include reconstruction on taxiways & runways for the airport, multi-use complex, buildings & improvements, reconstruction on infrastructure, and waterline upgrades, among others. Depreciation expense of \$1,152,816 was also recorded for the year.

Debt

More detailed information on the City's debt can be found on pages 32-34 in the notes to the financial statements.

	Governmental Activities		Business-type Activities		Total Primary Government	
	2014	2013	2014	2013	2014	2013
General obligation debt	\$ 7,546,756	6,608,353	21,261,000	22,020,000	28,807,756	28,628,353
Capital leases payable	523,817	145,311	165,442	229,618	689,259	374,929
Total revenues	\$ 8,070,573	6,753,664	21,426,442	22,249,618	29,497,015	29,003,282

The City's general obligation bond rating is A+ as assigned by the national rating agency Standard and Poor's. There is no direct debt limitation in the City Charter or under state law. The Texas Constitution does limit the maximum tax rate for all City purposes to \$2.50 per \$100 of assessed valuation, and administratively, the Attorney General will permit allocation of \$1.50 of the \$2.50 maximum tax rate to the payment of debt service. The actual amount of debt the City might be able to fund with that tax rate depends on the term over which the debt is to be repaid, the interest rate on the debt, and the amount of taxes which are not collected. The City's current debt service tax rate is \$0.112724.

Economic Factors and Next Year's Budgets and Rates

The City did experience high sales tax increases. Towards the last four month of 2015 and into 2016, the sales have been decreasing compared to the previous year (2014). We attribute some of this loss in local sales to the lay-off of pipe liners. Many residents were working in the pipe lines and would send the money to their families. The City has maintained the same tax rate for the past three fiscal years, and adopted a conservative budget for 2015-2016. The resignation of previous Mayor Ruben O. Villarreal prompted a Special Election in 2015 that was not budgeted, and the money received from the sales tax of the gas line going into Mexico allowed to purchase a building for the relocation of City Hall. The General Fund participated with \$927,00. The Public Utility Fund participated with \$400,00. The RGC Economic Development Corporation purchased Suite B from the City and paid \$400,000.

CITY OF RIO GRANDE CITY, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS
(Continued)

The RGC EDC re-constructed the courtyard at the Kelsey Bass Building, furthering the tourism efforts in the Historic Main Street. In 2015 we were funded a grant for \$1.2 million from the Economic Development Administration for drainage improvements that would protect public infrastructure and support new business development. The City completed a Texas Department of Agriculture grant, (Project #713408) for \$293,417 that provided first time sewer service to 29 homes. Currently, the City is completing applications to the Texas Water Development Board for funding to replace an elevated water storage tank. The City's elected officials considered many factors when setting the 2015 budget. The City was conservative in the amount budgeted for sales tax in 2015. For 2015, the City budgeted \$267,664 more than budgeted for 2014 but projected to receive \$797,652 less than the actual amount received in 2014 in revenues. The City Council adopted a tax rate of \$.514749 per \$100 valuation, which was an increase of \$0.000589 per \$100 valuation from the previous year, resulting from a decrease in the overall property tax base.

Contacting the City's Financial Management

This financial report is designed to provide our citizens, taxpayers, customers, investors and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional financial information, please direct your requests to the Director of Finance, City of Rio Grande City, and 101 S. Washington Street, 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 POSITION**

SEPTEMBER 30, 2014

	Governmental Activities	Business-type Activities	Total
ASSETS:			
<i>Cash and Cash Equivalents</i>	\$ 4,906,667	\$ 1,761,004	\$ 6,667,671
<i>Investments-Current</i>	1,787,252	805,408	2,592,660
<i>Taxes Receivables (net of allowances for uncollectibles):</i>	244,352	1,126,848	1,371,200
<i>Accounts Receivable</i>	146,446	(320,806)	(174,360)
<i>Intergovernmental Receivable</i>	357,317	--	357,317
<i>Inventories</i>	--	15,293	15,293
 <i>Capital Assets (net of accumulated depreciation):</i>			
<i>Land</i>	1,075,866	339,036	1,414,902
<i>Buildings and System</i>	8,526,433	1,592,023	10,118,456
<i>Machinery and Equipment</i>	2,592,405	651,888	3,244,293
<i>Infrastructure</i>	1,274,393	34,037,080	35,311,473
<i>Accumulated Depreciation</i>	--	(5,346,373)	(5,346,373)
Total Assets	<u>20,911,131</u>	<u>34,661,401</u>	<u>55,572,532</u>
 LIABILITIES:			
<i>Accounts Payable and Other Current Liabilities</i>	115,531	14,362	129,893
<i>Accrued Wages Payable</i>	161,363	32,298	193,661
<i>Accrued Interest Payable</i>	70,035	108,885	178,920
<i>Unearned Revenue</i>	244,040	8,255	252,295
<i>Liabilities Payable from Restricted Assets</i>	--	331,628	331,628
<i>Noncurrent Liabilities-</i>			
<i>Due within one year</i>	494,843	768,689	1,263,532
<i>Due in more than one year</i>	7,575,730	20,657,753	28,233,483
Total Liabilities	<u>8,661,542</u>	<u>21,921,870</u>	<u>30,583,412</u>
 NET POSITION:			
<i>Net Investment in Capital Assets</i>	5,398,524	9,847,212	15,245,736
<i>Restricted For:</i>			
<i>Debt Service</i>	418,416	--	418,416
<i>Capital Projects</i>	711,394	--	711,394
<i>Unrestricted</i>	5,721,255	2,892,319	8,613,574
Total Net Position	<u>\$ 12,249,589</u>	<u>\$ 12,739,531</u>	<u>\$ 24,989,120</u>

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, 2014

Functions/Programs	Expenses	Program Revenues	
		Charges for Services	Operating Grants and Contributions
PRIMARY GOVERNMENT:			
Governmental Activities:			
General Government	\$ 1,530,897	\$ 833,121	\$ --
Public Safety	3,165,442	899,890	758,221
Judicial	136,927	150,692	--
Streets and Lighting	182,206	--	--
Public Works	979,914	--	--
Culture, Recreation & Parks	316,814	--	--
Library	237,268	--	--
Urban Redevelopment and Housing	316,895	--	--
Economic Development and Assistance	841,154	--	--
Interest on Long-term Debt	693,679	--	--
Fiscal Agent Fees	29,993	--	--
Total Governmental Activities	<u>8,431,189</u>	<u>1,967,115</u>	<u>758,221</u>
Business-type Activities:			
Water, Sewer, & Sanitation	3,537,191	4,929,778	--
Total Business-type Activities	<u>3,537,191</u>	<u>4,929,778</u>	<u>--</u>
Total Primary Government	<u>\$ 11,968,380</u>	<u>\$ 6,896,893</u>	<u>\$ 758,221</u>

General Revenues:
Property Taxes
Sales Taxes
Grants and Contributions Not Restricted to Specific Programs
Investment Earnings
Miscellaneous Revenues
Transfers
 Total General Revenues and Transfers
 Change in Net Assets
 Net Assets - Beginning
 Net Assets - Ending

The accompanying notes are an integral part of this statement.

Net (Expense) Revenue and Changes in Net Position

<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
\$ (697,776)		\$ (697,776)
(1,507,331)		(1,507,331)
13,765		13,765
(182,206)		(182,206)
(979,914)		(979,914)
(316,814)		(316,814)
(237,268)		(237,268)
(316,895)		(316,895)
(841,154)		(841,154)
(693,679)		(693,679)
(29,993)		(29,993)
<u>(5,705,853)</u>		<u>(5,705,853)</u>
--	\$ 1,392,587	1,392,587
--	<u>1,392,587</u>	<u>1,392,587</u>
<u>(5,705,853)</u>	<u>1,392,587</u>	<u>(4,313,266)</u>
3,407,891	--	3,407,891
4,276,271	--	4,276,271
116,506	--	116,506
4,854	1,947	6,801
93,219	--	93,219
<u>1,243,334</u>	<u>(1,243,334)</u>	<u>--</u>
<u>9,142,075</u>	<u>(1,241,387)</u>	<u>7,900,688</u>
3,436,133	151,200	3,587,333
8,813,456	12,588,331	21,401,787
<u>\$ 12,249,589</u>	<u>\$ 12,739,531</u>	<u>\$ 24,989,120</u>

CITY OF RIO GRANDE CITY, TEXAS
BALANCE SHEET - GOVERNMENTAL FUNDS
SEPTEMBER 30, 2014

	General Fund	Economic Development Corporation	Other Governmental Funds	Total Governmental Funds
ASSETS AND OTHER DEBITS				
Assets:				
<i>Cash and Cash Equivalents</i>	\$ 1,832,806	\$ 526,726	\$ 2,547,132	\$ 4,906,664
<i>Investments</i>	264,889	1,482,525	39,838	1,787,252
<i>Receivables (net of allowances for uncollectibles):</i>	302,485	71,993	373,637	748,115
<i>Due from Other Funds</i>	189,578	57,577	508	247,663
Total Assets and Other Debits	<u>\$ 2,589,758</u>	<u>\$ 2,138,821</u>	<u>\$ 2,961,115</u>	<u>\$ 7,689,694</u>
LIABILITIES AND FUND BALANCES:				
Liabilities:				
<i>Accounts Payable</i>	\$ 79,479	\$ 3,937	\$ 32,115	\$ 115,531
<i>Accrued Wages Payable</i>	161,363	--	--	161,363
<i>Due to Other Funds</i>	508	809	246,346	247,663
<i>Accrued Interest Payable</i>	--	--	70,035	70,035
Total Liabilities	<u>241,350</u>	<u>4,746</u>	<u>348,496</u>	<u>594,592</u>
DEFERRED INFLOWS OF RESOURCES				
<i>Unavailable Revenue-Property Taxes</i>	163,808	--	80,232	244,040
Total Deferred Inflows of Resources	<u>163,808</u>	<u>--</u>	<u>80,232</u>	<u>244,040</u>
Fund Balances:				
Restricted Fund Balances:				
<i>Federal or State Funds Grant Restriction</i>	--	--	375,860	375,860
<i>Restricted for Debt Service</i>	--	--	88,416	88,416
<i>Assigned</i>	--	2,134,075	296,557	2,430,632
Committed				
<i>Construction</i>	--	--	1,771,554	1,771,554
<i>Unassigned Fund Balance</i>	2,184,600	--	--	2,184,600
Total Fund Balance	<u>2,184,600</u>	<u>2,134,075</u>	<u>2,532,387</u>	<u>6,851,062</u>
Total Liabilities and Fund Balance	<u>\$ 2,589,758</u>	<u>\$ 2,138,821</u>	<u>\$ 2,961,115</u>	<u>\$ 7,689,694</u>

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 POSITION
SEPTEMBER 30, 2014

