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QUALIFIED OPINION ON BASIC FINANCIAL STATEMENTS
ACCOMPANIED BY REQUIRED SUPPLEMENTARY INFORMATION AND OTHER
SUPPLEMENTARY INFORMATION INCLUDING THE
SUPPLEMENTARY SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Independent Auditor's Report

HONORABLE MAYOR AND BOARD OF ALDERMEN
CITY OF RIO GRANDE CITY
P.O. BOX 467
RIO GRANDE CITY, TEXAS 78582

Members of the Board:

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 CITY OF RIO GRANDE CITY (the City) as of September 30, 2004 and for the year ended 2004, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's administrators. Our responsibility is to express an opinion on these financial statements based on our audit.

Except as discussed in the following paragraph, 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 includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

The City ending balances for all its Property, Plant and Equipment did not agree with a physical inventory taken by a research company. The variance between the two is considered material. The City did not adjust its fixed asset balances.

In our opinion, except for the variance amounts between the general ledger and the physical inventory of the City's Property, Plant and Equipment, 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 as of September 30, 2004, and the respective changes in financial position and cash flows, where applicable, thereof, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Management's discussion and analysis is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 17, 2006, on our consideration of the City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Governmental Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Our audit was performed for the purpose of forming an opinion on the financial statements that collectively comprise CITY OF RIO GRANDE CITY's basic financial statements.

The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements, and in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

The accompanying supplementary information, such as the combining and individual nonmajor fund financial statements, are presented for purposes of additional analysis and are not a required part of the basic financial statements. The supplementary information, such as the combining and individual nonmajor fund financial statements have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Luis C. Orozco
Certified Public Accountant

February 17, 2006

