

CITY OF PORT LAVACA, TEXAS

ANNUAL FINANCIAL STATEMENTS

*With Independent Auditors' Report Thereon
For the Year Ended September 30, 2006*

Prepared by: Finance Department
Scotty Jones
Director of Finance

TABLE OF CONTENTS

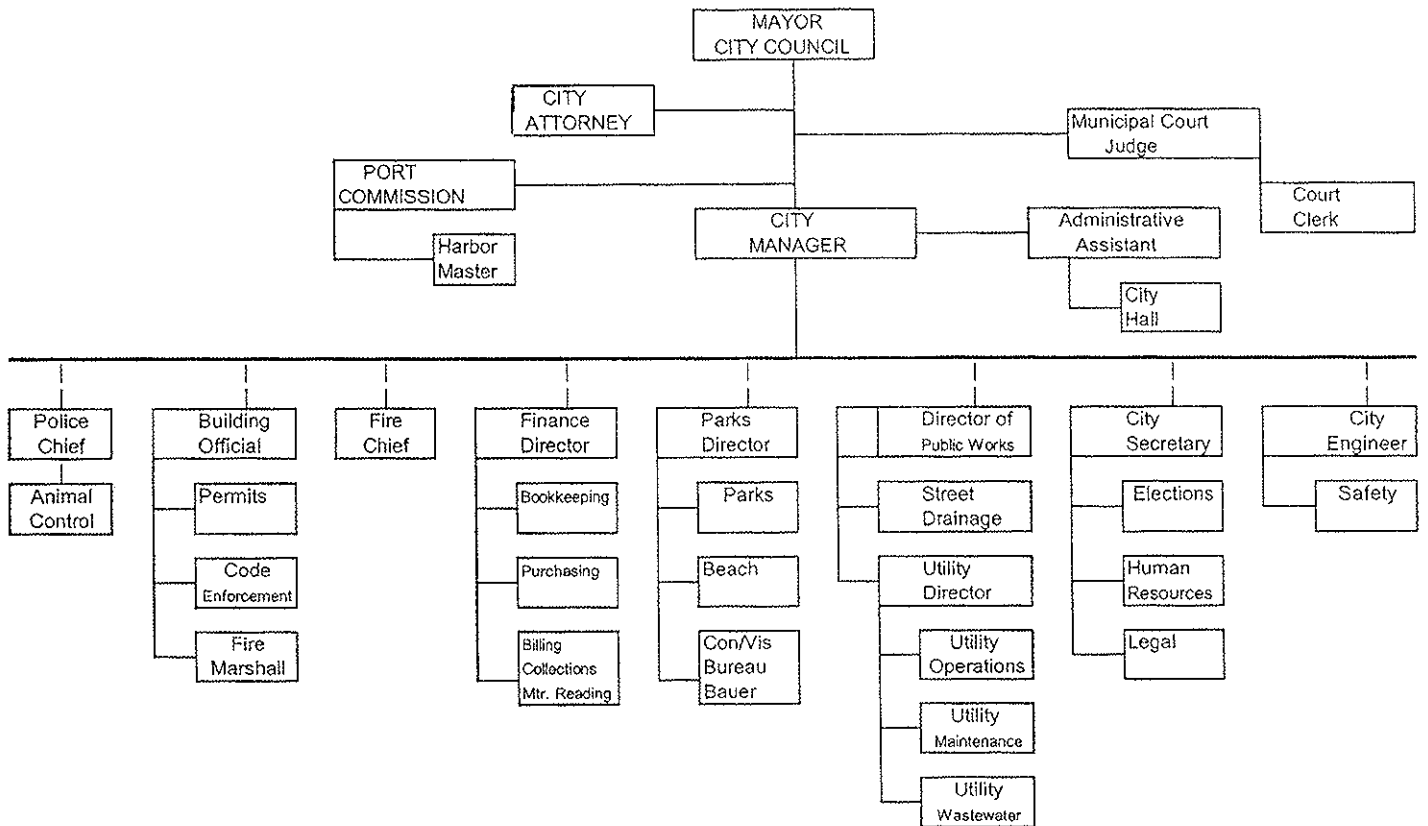
	Page
INTRODUCTORY SECTION	
Organizational Chart	i
FINANCIAL SECTION	
Independent Auditors' Report	1
Management's Discussion and Analysis	2
Basic Financial Statements	
Government-wide Financial Statements	
Statement of Net Assets	10
Statement of Activities	12
Fund Financial Statements	
Balance Sheet - Governmental Funds	13
Reconciliation of Total Governmental Fund Balance to Net Assets of Governmental Activities	14
Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds	15
Reconciliation of the Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances to Statement of Activities	16
Statement of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual - General Fund	17
Statement of Net Assets - Proprietary Funds	18
Statement of Revenues, Expenses, and Changes in Fund Net Assets - Proprietary Funds	20
Statement of Cash Flows - Proprietary Funds	21
Statement of Fiduciary Net Assets - Fiduciary Funds	23
Statement of Changes in Fiduciary Net Assets - Fiduciary Fund	24
Notes to the Financial Statements	25
Combining and Individual Fund Statements and Schedules	
Combining Fund Statements	
Combining Balance Sheet - Nonmajor Governmental Funds	48
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances - Nonmajor Governmental Funds	51
General Fund Budgetary Schedules	
Schedule of Revenues and Other Financing Sources - Final Budget and Actual	55
Schedule of Expenditures and Other Financing Uses - Final Budget and Actual	57