Total fund balances - governmental funds balance sheet	\$ 6,851,062
Amounts reported for governmental activities in the Statement of Net Position are different because:	
Capital assets used in governmental activities are not reported in the funds.	13,469,100
Payables for bond principal which are not due in the current period are not reported in the funds.	(7,355,000)
Payables for capital leases which are not due in the current period are not reported in the funds.	(523,817)
Payables for notes which are not due in the current period are not reported in the funds.	<u>(191,756)</u>
Net position of governmental activities - Statement of Net Position	\$ <u>12,249,589</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, 2014**

	General Fund	Economic Development Corporation	Other Governmental Funds	Total Governmental Funds
Revenue:				
Taxes:				
General Property Taxes	\$ 2,890,002	\$ --	\$ 592,324	\$ 3,482,326
General Sales and Use Taxes	2,839,440	1,436,831	--	4,276,271
Beveerage Taxes	8,503	--	--	8,503
Other Taxes - Franchise Taxes	648,972	--	15,267	664,239
Penalty and Interest on Deliquent Taxes	61,525	--	--	61,525
License and Permits	75,849	--	--	75,849
Intergovernmental	241,232	--	701,639	942,871
Charges for Services	108,300	--	2,905	111,205
Fines and Forfeitures	150,692	--	899,890	1,050,582
Investment Earnings	1,405	1,552	1,896	4,853
Rents and Royalties	23,045	--	--	23,045
Miscellaneous Revenues	69,092	10,249	13,878	93,219
Total revenues	<u>7,118,057</u>	<u>1,448,632</u>	<u>2,227,799</u>	<u>10,794,488</u>
Expenditures:				
Current:				
General Government	1,441,362	--	89,534	1,530,896
Public Safety	3,029,907	--	616,037	3,645,944
Judicial	136,927	--	--	136,927
Highways and Streets	182,206	--	--	182,206
Public Works	979,914	--	--	979,914
Culture, Recreation & Parks	316,814	--	--	316,814
Library	237,268	--	--	237,268
Conservation and Development	316,895	--	--	316,895
Economic Development and Assistance	--	825,350	15,804	841,154
Debt Service:				
Principal	150,726	--	373,867	524,593
Interest and Fiscal Charges	19,023	--	611,370	630,393
Fiscal Agent's Fees	--	--	29,993	29,993
Capital Outlay:				
Capital Outlay	--	--	1,750,479	1,750,479
Total Expenditures	<u>6,811,042</u>	<u>825,350</u>	<u>3,487,084</u>	<u>11,123,476</u>
Excess (Deficiency) of Revenues				
Over (Under) Expenditures	<u>307,015</u>	<u>623,282</u>	<u>(1,259,285)</u>	<u>(328,988)</u>
Other Financing Sources (Uses):				
Operating Transfers In	755,834	35,000	755,945	1,546,779
Operating Transfers Out	(3,244)	(235,201)	(65,000)	(303,445)
Other Financing Sources	--	--	1,930,000	1,930,000
Capital Leases	509,813	--	--	509,813
Total Other Financing Sources (Uses)	<u>1,262,403</u>	<u>(200,201)</u>	<u>2,620,945</u>	<u>3,683,147</u>
Net Change in Fund Balances	1,569,418	423,081	1,361,660	3,354,159
Fund Balances - Beginning	615,182	1,710,994	1,170,727	3,496,903
Fund Balances - Ending	<u>\$ 2,184,600</u>	<u>\$ 2,134,075</u>	<u>\$ 2,532,387</u>	<u>\$ 6,851,062</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, 2014*

Net change in fund balances - total governmental funds	\$ 3,354,159
Amounts reported for governmental activities in the Statement of Activities ("SOA") are different because:	
Capital outlays are not reported as expenses in the SOA.	2,086,873
The depreciation of capital assets used in governmental activities is not reported in the funds.	(517,577)
Certain property tax revenues are deferred in the funds. This is the change in these amounts this year.	(170,503)
Repayment of bond principal is an expenditure in the funds but is not an expense in the SOA.	949,498
Repayment of capital lease principal is an expenditure in the funds but is not an expense in the SOA.	131,307
Repayment of loan principal is an expenditure in the funds but is not an expense in the SOA.	42,189
Proceeds of bonds do not provide revenue in the SOA, but are reported as current resources in the funds.	(1,930,000)
Proceeds of leases do not provide revenue in the SOA, but are reported as current resources in the funds.	(509,813)
Change in net position of governmental activities - Statement of Activities	\$ <u>3,436,133</u>

The accompanying notes are an integral part of this statement.

CITY OF RIO GRANDE CITY, TEXAS**STATEMENT OF NET POSITION****ENTERPRISE FUND****SEPTEMBER 30, 2014**

	Enterprise Fund Water, Sewer & Sanitation Fund
ASSETS:	
Current Assets:	
<i>Cash and Cash Equivalents</i>	\$ 1,761,004
<i>Investments</i>	805,408
<i>Receivables (net of allowances for uncollectibles):</i>	806,042
<i>Inventories</i>	15,293
Total Current Assets	<u>3,387,747</u>
Noncurrent Assets:	
Restricted Cash, Cash Equivalents and Investments-	
Capital Assets: (net of accumulated depreciation)	
<i>Land</i>	339,036
<i>Infrastructure</i>	34,037,080
<i>Buildings</i>	1,592,023
<i>Machinery and Equipment</i>	651,888
<i>Accumulated Depreciation</i>	<u>(5,346,373)</u>
Total Noncurrent Assets	31,273,654
Total Assets	<u>\$ 34,661,401</u>
LIABILITIES:	
Current Liabilities:	
<i>Accounts payable</i>	\$ 14,362
<i>Accrued Wages Payable</i>	32,298
<i>Accrued interest payable</i>	108,885
<i>Deferred revenue</i>	8,255
Total Current Liabilities	<u>163,800</u>
Current Liabilities Payable from Restricted Assets-	
<i>Customer Deposits</i>	<u>331,628</u>
Total Current Liabilities Payable	
From Restricted Assets	<u>331,628</u>
Noncurrent Liabilities:	
<i>Due within one year</i>	768,689
<i>Due in more than one year</i>	20,657,753
Total Noncurrent Liabilities	<u>21,758,070</u>
Total Liabilities	<u>21,921,870</u>
NET ASSETS:	
Net Investment in Capital Assets	9,847,212
Unrestricted Net Position	2,892,319
Total Net Assets	<u>\$ 12,739,531</u>

CITY OF RIO GRANDE CITY, TEXAS

STATEMENT OF REVENUES, EXPENSES, AND CHANGES
IN FUND NET POSITION - ENTERPRISE FUND
FOR THE YEAR ENDED SEPTEMBER 30, 2014

	Enterprise Fund Water, Sewer & Sanitation Fund
OPERATING REVENUES:	
Charges for Sales and Services:	
<i>Water Sales</i>	\$ 3,381,547
<i>Sewer Charges</i>	1,491,455
<i>Sanitation Charges</i>	44,793
<i>Other Services</i>	13,930
Total Operating Revenues	<u>4,931,725</u>
OPERATING EXPENSES:	
Billings and Collections	
<i>Personal Services - Salaries and Wages</i>	109,872
<i>Other Purchased Services</i>	53,587
<i>Supplies</i>	47,986
Total Billings and Collections	<u>211,445</u>
Water System	
<i>Personal Services - Salaries and Wages</i>	184,487
<i>Other Purchased Services</i>	240,095
<i>Supplies</i>	194,035
Total Water System	<u>618,617</u>
Sewer System	
<i>Personal Services - Salaries and Wages</i>	40,721
<i>Purchased Professional and Technical Services</i>	113,303
<i>Other Purchased Services</i>	228,696
Total Sewer System	<u>382,720</u>
Water Plant #1	
<i>Personal Services - Salaries and Wages</i>	226,551
<i>Other Purchased Services</i>	295,705
<i>Supplies</i>	110,725
Total Water Plant #1	<u>632,981</u>
Water Distribution	
<i>Personal Services - Salaries and Wages</i>	278,989
<i>Other Purchased Services</i>	231,692
<i>Supplies</i>	78,831
Total Water Distribution	<u>589,512</u>
Sewer Collection	
<i>Personal Services - Salaries and Wages</i>	20,720
<i>Purchased Professional and Technical Services</i>	16,213
<i>Other Purchased Services</i>	15,287
Total Sewer Collection	<u>52,220</u>
Solid Waste Billing	
<i>Personal Services - Salaries and Wages</i>	25,576
<i>Other Purchased Services</i>	3,299
<i>Supplies</i>	8,317
<i>Depreciation Expense</i>	638,239
Total Solid Waste Billing	<u>675,431</u>
Total Operating Expenses	<u>3,389,857</u>
Operating Income	<u>1,541,868</u>
NON-OPERATING REVENUES (EXPENSES):	
<i>Interest Expense</i>	(147,334)
Total Non-operating Revenues (Expenses)	<u>(147,334)</u>
Income before Transfers	1,394,534
Interfund Operating Transfers In	--
Interfund Operating Transfers Out	(1,243,334)
Change in Net Assets	<u>151,200</u>
Total Net Assets - Beginning	12,588,331
Total Net Assets - Ending	<u>\$ 12,739,531</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, 2014

	Enterprise Funds	
	Major Fund	Totals
Cash Flows from Operating Activities:		
<i>Cash Received from User Charges</i>	\$ 5,279,061	\$ 5,279,061
<i>Operating Transactions with Other Funds</i>	--	--
<i>Cash Payments to Employees for Services</i>	(886,916)	(886,916)
<i>Cash Payments to Other Suppliers for Goods and Services</i>	(2,011,727)	(2,011,727)
<i>Other Operating Cash Receipts (Payments)</i>	--	--
Net Cash Provided (Used) by Operating Activities	<u>2,380,418</u>	<u>2,380,418</u>
Cash Flows from Non-capital Financing Activities:		
<i>Transfers From (To) Primary Government</i>	--	--
<i>Transfers From (To) Other Funds</i>	(1,243,334)	(1,243,334)
Net Cash Provided (Used) by Non-capital Financing Activities	<u>(1,243,334)</u>	<u>(1,243,334)</u>
Cash Flows from Capital and Related Financing Activities:		
<i>Principal and Interest Paid</i>	(970,510)	(970,510)
<i>Acquisition or Construction of Capital Assets</i>	--	--
<i>Acquisition of Capital Assets</i>	(135,069)	(135,069)
<i>Contributed Capital</i>	--	--
Net Cash Provided (Used) for Capital & Related Financing Activities	<u>(1,105,579)</u>	<u>(1,105,579)</u>
Cash Flows from Investing Activities:		
<i>Purchase of Investment Securities</i>	--	--
<i>Proceeds from Sale and Maturities of Securities</i>	63,730	63,730
<i>Interest and Dividends on Investments</i>	--	--
Net Cash Provided (Used) for Investing Activities	<u>63,730</u>	<u>63,730</u>
Net Increase (Decrease) in Cash and Cash Equivalents	95,235	95,235
Cash and Cash Equivalents at Beginning of Year	1,665,769	1,665,769
Cash and Cash Equivalents at End of Year	<u>\$ 1,761,004</u>	<u>\$ 1,761,004</u>
Reconciliation of Operating Income to Net Cash Provided by Operating Activities:		
Operating Income (Loss)	\$ 1,541,868	\$ 1,541,868
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities		
<i>Depreciation</i>	638,239	638,239
Change in Assets and Liabilities:		
<i>Decrease (Increase) in Receivables</i>	347,336	347,336
<i>Increase (Decrease) in Accounts Payable</i>	(257,475)	(257,475)
<i>Increase (Decrease) in Interfund Payables</i>	9,482	9,482
<i>Increase (Decrease) in Accrued Expenses</i>	100,968	100,968
<i>Increase (Decrease) in Unearned Revenue</i>	--	--
Total Adjustments	<u>838,550</u>	<u>838,550</u>
Net Cash Provided (Used) by Operating Activities	<u>\$ 2,380,418</u>	<u>\$ 2,380,418</u>

The accompanying notes are an integral part of this statement.

CITY OF RIO GRANDE CITY, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED SEPTEMBER 30, 2014

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The combined financial statements of the City of Rio Grande City, Texas (the "City") have been prepared in conformity with 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 settling body for establishing governmental accounting and financial reporting principles.

A. REPORTING ENTITY

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

The 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 that 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, its component units, or its constituents; and 2) The 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.

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

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

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

B. GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

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

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

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

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

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

C. MEASUREMENT FOCUS, BASIS OF ACCOUNTING, AND FINANCIAL STATEMENT PRESENTATION

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

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

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

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

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

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

On October 1, 2012, the District adopted GASB Statement No. 63 *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position* and early implemented GASB Statement No. 65 *Items Previously Reported As Assets and Liabilities* as encouraged by GASB. As a result of the adoption of these new accounting standards, a restatement of beginning net position at the government-wide level financial statements was required.

GASB Statement No. 63 provides financial guidance for reporting deferred outflows, deferred inflows of resources, and net position in a statement of financial position and related disclosures. Deferred outflows of resources are defined as a consumption of net assets by a government that is applicable to a future reporting period and deferred inflows of resources are defined as an acquisition of net assets by a government that is applicable to a future reporting period. Net position is defined as the residual of all other elements presented in a statement of financial position, being measured as the difference between (a) assets and deferred resources and (b) liabilities and deferred inflows of resources.

GASB Statement No. 65 establishes accounting and financial reporting that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities. This statement also provides other financial reporting guidance related to the impact of the financial statement elements deferred outflows of resources and deferred inflows of resources, such as changes in the determination of the major fund calculations and limiting the use of the term "deferred" in financial statement presentations.

D. FUND ACCOUNTING

The City reports the following major governmental funds:

1. **The General Fund** – The general fund is the City's primary operating fund. It accounts for all financial resources except those required to be accounted for in another fund.
2. **The Economic Development Corporation Fund** – This fund is a special revenue fund to account for the ½ cent sales and use tax for economic and industrial development. Since the sales and use tax is approved specifically for such expenditures, the EDC fund is considered a Special Revenue Fund.

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

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

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

Governmental Funds:

1. **Special Revenue Funds** – The City accounts for resources restricted to, or designated for, specific purposes by the City or a grantor in a special revenue fund. Most Federal and some State financial assistance is accounted for in a Special Revenue Fund, and sometimes unused balances must be returned to the grantor at the close of specified project periods.
2. **Permanent Funds** – The City accounts for donations for which the donor has stipulated that the principal may not be expended and where the income may only be used for purposes that support the City's programs. The City has no Permanent Funds.
3. **Water Projects Fund** – This fund is a capital projects fund. It is used to account for the proceeds from long-term debt financing and revenues and expenditures related to authorized construction and other capital asset acquisitions.
4. **Capital Projects Fund** – This fund is a capital projects fund. It is used to account for the proceeds from long-term debt financing and revenues and expenditures related to authorized construction and other capital asset acquisitions.
5. **Debt Service Funds** – The City accounts for resources accumulated and payments made for principal and interest on long-term general obligation debt of governmental funds in a debt service fund.

Proprietary Funds:

4. **Enterprise Funds** – The City's activities for which outside users are charged a fee roughly equal to the cost of providing the goods or services of those activities are accounted for in an enterprise fund. The City's only Enterprise Fund(s) is the Public Utilities Department.
5. **Internal Service Funds** – Revenues and expenses related to services provided to organizations inside the City on a cost reimbursement basis are accounted for in an internal service fund. The City has no internal service funds.

Fiduciary Funds:

6. **Private Purpose Trust Funds** – The City accounts for donations for which the donor has stipulated that both the principal and the income may be used for purposes that benefit parties outside the City. The City has no Private Purpose Trust Funds.
7. **Agency Funds** – The City accounts for resources held for others in a custodial capacity in agency funds. The City has no Agency Funds.

E. OTHER ACCOUNTING POLICIES

1. For purposes of the statement of cash flows for proprietary funds, the City considers highly liquid investments to be cash equivalents if they have a maturity of three months or less when purchased.
2. In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

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

3. It is the City's policy to permit some employees to accumulate earned but unused vacation and sick pay benefits. There is a liability for unpaid accumulated vacation leave since the City does have a policy to pay any amounts when employees separate from service with the City. All vacation pay is accrued when incurred in the government-wide, proprietary, and fiduciary fund financial statements. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations and retirements.
4. Capital assets, which include land, buildings, furniture and equipment [and infrastructure assets] are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the City as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

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

Buildings, furniture and equipment of the City are depreciated using the straight line method over the following estimated useful lives. The estimated lives range from 3 to 15 years for equipment, 2 to 15 years for vehicles, 30 years for infrastructure, 20 years for improvements, and 50 years for buildings.

5. Restricted Assets-Certain proceeds of enterprise fund revenue bonds, as well as certain resources set aside for their repayment, are classified as restricted assets on the balance sheet because their use is limited by applicable bond covenants.
6. Deferred revenues are those for which asset recognition criteria have been met, but for which revenue recognition criteria have not been met. Monies collected in advance from federal or state agencies are recorded as revenue in the year for which the expenditures are incurred.
7. When the City incurs an expense for which it may use either restricted or unrestricted assets, it uses the restricted assets first whenever they will have to be returned if they are not used.
8. Encumbrances-The City of Rio Grande City, Texas, employs encumbrance accounting; under which purchase order, contracts, and other commitments for the expenditure of monies are recorded in order to reserve that portion of the applicable appropriation.
9. The City adopted GASB 54 as part of its 2010-11 fiscal year reporting. Implementation of GASB 54 is required for all cities for their fiscal year ending 2012. The intention of GASB 54 is to provide a more structured classification of fund balance and to improve the usefulness of fund balance reporting to the users of the City's financial statements. The reporting standard establishes a hierarchy for fund balance classifications and the constraints imposed on the uses of those resources. GASB 54 provides for two major types of fund balances, which are nonspendable and spendable.

Nonspendable fund balances are balances that cannot be spent because they are not expected to be converted to cash or they are legally or contractually required to remain intact. Examples of these classifications are prepaid items and inventories.

In addition to the nonspendable fund balance, GASB 54 has provided a hierarchy of spendable fund balances, based on hierarchy of spending constraints.

- Restricted: fund balances that are constrained by external parties, constitutional provisions, or enabling legislation.
- Committed: fund balances that contain self-imposed constraints of the government from its highest level of decision making authority. The responsibility to commit funds rests with the City Commissioners. Committed amounts cannot be used for any other purpose unless the governing board removes those constraints by taking the same type of formal action.
- Assigned: fund balances that contain self-imposed constraints of the government to be used for a particular purpose.
- Unassigned: fund balance of the general fund that is not constrained for any particular purpose.

When the City incurs an expense for which it may use either restricted or unrestricted assets, it used the restricted assets first whenever they will have to be returned if they are not used.

II. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

A. BUDGETARY DATA

The City Council adopts an "appropriated budget" for the General Fund and the Economic Development Corporation (EDC) Special Revenue Fund. In accordance with Government Accounting Standards Board (GASB) Statement#34, a City is required to present the adopted and final amended budgeted revenues and expenditures for the General Fund. The City compares the final amended budget to actual revenues and expenditures. Budget information appears in Exhibits E-1 and E-2.

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

1. Prior to October 1, the City prepares a budget for the next succeeding fiscal year beginning October 1. The operating budget includes proposed expenditures and the means of financing them.
2. A meeting of the City Council is then called for the purpose of adopting the proposed budget. At least ten days' public notice of the meeting must be given.
3. Prior to October 1, the budget is legally enacted through passage of an ordinance by the Council. Once a budget is approved, it can only be formally amended by approval of a majority of the members of the Council. Amendments are presented to the Council at its regular meetings. Each amendment must have Council approval. As required by law, such amendments are made before the fact, and are reflected in the official minutes of the Council, and are not made after fiscal year end. No budget amendments occurred in 2013.
4. Budgeted amounts are as amended by the Council. All budget appropriations lapse at year end.

B. EXCESS OF EXPENDITURES OVER APPROPRIATIONS

General Fund expenditures exceeded appropriations by the amount(s) noted below;

<u>Functional Category</u>	<u>Amount</u>
General Government	\$ (364,360)
Judicial	(2,436)
Public Safety	(166,146)
Library	(2,872)

III. DETAILED NOTES ON ALL FUNDS AND ACCOUNT GROUPS

A. DEPOSITS AND INVESTMENTS

The funds of the City must be deposited and invested under the terms of a contract, contents of which are set out in the Depository Contract Law. The depository bank places approved pledged securities for safekeeping and trust with the City's agent bank in an amount sufficient to protect 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.

At September 30, 2014, the carrying amount of the City's deposits (cash and interest-bearing savings accounts included in temporary investments) was \$ 9,260,331 and the bank balance was \$9,641,414. The City's cash deposits at September 30, 2014 and during the year ended September 30, 2014 were entirely covered by FDIC insurance or by pledged collateral held by the City's agent bank in the City's name.

The Public Funds Investment Act (Government Code Chapter 2256) contains specific provisions in the areas of investment practices, management reports and establishment of appropriate policies. Among other things, it requires the City to adopt, implement, and publicize an investment policy. That policy must address the following areas: (1) safety of principal and liquidity, (2) portfolio diversification, (3) allowable investments, (4) acceptable risk levels, (5) expected rates of return, (6) maximum allowable stated maturity of portfolio investments, (7) maximum average dollar-weighted maturity allowed based on the stated maturity date for the portfolio, (8) investment staff quality and capabilities, (9) and bid solicitation preferences for certificates of deposit. Statutes authorize the City to invest in (1) obligations of the U.S. Treasury, certain U.S. agencies, and the State of Texas; (2) certificates of deposit, (3) certain municipal securities, (4) money market savings accounts, (5) repurchase agreements, (6) bankers acceptances, (7) Mutual Funds, (8) Investment pools, (9) guaranteed investment contracts, (10) and common trust funds.

The Act also requires the City to have independent auditors perform test procedures related to investment practices as provided by the Act. The City is in substantial compliance with the requirements of the Act and with local policies.

As of September 30, 2014, the City had the following investments;

Investment Type	Fair Value	Investment Maturities (in years)			
		Less than 1	1-5	6-10	More than 10
General Fund:					
Tex-Pool	\$ 65	\$ 65			
Logic Money Market	264,824	264,824			
Total-General Fund	264,889	264,889	-	-	-
Special Revenues Funds:					
Logic Money Market	1,482,525	1,482,525			
Total-Special Revenue Fund	1,482,525	1,482,525	-	-	-
Capital Projects Funds:					
LogicMoney Market	39,838	39,838			
Total-Capital Projects Funds	39,838	39,838	-	-	-
Subtotal-Governmental Type	1,787,252	1,787,252	-	-	-
Enterprise Fund:					
Texpool Money Market	759	759			
Bank of New York Money Market	284,366	284,366			
Logic Money Market	520,283	520,283			
Total-Enterprise Fund	805,408	805,408	-	-	-
Subtotal-Proprietary Type	805,408	805,408	-	-	-
Total-All Fund Types	\$ 2,592,660	\$ 2,592,660	\$ -	\$ -	\$ -

Credit Risk To limit the risk that an issuer or other counterparty to an investment will not fulfill its obligations the City limits investments to Certificates of Deposits, Public Funds Investment Pools and Guaranteed Investment Contracts, collateralized by U.S. Government Securities. As of September 30, 2014, the city's investments were secured by U.S. Government Securities.

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

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

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

B. PROPERTY TAXES

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

C. DELINQUENT TAXES RECEIVABLE

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

D. INTERFUND BALANCES

Balances due to and due from other funds at September 30, 2014 consisted of the following:

Due From Fund	Due To Fund	Amount	Purpose
General Fund	Special Revenue Funds	\$ 189,578	Short-term loans
Special Revenue Funds	General Fund	508	Short-term loans
Special Revenue Funds	Special Revenue Funds	57,577	Short-term loans
Capital Projects Fund	General Fund	-	Short-term loans
	Total	\$ 247,663	

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

Transfers to and from other funds during the year ended September 30, 2014 consisted of the following:

Transfers From	Transfers To	Amount	Reason
Public Utility Fund	General Fund	\$ 499,640	Supplemental other funds sources
Public Utility Fund	Debt Service Fund	637,500	Supplemental other funds sources
Public Utility Fund	Capital Projects Fund	105,000	Supplemental other funds sources
Public Utility Fund	Special Revenues Funds	1,194	Supplemental other funds sources
Special Revenue Funds	General Fund	252,950	Supplemental other funds sources
Special Revenue Funds	Special Revenues Funds	50,495	Supplemental other funds sources
	Total	\$ 1,546,779	

E. CAPITAL ASSET ACTIVITY

Capital asset activity for the City for the year ended September 30, 2014, was as follows:

	Primary Government			
	Beginning Balance	Additions	Retirements & Adjustments	Ending Balance
Governmental Activities:				
Land	\$ 1,075,865	\$ -	\$ -	\$ 1,075,865
Buildings	3,427,861	-	-	3,427,861
Furniture and Equipment	3,881,475	823,502	-	4,704,977
Infrastructure	5,812,656	6,940,273	-	12,752,929
Construction in Progress	5,679,904	-	5,679,904	-
Totals at Historic Cost	19,877,761	7,763,775	5,679,904	21,961,632
Less Accumulated Depreciation:				
Total Accumulated Depreciation	(7,977,958)	(514,577)	-	(8,492,535)
Governmental Activities Capital Assets, Net	\$ 11,899,803	\$ 7,249,198	\$ 5,679,904	\$ 13,469,097
Business-type Activities:				
Land	\$ 339,035	\$ -	\$ -	\$ 339,035
Buildings and Improvements	1,583,800	8,223	-	1,592,023
Furniture and Equipment	525,041	126,847	-	651,888
Infrastructure	34,037,080	-	-	34,037,080
Totals at Historic Cost	36,484,956	135,070	-	36,620,026
Less Accumulated Depreciation:				
Total Accumulated Depreciation	(4,708,134)	(638,239)	-	(5,346,373)
Business-type Activities Capital Assets, Net	\$ 31,776,822	\$ (503,169)	\$ -	\$ 31,273,653

Depreciation expense was charged to governmental functions as follows:

General Government	\$ 205,347
Judicial	6,729
Public Safety	188,796
Public Works	35,326
Economic Development	35,277
Conservation & Development	15,069
Culture & Recreation	15,277
Libraries	<u>12,756</u>
Total Depreciation Expense	<u>\$ 514,577</u>

F. BONDS AND OTHER LONG-TERM PAYABLES

At September 30, 2014, long-term debt consisted of the following:

General Long Term Debt:

Capital Project Bonds Payable:

\$6,500,000 Combination Tax & Limited Pledge Revenue Certificates of Obligation
due in annual installments ranging from \$190,000 to \$510,000
from 03-15-11 through 2030; interest estimated at 5.34% \$ 5,495,000

\$1,930,000 Combination Tax & Revenue Certificates of Obligation
due in annual installments ranging from \$70,000 to \$145,000
from 02-15-14 through 2033; interest estimated at .67% to 5.29% \$ 1,860,000

Subtotal- Bonds Payable \$ 7,355,000

Capital lease obligations payable at September 30, 2014 are as follows:

Capital lease payable to Schertz Bank & Trust dated 12-15-13,
payable in 84 monthly installments of \$747 including interest
at 3.92%, secured by (1) Crack Filler Machine; Original Amt \$54,830.60 \$ 49,063

Capital lease payable to Kansas State Bank dated 12-20-13,
payable in 7 annual installments of \$44,959 including interest
at 3.19%, secured by (2) Dump Trucks and (1) Backhoe; Original Amt \$286,986.04 \$ 242,027

Capital lease payable to Kansas State Bank dated 01-27-14,
payable in 14 annual installments of \$43,867 including interest
at 2.98%, secured by COPSync Hardware/Software; Original Amt \$167,996.30 \$ 124,130

Capital lease payable to Kansas State Bank dated 07-10-12,
payable in 7 annual installments of \$29,284 including interest
at 3.098%, secured by (1) TYMCO Street Sweeper \$ 108,598

Subtotal-Capital Lease Payable \$ 523,818

Notes Payable:

Note payable to Lone Star National Bank dated 2/04/08, payable in 35 monthly
payments of \$2,190 including interest of 6.00%, with remaining balance due at
maturity, secured by real estate 22,031

Note payable to Lone Star National Bank dated 2/04/08, payable in 35 monthly
payments of \$2,276 including interest of 6.00%, with remaining balance due at
maturity, secured by real estate 169,724

Subtotal-Notes Payable \$ 191,755

Total General Long Term Debt \$ 8,070,573

Enterprise Long Term Debt:
Revenue Bonds Payable:

\$2,885,000 2007A Combination Tax and Revenue Certificates of Obligation due in annual installments ranging from \$140,000 to \$145,000 from 02-15-11 through 2030; interest at 0.0%	\$2,320,000
\$12,200,000 2007B Combination Tax and Revenue Certificates of Obligation due in annual installments ranging from \$100,000 to \$430,000 from 02-15-11 through 2040; interest at 0.0%	11,045,000
\$8,700,000 2007C Combination Tax and Revenue Certificates of Obligation due in annual installments ranging from \$145,000 to \$545,000 from 02-15-11 through 2040; interest 2.5% to 5.25%	7,250,000
\$173,000 1996 Waterworks and Sewer System Revenue Serial Bonds due in annual installments ranging from \$5,000 to \$15,000 from 07-10-02 through 2016; interest at 5.69% to 6.74%	29,000
\$811,000 1996A Waterworks and Sewer System Revenue Serial Bonds due in annual installments ranging from \$8,000 to \$46,000 from 07-10-02 through 2035; interest at 5.125%	<u>617,000</u>
Subtotal- Revenue Bonds Payable	<u>\$21,261,000</u>
<u>Capital Leases:</u>	
Capital lease payable to Schertz Bank dated 04-03-13, payable in 84 monthly installments of \$2,738.71 including interest at 2.69%, secured by a sewer cleaning truck	<u>165,442</u>
Subtotal- Capital Leases Payable	<u>\$165,442</u>
Total Enterprise Long Term Debt	<u>\$21,426,442</u>
Total Long-Term Debt	<u>\$29,497,017</u>

There are a number of limitations and restrictions contained in the revenue bond indenture. Management has indicated that the City is in compliance with all significant limitations and restrictions at September 30, 2014.

G. DEBT SERVICE REQUIREMENTS

Debt service requirements for long-term debt are as follows:

Year Ending September 30	Capital Leases		Note Payable		Bonds Payable	
	Principal	Interest	Principal	Interest	Principal	Interest
2015	139,189	20,755	49,344	2,961	1,121,000	698,659
2016	143,448	16,497	27,312	1,639	1,108,000	681,432
2017	147,032	12,913	27,312	1,639	1,124,000	664,638
2018	106,863	9,216	27,312	1,639	1,135,000	646,641
2019	50,613	8,937	60,477	3,629	1,156,000	627,546
2020-2024	102,118	-	-	-	6,146,000	2,743,544
2025-2029	-	-	-	-	6,940,000	1,981,839
2030-2034	-	-	-	-	5,255,000	1,099,710
2035-2039	-	-	-	-	4,216,000	461,638
2040-2044	-	-	-	-	415,000	14,407
Total	\$ 689,263	\$ 68,318	\$ 191,757	\$ 11,507	\$ 28,616,000	\$ 9,620,054

H. CHANGES IN LONG-TERM LIABILITIES

Long-term activity for the year ended September 30, 2014, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental Activities:					
Bonds and Other Payable:					
Capital Leases	\$ 145,311	\$ 509,813	\$ 131,307	\$ 523,817	\$ 110,500
Bonds Payable	6,374,398	1,930,000	949,398	7,355,000	335,000
Notes Payable	233,955	-	42,199	191,756	49,343
Total Bonds and Other Payables	<u>6,753,664</u>	<u>2,439,813</u>	<u>1,122,904</u>	<u>8,070,573</u>	<u>494,843</u>
Total Governmental Activities Long-term Liabilities	<u>6,753,664</u>	<u>2,439,813</u>	<u>1,122,904</u>	<u>8,070,573</u>	
Business-type Activities:					
Bonds and Other Payable:					
Capital Leases	229,618	-	64,176	165,442	28,689
Revenue Bonds Payable	22,020,000	-	759,000	21,261,000	740,000
Total Bonds and Other Payable	<u>\$ 22,249,618</u>	<u>\$ -</u>	<u>\$ 823,176</u>	<u>\$ 21,426,442</u>	<u>\$ 768,689</u>

I. DEFERRED REVENUE (UNAVAILABLE REVENUE)

Deferred revenue at year-end represents amounts not available in the current reporting period. Items include uncollected property taxes, and other funds set aside for future years.

J. COMMITMENTS AND CONTINGENCIES

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

Federal and State Funds -The City has received federal and state funds as grants and other financial

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

K. RISK MANAGEMENT

The City is exposed to various risks of loss related to torts, theft, damage, or destruction of assets, errors and omissions, injuries to employees, and natural disasters. During fiscal year 2009, the city has maintained general liability coverage at a cost that is considered to be economically justifiable by joining together with other governmental entities in the State as a member of the Texas Municipal League Intergovernmental Risk Pool ("TML"). TML is a self-funded pool operating as a common risk management and insurance program. The City pays an annual premium to TML for its insurance coverage. The agreement for the formation of TML provides that TML will be self-sustaining through member premiums and will reinsure through commercial companies for claims in excess of acceptable risk levels; however each category of coverage has its own level of reinsurance. The City continues to carry commercial insurance for other risks of loss. There were no significant reductions in commercial insurance coverage in the past fiscal year and settled claims resulting from these risks have not exceeded coverage in any of the past three years.

L. CONCENTRATIONS OF CREDIT RISK

Proprietary fund accounts receivable are concentrated within the geographic service area of the utility system, which is within the City. Those receivables are not concentrated within any individually significant customers. The City requires a deposit from each utility customer prior to establishing service. The net amount of proprietary fund accounts receivable at year end after deducting the allowance for doubtful accounts and after including estimated amounts for service provided but not yet billed at year end was \$806,042. Utility customer deposits held at year end totaled \$ 331,628.

M. HEALTH CARE COVERAGE

During the year ended September 30, 2014, employees of the City were covered by a health insurance plan (the "Plan"). The City paid premiums of \$280.86 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 and the licensed insurer is renewable March 1, 2015, and terms of coverage and premium costs are included in the contractual provisions.

Latest financial statements for the insurer (Texas municipal League Employee Benefits Pool) are available for the year ended December 31, 2014 and have been filed with the Texas Board of Insurance in Austin, Texas, and are public records.

N. DEFINED BENEFIT PENSION PLAN

Plan Description

The City provides pension benefits for all of its eligible employees through a non-traditional, joint contributory, hybrid defined benefit plan in the state-wide Texas Municipal Retirement System (TMRS), an agent multiple-employer public employee retirement system. The plan provisions that have been adopted by the City are within the options available in the governing state statutes of TMRS.

TMRS issues a publicly available comprehensive annual financial report that includes financial statements and required supplementary information (RSI) for TMRS; the report also provides detailed explanations of the contributions, benefits and actuarial methods and assumptions used by the System. This report may be obtained by writing to TMRS, P.O. Box 149153, Austin, TX 78714-9153 or by calling 800-924-8677; in addition, the report is available on TMRS' website at www.TMRS.com.

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

	Plan Year 2014	Plan Year 2013
Employee Deposit rate	6%	6%
Matching ratio (city to employee)	1.5 to 1	1.5 to 1
Years required for vesting	5	5
Service retirement eligibility (expressed as age / years of service)	60/5, 0/20	60/5, 0/20
Updated Service Credit	100% Repeating Transfers	100% Repeating Transfers
Annuity Increase (to retirees)	70% of CPI Repeating	70% of CPI Repeating

Contributions

Under the state law governing TMRS, the contribution rate for each City is determined annually by the actuary, using the Projected Unit Credit actuarial cost method. This rate consists of the normal cost contribution rate and the prior service cost contribution rate, which is calculated to be a level percent of payroll from year to year. The normal cost contribution rate finances the portion of an active member's projected benefit allocated annually; the prior service contribution rate amortizes the unfunded (overfunded) actuarial liability (asset) over the applicable period for that City. Both the normal cost and prior service contribution rates include recognition of the projected impact of annually repeating benefits, such as Updated Service Credits and Annuity Increases.

The City contributes to the TMRS Plan at an actuarially determined rate. Both the employees and the City make contributions monthly. Since the City needs to know its contribution rate in advance for budgetary purposes, there is a one-year delay between the actuarial valuation that serves as the basis for the rate and the calendar year when the rate goes into effect.

The annual pension cost and net pension obligation/ (asset) are as follows:

1. Annual Required Contribution (ARC)	\$	369,157
2. Interest on Net Pension Obligation		-
3. Adjustment to the ARC		-
4. Annual Pension Cost (APC)		369,157
5. Contributions Made		(325,993)
6. Increase (decrease) in net pension obligation		43,164
7. Net Pension Obligation/(Asset), beginning of year		-
8. Net Pension Obligation/(Asset), end of year	\$	43,164

Three Year Trend Information				
Fiscal Year Funding September 30,	Actual Contribution Made	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
2011	\$ 333,598	\$ 33,598	100%	\$ -
2012	322,069	322,069	100%	-
2013	325,993	369,157	100%	-

The required contribution rates for fiscal year 2013 were determined as part of the December 31, 2011 and 2012 actuarial valuations. Additional information as of the latest actuarial valuation, December 31, 2013, also follows:

Valuation Date	12/31/2011	12/31/2012	12/31/2013
Actuarial Cost Method	Projected Unit Credit	Projected Unit Credit	Projected Unit Credit
Amortization Method	Level Percent of Payroll	Level Percent of Payroll	Level Percent of Payroll
GASB 25 Equivalent Single Amortization Period	26.3 years; Closed Period	25.2 years; Closed Period	25.2 years; Closed Period
Amortization Period for new Gains/Losses	30 years	30 years	30 years
Asset Valuation Method	10-year smoothed market	10-year smoothed market	10-year smoothed market
Actuarial Assumptions: Investment Rate of Return	7.00%	7.00%	7.00%
Projected Salary Increases	Varies by age and service	Varies by age and service	Varies by age and service
Includes inflation at	3.00%	3.00%	3.00%
Cost of Living Adjustments	2.10%	2.10%	2.10%

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Funded Ratio	Unfunded AAL (UAAL)	Covered Payroll	UAAL as a Percentage of Covered Payroll
	(1)	(2)	(3)	(4)	(5)	(6)
			(1)/(2)	(2)-(1)		(4)/(5)
12/31/2013	\$4,971,520	\$7,178,656	69.3%	\$2,207,136	\$4,471,275	49.4%

Actual valuations involve estimates of the value of reported amounts and assumptions about the probability of events far into the future. Actuarially determined amounts are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future.

Actuarial calculations are based on the benefits provided under the terms of the substantive plan in effect at the time of each valuation, and reflect a long-term perspective. Consistent with that perspective, actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets. The schedule of funding progress, presented as Required Supplementary Information following the notes to the financial statements, presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability of benefits.

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Funded Ratio	Unfunded AAL (UAAL)	Covered Payroll	UAAL as a Percentage of Covered Payroll
	(1)	(2)	(3)	(4)	(5)	(6)
			(1)/(2)	(2)-(1)		(4)/(5)
12/31/2011	\$3,431,264	\$5,132,327	66.9%	\$1,701,063	\$3,932,136	43.3%
12/31/2012	\$4,416,433	\$5,754,747	76.7%	\$1,338,314	\$4,147,522	32.3%
12/31/2013	\$4,971,520	\$7,178,656	69.3%	\$2,207,136	\$4,471,275	49.4%

O. OTHER POST EMPLOYMENT BENEFITS – TEXAS MUNICIPAL RETIREMENT SYSTEM – SUPPLEMENTAL DEATH BENEFITS

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

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

Your city offers supplemental death to: Plan Year 2013 Plan Year 2014

Active employees (yes or no)	Yes	Yes
Retirees (yes or no)	Yes	Yes

The city contributes to the SDBF at a contractually required rate as determined by an annual actuarial valuation. The rate is equal to the cost of providing one-year term life insurance. The funding policy for the SDBF program is to assure that adequate resources are available to meet all death benefit payments for the upcoming year; the intent is not to pre-fund retiree term life insurance during employees' entire careers. The city's contributions to the TMRS SDBF for the years ended 2013, 2012 and 2011 were \$2,015, \$2,015 and \$2,045, respectively, which equaled the required contributions each year.

P. SUBSEQUENT EVENTS

The City has evaluated subsequent events through January 13, 2016, the date which the financial statements were available to be issued.

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

GENERAL FUND

BUDGETARY COMPARISON SCHEDULE

FOR THE YEAR ENDED SEPTEMBER 30, 2014

EXHIBIT B-1

Page 1 of 3

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUE:				
Taxes:				
General Property Taxes	\$ 2,369,619	\$ 2,369,619	\$ 2,890,002	\$ 520,383
General Sales and Use Taxes	1,824,585	1,824,585	2,839,440	1,014,855
Beverage Taxes	7,500	7,500	8,503	1,003
Other Taxes - Franchise Taxes	552,860	552,860	648,972	96,112
Penalty and Interest on Delinquent Taxes	58,448	58,448	61,525	3,077
License and Permits	84,400	84,400	75,849	(8,551)
Intergovernmental	82,000	82,000	241,232	159,232
Charges for Services	140,000	140,000	108,300	(31,700)
Fines and Forfeitures	139,870	139,870	150,692	10,822
Investment Earnings	1,000	1,000	1,405	405
Rents and Royalties	30,000	30,000	23,045	(6,955)
Miscellaneous Revenues	17,500	20,000	69,092	49,092
Total revenues	5,307,782	5,310,282	7,118,057	1,807,775
EXPENDITURES:				
General Government				
Mayor and Council				
Supplies	50	50	14	36
Other Services and Charges	14,700	10,550	11,558	(1,008)
Total Mayor and Council	14,750	10,600	11,572	(972)
Administration				
Personal Services	50,915	50,915	57,130	(6,215)
Supplies	18,000	26,213	24,875	1,338
Other Services and Charges	514,400	482,926	827,659	(344,733)
Capital Outlay	2,000	9,697	8,550	1,147
Total Administration	585,315	569,751	918,214	(348,463)
City Secretary				
Personal Services	61,589	62,589	63,791	(1,202)
Supplies	6,000	--	--	--
Other Services and Charges	18,000	10,250	9,983	267
Total City Secretary	85,589	72,839	73,774	(935)
Finance				
Personal Services	160,609	164,264	170,157	(5,893)
Supplies	700	3,660	2,961	699
Other Services and Charges	6,825	6,855	8,931	(2,076)
Capital Outlay	--	2,865	--	2,865
Total Finance	168,134	177,644	182,049	(4,405)
Personnel				
Personal Services	47,981	48,822	52,076	(3,254)
Supplies	--	--	842	(842)
Other Services and Charges	7,460	9,982	8,222	1,760
Capital Outlay	--	1,040	--	1,040
Total Personnel	55,441	59,844	61,140	(1,296)
City Manager				
Personal Services	184,549	186,324	194,613	(8,289)
Total City Manager	184,549	186,324	194,613	(8,289)
Total General Government	1,093,778	1,077,002	1,441,362	(364,360)

CITY OF RIO GRANDE CITY, TEXAS
GENERAL FUND
BUDGETARY COMPARISON SCHEDULE
FOR THE YEAR ENDED SEPTEMBER 30, 2014

EXHIBIT B-1
Page 2 of 3

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Judicial				
Municipal Court				
<i>Personal Services</i>	58,683	59,423	61,048	(1,625)
<i>Supplies</i>	8,000	6,731	6,608	123
<i>Other Services and Charges</i>	66,850	68,337	69,271	(934)
<i>Total Municipal Court</i>	133,533	134,491	136,927	(2,436)
Total Judicial	133,533	134,491	136,927	(2,436)
Public Safety				
Police Department				
<i>Personal Services</i>	1,601,425	1,644,225	1,689,699	(45,474)
<i>Supplies</i>	137,063	131,615	145,195	(13,580)
<i>Other Services and Charges</i>	128,576	152,999	138,550	14,449
<i>Capital Outlay</i>	1,000	1,000	--	1,000
<i>Total Police Department</i>	1,868,064	1,929,839	1,973,444	(43,605)
Fire Department				
<i>Personal Services</i>	777,355	796,977	856,467	(59,490)
<i>Supplies</i>	34,250	34,617	36,877	(2,260)
<i>Other Services and Charges</i>	92,575	73,610	58,311	15,299
<i>Capital Outlay</i>	28,000	28,718	104,808	(76,090)
<i>Total Fire Department</i>	932,180	933,922	1,056,463	(122,541)
Total Public Safety	2,800,244	2,863,761	3,029,907	(166,146)
Highways and Streets				
<i>Other Services and Charges</i>	126,500	126,500	182,206	(55,706)
Total Highways and Streets	126,500	126,500	182,206	(55,706)
Public Works				
<i>Personal Services</i>	443,882	463,364	468,509	(5,145)
<i>Supplies</i>	99,800	101,322	103,415	(2,093)
<i>Other Services and Charges</i>	58,796	74,700	68,162	6,538
<i>Capital Outlay</i>	155,840	378,787	339,828	38,959
Total Public Works	758,318	1,018,173	979,914	38,259
Culture, Recreation & Parks				
Parks Department				
<i>Personal Services</i>	152,122	148,172	123,345	24,827
<i>Supplies</i>	29,500	23,200	16,328	6,872
<i>Other Services and Charges</i>	210,800	216,650	177,141	39,509
<i>Capital Outlay</i>	3,000	7,400	--	7,400
<i>Total Parks Department</i>	395,422	395,422	316,814	78,608
Total Culture, Recreation & Parks	395,422	395,422	316,814	78,608
Library				
<i>Personal Services</i>	141,109	135,805	141,042	(5,237)
<i>Supplies</i>	5,050	5,433	4,565	868
<i>Other Services and Charges</i>	45,187	54,550	83,424	(28,874)
<i>Capital Outlay</i>	41,200	38,608	8,237	30,371
Total Library	232,546	234,396	237,268	(2,872)
Conservation and Development				
<i>Personal Services</i>	190,476	257,338	192,235	65,103
<i>Supplies</i>	18,000	20,585	25,472	(4,887)
<i>Other Services and Charges</i>	30,750	42,193	48,420	(6,227)
<i>Capital Outlay</i>	10,000	60,000	50,768	9,232
Total Conservation and Development	249,226	380,116	316,895	63,221

CITY OF RIO GRANDE CITY, TEXAS
GENERAL FUND
BUDGETARY COMPARISON SCHEDULE
FOR THE YEAR ENDED SEPTEMBER 30, 2014

EXHIBIT B-1
Page 3 of 3

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
<i>Debt Service:</i>				
<i>Principal</i>	119,738	150,749	150,726	23
<i>Interest and Fiscal Charges</i>	46,759	19,639	19,023	616
Total Expenditures	<u>5,956,064</u>	<u>6,400,249</u>	<u>6,811,042</u>	<u>(410,793)</u>
Excess (Deficiency) of Revenues				
Over (Under) Expenditures	(648,282)	(1,089,967)	307,015	1,396,982
OTHER FINANCING SOURCES (USES):				
<i>Transfers In</i>	595,000	771,640	755,834	(15,806)
<i>Transfers Out</i>	(5,200)	(5,200)	(3,244)	(1,956)
<i>Capital Leases</i>	55,000	341,817	509,813	(167,996)
Total Other Financing Sources (Uses)	<u>644,800</u>	<u>1,108,257</u>	<u>1,262,403</u>	<u>(154,146)</u>
Net Change in Fund Balances	(3,482)	18,290	1,569,418	1,551,128
Fund Balances - Beginning	615,182	615,182	615,182	--
Fund Balances - Ending	<u>\$ 611,700</u>	<u>\$ 633,472</u>	<u>\$ 2,184,600</u>	<u>\$ 1,551,128</u>

CITY OF RIO GRANDE CITY, TEXAS
ECONOMIC DEVELOPMENT CORPORATION FUND
BUDGETARY COMPARISON SCHEDULE
FOR THE YEAR ENDED SEPTEMBER 30, 2014

EXHIBIT B-2

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUE:				
Taxes:				
<i>General Sales and Use Taxes</i>	\$ 912,292	\$ 912,292	\$ 1,436,831	\$ 524,539
Investment Earnings	2,000	2,000	1,552	(448)
Miscellaneous Revenues	13,500	13,500	10,249	(3,251)
Total revenues	<u>927,792</u>	<u>927,792</u>	<u>1,448,632</u>	<u>520,840</u>
EXPENDITURES:				
Economic Development and Assistance				
<i>Personal Services</i>	194,098	194,898	129,128	65,770
<i>Supplies</i>	19,900	22,150	18,612	3,538
<i>Other Services and Charges</i>	1,686,600	1,673,550	672,287	1,001,263
<i>Total Economic Development and Assistance</i>	<u>1,900,598</u>	<u>1,900,598</u>	<u>825,350</u>	<u>1,075,248</u>
Total Expenditures	<u>1,900,598</u>	<u>1,900,598</u>	<u>825,350</u>	<u>1,075,248</u>
Excess (Deficiency) of Revenues				
Over (Under) Expenditures	<u>(972,806)</u>	<u>(972,806)</u>	<u>623,282</u>	<u>1,596,088</u>
OTHER FINANCING SOURCES (USES):				
<i>Transfers In</i>	35,000	35,000	35,000	--
<i>Transfers Out</i>	<u>(310,000)</u>	<u>(310,000)</u>	<u>(235,201)</u>	<u>(74,799)</u>
Total Other Financing Sources (Uses)	<u>(275,000)</u>	<u>(275,000)</u>	<u>(200,201)</u>	<u>(74,799)</u>
Net Change in Fund Balances	<u>(1,247,806)</u>	<u>(1,247,806)</u>	<u>423,081</u>	<u>1,670,887</u>
Fund Balances - Beginning	--	--	1,710,994	1,710,994
Fund Balances - Ending	<u>\$ (1,247,806)</u>	<u>\$ (1,247,806)</u>	<u>\$ 2,134,075</u>	<u>\$ 3,381,881</u>

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*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
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED SEPTEMBER 30, 2014

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

The following are the funds which have legally adopted annual budgets prepared on a basis consistent with GAAP. General Fund and Special Revenue Fund-Economic Development Corporation Fund.

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

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

The City controls appropriations at the category level (i.e., salaries/allowances, operations and property) for each department/project within the General Fund and some of the Special Revenue Funds. Grants are budgeted in total and not at the category level. All Debt Service Fund expenditures for principal and interest of long-term debt are considered to be in the operations category. Certain appropriation transfers may be made between categories or departments only with the approval of the City Council. Other transfers (e.g. court costs) may be authorized by the City Manager. Transfers that were made during fiscal year 2014 did not increase the City's overall budget. Unencumbered funds lapse at fiscal year end. The original budgets presented in the report are the approved budgets before amendments and transfers. The final budgets presented in this report reflect the budgets as amended for all appropriation transfers processed during the fiscal year. The legal level of budgetary control (the level on which expenditures may not exceed appropriations) is on an object class basis. More comprehensive accounting of activity on the budgetary basis is provided in a separate report, which available for public inspection in the City's administration building.

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CITY OF RIO GRANDE CITY, TEXAS**COMBINING BALANCE SHEET****NONMAJOR GOVERNMENTAL FUNDS****SEPTEMBER 30, 2014**

	Special Revenue Funds	Capital Projects Funds	Total Nonmajor Governmental Funds (See Exhibit A-3)
ASSETS AND OTHER DEBITS			
Assets:			
<i>Cash and Cash Equivalents</i>	\$ 811,904	\$ 1,735,228	\$ 2,547,132
<i>Investments</i>	--	39,838	39,838
<i>Receivables (net of allowances for uncollectibles):</i>	358,469	15,168	373,637
<i>Due from Other Funds</i>	508	--	508
Total Assets and Other Debits	<u>\$ 1,170,881</u>	<u>\$ 1,790,234</u>	<u>\$ 2,961,115</u>
LIABILITIES AND FUND BALANCES:			
Liabilities:			
<i>Accounts Payable</i>	\$ 13,635	\$ 18,480	\$ 32,115
<i>Due to Other Funds</i>	246,146	200	246,346
<i>Accrued Interest Payable</i>	70,035	--	70,035
Total Liabilities	<u>329,816</u>	<u>18,680</u>	<u>348,496</u>
DEFERRED INFLOWS OF RESOURCES			
Unavailable Revenue-Property Taxes	80,232	--	80,232
Total Deferred Inflows of Resources	<u>80,232</u>	<u>--</u>	<u>80,232</u>
Fund Balances:			
Restricted Fund Balances:			
<i>Federal or State Funds Grant Restriction</i>	375,860	--	375,860
<i>Restricted for Debt Service</i>	88,416	--	88,416
<i>Assigned</i>	296,557	--	296,557
Committed			
<i>Construction</i>	--	1,771,554	1,771,554
Total Fund Balance	<u>760,833</u>	<u>1,771,554</u>	<u>2,532,387</u>
Total Liabilities and Fund Balance	<u>\$ 1,170,881</u>	<u>\$ 1,790,234</u>	<u>\$ 2,961,115</u>

CITY OF RIO GRANDE CITY, TEXAS

COMBINING STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2014

	Special Revenue Funds	Capital Projects Funds	Total Nonmajor Governmental Funds (See Exhibit A-5)
Revenue:			
Taxes:			
General Property Taxes	\$ 592,324	\$ --	\$ 592,324
Other Taxes - Franchise Taxes	15,267	--	15,267
Intergovernmental	461,041	240,598	701,639
Charges for Services	2,905	--	2,905
Fines and Forfeitures	899,890	--	899,890
Investment Earnings	1,014	882	1,896
Miscellaneous Revenues	13,878	--	13,878
Total revenues	<u>1,986,319</u>	<u>241,480</u>	<u>2,227,799</u>
Expenditures:			
Current:			
General Government	89,534	--	89,534
Public Safety	616,037	--	616,037
Economic Development and Assistance	15,804	--	15,804
Debt Service:			
Principal	373,867	--	373,867
Interest and Fiscal Charges	611,370	--	611,370
Fiscal Agent's Fees	29,993	--	29,993
Capital Outlay:			
Capital Outlay	258,294	1,492,185	1,750,479
Total Expenditures	<u>1,994,899</u>	<u>1,492,185</u>	<u>3,487,084</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>(8,580)</u>	<u>(1,250,705)</u>	<u>(1,259,285)</u>
Other Financing Sources (Uses):			
Operating Transfers In	650,945	105,000	755,945
Operating Transfers Out	(65,000)	--	(65,000)
Other Financing Sources	--	1,930,000	1,930,000
Total Other Financing Sources (Uses)	<u>585,945</u>	<u>2,035,000</u>	<u>2,620,945</u>
Net Change in Fund Balances	577,365	784,295	1,361,660
Fund Balances - Beginning	183,468	987,259	1,170,727
Fund Balances - Ending	<u>\$ 760,833</u>	<u>\$ 1,771,554</u>	<u>\$ 2,532,387</u>

CITY OF RIO GRANDE CITY, TEXAS
COMBINING BALANCE SHEET
NONMAJOR SPECIAL REVENUE FUNDS
SEPTEMBER 30, 2014

	Hotel Occupancy Tax Fund	Special Litigation Fund	Forfeiture Fund	HIDTA Task Force Fund
ASSETS AND OTHER DEBITS				
Assets:				
Cash and Cash Equivalents	\$ 288,844	\$ --	\$ 345,960	\$ (2,479)
Receivables (net of allowances for uncollectibles):	7,769	--	--	67,413
Due from Other Funds	--	--	--	--
Total Assets and Other Debits	<u>\$ 296,613</u>	<u>\$ --</u>	<u>\$ 345,960</u>	<u>\$ 64,934</u>
LIABILITIES AND FUND BALANCES:				
Liabilities:				
Accounts Payable	\$ --	\$ --	\$ --	\$ 13,435
Due to Other Funds	56	--	--	46,586
Accrued Interest Payable	--	--	--	--
Deferred Revenue	--	--	--	--
Total Liabilities	<u>56</u>	<u>--</u>	<u>--</u>	<u>60,021</u>
DEFERRED INFLOWS OF RESOURCES				
Unavailable Revenue-Property Taxes	--	--	--	--
Total Deferred Inflows of Resources	<u>--</u>	<u>--</u>	<u>--</u>	<u>--</u>
Fund Balances:				
Restricted Fund Balances:				
Federal or State Funds Grant Restriction	--	--	345,960	4,913
Restricted for Debt Service	--	--	--	--
Assigned	296,557	--	--	--
Total Fund Balance	<u>296,557</u>	<u>--</u>	<u>345,960</u>	<u>4,913</u>
Total Liabilities and Fund Balance	<u>\$ 296,613</u>	<u>\$ --</u>	<u>\$ 345,960</u>	<u>\$ 64,934</u>

Historical Preservation Fund	Treasury Forfeiture Fund	SECO Block Grant	Revolving Loan Fund	CJD Task Force Grant Fund
\$ --	\$ 10,410	\$ --	\$ --	\$ 2,373
--	--	57,576	--	--
--	--	--	--	--
<u>\$ --</u>	<u>\$ 10,410</u>	<u>\$ 57,576</u>	<u>\$ --</u>	<u>\$ 2,373</u>
\$ --	\$ --	\$ --	\$ --	\$ --
--	--	57,576	--	1
--	--	--	--	--
--	--	--	--	--
<u>--</u>	<u>--</u>	<u>57,576</u>	<u>--</u>	<u>1</u>
--	--	--	--	--
<u>--</u>	<u>--</u>	<u>--</u>	<u>--</u>	<u>--</u>
--	10,410	--	--	2,372
--	--	--	--	--
--	--	--	--	--
<u>--</u>	<u>10,410</u>	<u>--</u>	<u>--</u>	<u>2,372</u>
<u>\$ --</u>	<u>\$ 10,410</u>	<u>\$ 57,576</u>	<u>\$ --</u>	<u>\$ 2,373</u>

CITY OF RIO GRANDE CITY, TEXAS

COMBINING BALANCE SHEET

NONMAJOR SPECIAL REVENUE FUNDS

SEPTEMBER 30, 2014

	Border Security Grants	DHS Stonegarden Fund	SRF Airport Fund	PEG Fee Revenue
ASSETS AND OTHER DEBITS				
Assets:				
Cash and Cash Equivalents	\$ 19	\$ --	\$ --	\$ 3,595
Receivables (net of allowances for uncollectibles):	57,423	84,413	--	--
Due from Other Funds	--	--	--	--
Total Assets and Other Debits	<u>\$ 57,442</u>	<u>\$ 84,413</u>	<u>\$ --</u>	<u>\$ 3,595</u>
LIABILITIES AND FUND BALANCES:				
Liabilities:				
Accounts Payable	\$ --	\$ --	\$ --	\$ --
Due to Other Funds	57,514	84,413	--	--
Accrued Interest Payable	--	--	--	--
Deferred Revenue	--	--	--	--
Total Liabilities	<u>57,514</u>	<u>84,413</u>	<u>--</u>	<u>--</u>
DEFERRED INFLOWS OF RESOURCES				
Unavailable Revenue-Property Taxes	--	--	--	--
Total Deferred Inflows of Resources	<u>--</u>	<u>--</u>	<u>--</u>	<u>--</u>
Fund Balances:				
Restricted Fund Balances:				
Federal or State Funds Grant Restriction	(72)	--	--	3,595
Restricted for Debt Service	--	--	--	--
Assigned	--	--	--	--
Total Fund Balance	<u>(72)</u>	<u>--</u>	<u>--</u>	<u>3,595</u>
Total Liabilities and Fund Balance	<u>\$ 57,442</u>	<u>\$ 84,413</u>	<u>\$ --</u>	<u>\$ 3,595</u>

Street Improvements Fund #724659	TCF Contract #723242 Fund	Debt Service Fund	Boys & Girls Club	Total Nonmajor Special Revenue Funds (See Exhibit C-1)
\$ --	\$ --	\$ 155,008	\$ 8,174	\$ 811,904
--	--	83,875	--	358,469
--	--	--	508	508
<u>\$ --</u>	<u>\$ --</u>	<u>\$ 238,883</u>	<u>\$ 8,682</u>	<u>\$ 1,170,881</u>
\$ --	\$ --	\$ 200	\$ --	\$ 13,635
--	--	--	--	246,146
--	--	70,035	--	70,035
--	--	--	--	--
<u>--</u>	<u>--</u>	<u>70,235</u>	<u>--</u>	<u>329,816</u>
--	--	80,232	--	80,232
<u>--</u>	<u>--</u>	<u>80,232</u>	<u>--</u>	<u>80,232</u>
--	--	--	8,682	375,860
--	--	88,416	--	88,416
--	--	--	--	296,557
<u>--</u>	<u>--</u>	<u>88,416</u>	<u>8,682</u>	<u>760,833</u>
<u>\$ --</u>	<u>\$ --</u>	<u>\$ 238,883</u>	<u>\$ 8,682</u>	<u>\$ 1,170,881</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, 2014

	Hotel Occupancy Tax Fund	Forfeiture Fund	HIDTA Task Force Fund	Treasury Forfeiture Fund
Revenue:				
Taxes:				
General Property Taxes	\$ 141,373	\$ --	\$ --	\$ --
Other Taxes - Franchise Taxes	--	--	--	--
Intergovernmental	--	--	276,390	--
Charges for Services	--	--	--	--
Fines and Forfeitures	--	863,737	--	36,153
Investment Earnings	--	515	--	29
Miscellaneous Revenues	160	--	--	--
Total revenues	<u>141,533</u>	<u>864,252</u>	<u>276,390</u>	<u>36,182</u>
Expenditures:				
Current:				
General Government	--	--	--	--
Public Safety	--	206,215	272,678	22,204
Economic Development and Assistance	15,804	--	--	--
Debt Service:				
Principal	--	43,867	--	--
Interest and Fiscal Charges	--	--	--	--
Fiscal Agent's Fees	--	--	--	--
Capital Outlay:				
Capital Outlay	--	224,728	--	5,959
Total Expenditures	<u>15,804</u>	<u>474,810</u>	<u>272,678</u>	<u>28,163</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>125,729</u>	<u>389,442</u>	<u>3,712</u>	<u>8,019</u>
Other Financing Sources (Uses):				
Operating Transfers In	--	--	--	--
Operating Transfers Out	(35,000)	(30,000)	--	--
Total Other Financing Sources (Uses)	<u>(35,000)</u>	<u>(30,000)</u>	<u>--</u>	<u>--</u>
Net Change in Fund Balances	90,729	359,442	3,712	8,019
Fund Balances - Beginning	205,828	(13,482)	1,201	2,391
Fund Balances - Ending	<u>\$ 296,557</u>	<u>\$ 345,960</u>	<u>\$ 4,913</u>	<u>\$ 10,410</u>

CJD Task Force Grant Fund	Border Security Grants	DHS Stonegarden Fund	SRF Airport Fund	PEG Fee Revenue
\$ --	\$ --	\$ --	\$ --	\$ --
--	--	--	--	15,267
2,324	28,194	85,988	--	--
--	--	--	--	--
--	--	--	--	13
1	--	--	--	--
--	--	--	--	--
2,325	28,194	85,988	--	15,280
--	--	--	--	--
102	28,272	85,988	13,445	578
--	--	--	--	--
--	--	--	--	--
--	--	--	--	--
--	--	--	--	27,607
102	28,272	85,988	13,445	28,185
2,223	(78)	--	(13,445)	(12,905)
--	--	--	13,445	--
--	--	--	--	--
--	--	--	13,445	--
2,223	(78)	--	--	(12,905)
149	6	--	--	16,500
\$ 2,372	\$ (72)	\$ --	\$ --	\$ 3,595

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, 2014

	Debt Service Fund	Boys & Girls Club	Total Nonmajor Special Revenue Funds (See Exhibit C-2)
Revenue:			
Taxes:			
General Property Taxes	\$ 450,951	\$ --	\$ 592,324
Other Taxes - Franchise Taxes	--	--	15,267
Intergovernmental	--	68,145	461,041
Charges for Services	--	2,905	2,905
Fines and Forfeitures	--	--	899,890
Investment Earnings	453	3	1,014
Miscellaneous Revenues	--	13,718	13,878
Total revenues	<u>451,404</u>	<u>84,771</u>	<u>1,986,319</u>
Expenditures:			
Current:			
General Government	--	76,089	89,534
Public Safety	--	--	616,037
Economic Development and Assistance	--	--	15,804
Debt Service:			
Principal	330,000	--	373,867
Interest and Fiscal Charges	611,370	--	611,370
Fiscal Agent's Fees	29,993	--	29,993
Capital Outlay:			
Capital Outlay	--	--	258,294
Total Expenditures	<u>971,363</u>	<u>76,089</u>	<u>1,994,899</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>(519,959)</u>	<u>8,682</u>	<u>(8,580)</u>
Other Financing Sources (Uses):			
Operating Transfers In	637,500	--	650,945
Operating Transfers Out	--	--	(65,000)
Total Other Financing Sources (Uses)	<u>637,500</u>	<u>--</u>	<u>585,945</u>
Net Change in Fund Balances	117,541	8,682	577,365
Fund Balances - Beginning	(29,125)	--	183,468
Fund Balances - Ending	<u>\$ 88,416</u>	<u>\$ 8,682</u>	<u>\$ 760,833</u>

CITY OF RIO GRANDE CITY, TEXAS

DEBT SERVICE FUND

SPECIAL REVENUE FUND

BUDGETARY COMPARISON SCHEDULE

FOR THE YEAR ENDED SEPTEMBER 30, 2014

EXHIBIT C-5

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUE:				
Taxes:				
<i>General Property Taxes</i>	\$ 439,013	\$ 439,013	\$ 450,951	\$ 11,938
Investment Earnings	300	300	453	153
Total revenues	<u>439,313</u>	<u>439,313</u>	<u>451,404</u>	<u>12,091</u>
EXPENDITURES:				
<i>Debt Service:</i>				
<i>Principal</i>	990,000	990,000	330,000	660,000
<i>Interest and Fiscal Charges</i>	555,158	555,158	611,370	(56,212)
<i>Fiscal Agent's Fees</i>	32,050	32,050	29,993	2,057
Total Expenditures	<u>1,577,208</u>	<u>1,577,208</u>	<u>971,363</u>	<u>605,845</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>(1,137,895)</u>	<u>(1,137,895)</u>	<u>(519,959)</u>	<u>617,936</u>
OTHER FINANCING SOURCES (USES):				
<i>Transfers In</i>	<u>1,367,500</u>	<u>1,367,500</u>	<u>637,500</u>	<u>(730,000)</u>
Total Other Financing Sources (Uses)	<u>1,367,500</u>	<u>1,367,500</u>	<u>637,500</u>	<u>730,000</u>
Net Change in Fund Balances	229,605	229,605	117,541	(112,064)
Fund Balances - Beginning	--	--	(29,125)	(29,125)
Fund Balances - Ending	<u>\$ 229,605</u>	<u>\$ 229,605</u>	<u>\$ 88,416</u>	<u>\$ (141,189)</u>

CITY OF RIO GRANDE CITY, TEXAS
COMBINING BALANCE SHEET
NONMAJOR CAPITAL PROJECTS FUNDS
SEPTEMBER 30, 2014

	Water Plant Project	Capital Projects Reserve Fund
ASSETS AND OTHER DEBITS		
Assets:		
<i>Cash and Cash Equivalents</i>	\$ 63	\$ 28,637
<i>Investments</i>	--	4,281
<i>Receivables (net of allowances for uncollectibles):</i>	15,000	--
Total Assets and Other Debits	<u>\$ 15,063</u>	<u>\$ 32,918</u>
LIABILITIES AND FUND BALANCES:		
Liabilities:		
<i>Accounts Payable</i>	\$ 18,480	\$ --
<i>Due to Other Funds</i>	100	50
Total Liabilities	<u>18,580</u>	<u>50</u>
Fund Balances:		
Restricted Fund Balances:		
Committed		
<i>Construction</i>	(3,517)	32,868
Total Fund Balance	<u>(3,517)</u>	<u>32,868</u>
Total Liabilities and Fund Balance	<u>\$ 15,063</u>	<u>\$ 32,918</u>

EXHIBIT C-6

Waste Water Project	2013 Wastewater	Total Nonmajor Capital Projects Funds (See Exhibit C-1)
\$ 4,174	\$ 1,702,354	\$ 1,735,228
574	34,983	39,838
--	168	15,168
<u>\$ 4,748</u>	<u>\$ 1,737,505</u>	<u>\$ 1,790,234</u>
\$ --	\$ --	\$ 18,480
50	--	200
<u>50</u>	<u>--</u>	<u>18,680</u>
4,698	1,737,505	1,771,554
<u>4,698</u>	<u>1,737,505</u>	<u>1,771,554</u>
<u>\$ 4,748</u>	<u>\$ 1,737,505</u>	<u>\$ 1,790,234</u>

CITY OF RIO GRANDE CITY, TEXAS

COMBINING STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES
NONMAJOR CAPITAL PROJECTS FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2014

	Water Plant Project	Capital Projects Reserve Fund
Revenue:		
<i>Intergovernmental</i>	\$ 240,598	\$ --
<i>Investment Earnings</i>	44	349
Total revenues	<u>240,642</u>	<u>349</u>
Expenditures:		
Capital Outlay:		
<i>Capital Outlay</i>	246,602	707,333
Total Expenditures	<u>246,602</u>	<u>707,333</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>(5,960)</u>	<u>(706,984)</u>
Other Financing Sources (Uses):		
<i>Operating Transfers In</i>	--	--
<i>Other Financing Sources</i>	--	--
Total Other Financing Sources (Uses)	<u>--</u>	<u>--</u>
Net Change in Fund Balances	(5,960)	(706,984)
Fund Balances - Beginning	2,443	739,852
Fund Balances - Ending	<u>\$ (3,517)</u>	<u>\$ 32,868</u>

EXHIBIT C-7

Waste Water Project	2013 Wastewater	Total Nonmajor Capital Projects Funds (See Exhibit C-2)
\$ --	\$ --	\$ 240,598
94	395	882
94	395	241,480
345,360	192,890	1,492,185
345,360	192,890	1,492,185
(345,266)	(192,495)	(1,250,705)
105,000	--	105,000
--	1,930,000	1,930,000
105,000	1,930,000	2,035,000
(240,266)	1,737,505	784,295
244,964	--	987,259
\$ 4,698	\$ 1,737,505	\$ 1,771,554

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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 & COMPANY, P.C.
Certified Public Accountants
5422 Holly Rd
Corpus Christi, Texas 78411
Office (361) 980-0428 Fax (361) 980-1002

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

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

Members of the City Council:

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of City of Rio Grande City, Texas, as of and for the year ended September 30, 2014, and the related notes to the financial statements, which collectively comprise City of Rio Grande City, Texas's basic financial statements, and have issued our report thereon dated January 13, 2016.

Internal Control Over Financial Reporting

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

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in the accompanying schedule of findings and questioned costs as item 2014-01 to be a material weakness.

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying schedule of findings and questioned costs as items 2014-01 to be significant deficiencies.

Compliance and Other Matters

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

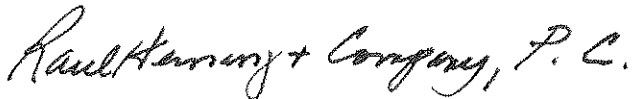
City of Rio Grande City, Texas's Response to Findings

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

Purpose of this Report

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

Respectfully submitted,



Raul Hernandez & Company, P.C.

Corpus Christi, Texas
January 13, 2016

CITY OF RIO GRANDE CITY, TEXAS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED SEPTEMBER 30, 2014

A. Summary of Auditor's Results

1. Financial Statements

Type of auditor's report issued: Unmodified

Internal control over financial reporting:

One or more material weaknesses identified? X Yes No

One or more significant deficiencies identified that are not considered to be material weaknesses? X Yes None Reported

Noncompliance material to financial statements noted? Yes X No

2. Federal Awards N/A

Internal control over major programs:

One or more material weaknesses identified? Yes X No

One or more significant deficiencies identified that are not considered to be material weaknesses? Yes X None Reported

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

Any audit findings disclosed that are required to be reported in accordance with 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>
N/A	

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

FINDING NO. 2014-01

CRITERIA: a governmental accounting system must make it possible to both: (a) to present fairly and with full disclosure the funds and activities of the government in conformity with generally accepted accounting principles, and (b) to prepare accurate and timely financial reporting.

CITY OF RIO GRANDE CITY, TEXAS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED SEPTEMBER 30, 2014

CONDITION: The City did not maintain accurate general ledgers, year-end accruals, accurate bank reconciliations, schedules of debt, schedules of depreciation and did not prepare timely financial reports. Furthermore, management was unable to balance the cash balance for the enterprise fund. The unknown difference of \$580,393.56 was intentionally "forced to balance" and the difference was randomly charged to a balance sheet account which consequently overstated the cash balance. This "forced entry" was only disclosed as a result of our audit. We expanded our scope to analyze the audit difference and identify the source of the unknown balance. Management took steps to identify the person responsible for creating the "forced amount" and promptly dismissed the person. Management also hired a fee accountant to assist with the reconciliation of the cash balance which was corrected.

CAUSE: The financial statements, schedules, general ledger and bank reconciliations were not prepared accurately and on a timely basis due to lack of inadequate instruction and training of personnel.

EFFECT: As a result, this places the City in a "high risk" auditee condition, which makes it susceptible to the possibility of material misstatement of its' audited financial statements and the risk of loss of state and federal funding.

RECOMMENDATION: Management and staff should be instructed and trained regarding the understanding basic accounting rules and principles, along with proper internal control and timely financial reporting. The City should consider hiring an outside fee accountant on a long-term basis to provide technical assistance and oversight of all accounting functions.

MANAGEMENT RESPONSE: The City will undertake the proper steps to update its' accounting practices and procedures to conform to generally accepted accounting principles and prepare accurate and timely financial statements. The City is conducting a search to hire a degreed accounting professional with governmental experience.

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, 2014

<u>Finding/Recommendation</u>	<u>Current Status</u>	<u>Management's Explanation If Not Implemented</u>
Prior Year findings still exist in 2014.		

CITY OF RIO GRANDE CITY, TEXAS
CORRECTIVE ACTION PLAN
FOR THE YEAR ENDED SEPTEMBER 30, 2014

Management has taken steps to correct all audit deficiencies. A professional fee accountant has been hired to assist management with improving internal controls. The fee accountant will also provide guidance to assist management with more timely and accurate financial reporting.

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