INTRODUCTORY SECTION

CITY OF PORT LAVACA, TEXAS

ORGANIZATIONAL CHART

September 30, 2006



FINANCIAL SECTION



CERTIFIED PUBLIC ACCOUNTANTS
101 S. MAIN, SUITE 400
VICTORIA, TEXAS 77901-8142

STEPHEN W. VAN MANEN, CPA
HAMILTON H. REDMON, CPA
DENNIS C. CIBAL, CPA
E. BRUCE WOOLSON, CPA
ERIC L. KUCERA, CPA
CLAYTON P. VAN PELT, CPA
ROBERT W. SCHAAER, CPA
MELISSA M. TERRY, CPA

(361) 573-3255
FAX: (361) 573-9531

INDEPENDENT AUDITORS' REPORT

The Honorable Mayor and
Members of the City Council
City of Port Lavaca, Texas

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 Port Lavaca, Texas (the "City"), as of and for the year ended September 30, 2006, 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 management. 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. 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 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 the City as of September 30, 2006, and the respective changes in financial position and, where applicable, cash flows, thereof and the budgetary comparison for the general fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis on pages 2 through 9 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. 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.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The combining and individual fund statements and schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements. These statements and schedules 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.

Harrison, Waldrop & Uherek, L.L.P.

March 15, 2007

As management of Port Lavaca, Texas (the City), we offer readers of the City's financial statements this narrative overview and analysis of the financial activities of the City for the year ended September 30, 2006.

FINANCIAL HIGHLIGHTS

Government-Wide

- The assets of the City exceeded its liabilities at the close of the most recent fiscal year by \$32,559,509 (net assets). Of this amount, \$9,376,238 (unrestricted net assets) may be used to meet the City's ongoing obligations to citizens and creditors.
- The City's total net assets increased by \$2,559,886.
- The City's long-term debt decreased by \$464,321 during the current fiscal year.

Governmental Activities

- As of September 30, 2006, the City's governmental funds reported an ending fund balance of \$5,342,744, an increase of \$142,392 (2.7%) in comparison with the prior year.

Business Type Activities

- Unrestricted net assets grew from \$3,618,881 in 2005 to \$4,353,647 (an increase of 16.88%) as of September 30, 2006.
- On a governmental-wide basis for business-type activities, program revenue net of expenses was \$1,367,051.

General Fund Performance

- At the end of the fiscal year, unreserved, undesignated fund balance for the General Fund was \$574,072, or 10.2 percent of total General Fund expenditures.
- The designated portion of the Fund's fund balance totaled \$3,379,900. These monies were designated to pay health insurance claims, for various street improvements and capital asset replacement, and to be ready financially in the event of a disaster.

OVERVIEW OF THE FINANCIAL STATEMENTS

The discussion and analysis is intended to serve as an introduction to the City's basic financial statements. The City's basic financial statements include three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements.

Government-wide Financial Statements

The *government-wide financial statements* are designed to provide readers with a broad overview of the City's finances, in a manner similar to a private-sector business.

The *statement of net assets* presents information on all of the City's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The *statement of activities* presents information showing how the City's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., depreciation and earned but unused vacation leave).

The government-wide financial statements present functions and programs of the City that are provided for various funding sources. The government-wide financial statements can be found on pages 10-12 of this report.

OVERVIEW OF THE FINANCIAL STATEMENTS (continued)

Fund Financial Statements

A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The funds of the City can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

Governmental Funds - Governmental funds are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of the governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented in the governmental funds with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financial decisions. Both the governmental funds balance sheet and the governmental funds statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between the governmental funds and *governmental activities*. The basic governmental fund financial statements can be found on pages 13-17 of this report.

Proprietary Funds - Proprietary funds are used to account for operations (a) that are financed and operated in a manner similar to private business enterprises – where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability or other purposes. Proprietary fund financial statements can be found on pages 18-22 of this report.

Fiduciary Funds - Fiduciary Funds are used to account for assets held by the City in a trustee capacity or as an agent for individuals, private organizations, other governments, and/or other funds. The City uses a Pension Trust Fund and an Agency Fund. Pension Trust Funds are accounted for in essentially the same manner as proprietary funds. Agency Funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. Fiduciary Fund financial statements can be found on pages 23 and 24.

Notes to Financial Statements

The notes to the financial statements provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 25-47 of this report.

Other Information

The combining and individual fund statements and schedules provide additional information pertaining to the City's Nonmajor governmental funds and the General Fund's budgetary performance. This other information can be found on pages 48-61 of this report.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. The City's net assets exceeded liabilities by \$32,559,509 as of September 30, 2006.

The largest portion of the City's net assets (70.5%) reflects its investment in capital assets (e.g. land, buildings, vehicles, machinery and equipment, and infrastructure); less any related debt used to acquire those assets that is still outstanding. The City uses these capital assets to provide services to the individuals we serve; consequently, these assets are not available for future spending. The second largest portion of the City's net assets (28.8%) represents unrestricted financial resources available for future operations. Additionally, a portion of the City's net assets (.7 %) represents resources that are subject to restrictions on how they may be used.

SUMMARY OF STATEMENT OF NET ASSETS As of September 30, 2006 and 2005 (amounts expressed in thousands)

	Governmental Activities		Business-type Activities		Total	
	2006	2005	2006	2005	2006	2005
ASSETS						
Current and other assets	\$ 6,543	\$ 6,368	\$ 5,031	\$ 4,269	\$ 11,574	\$ 10,637
Capital assets, net	16,621	15,361	16,538	16,267	33,159	31,628
Total Assets	23,164	21,729	21,569	20,536	44,733	42,265
LIABILITIES						
Current and other liabilities	1,290	854	1,026	1,043	2,316	1,897
Long-term liabilities	4,143	4,303	5,715	6,065	9,858	10,368
Total Liabilities	5,433	5,157	6,741	7,108	12,174	12,265
NET ASSETS						
Invested in capital assets, net of debt	12,509	10,879	10,461	9,809	22,970	20,688
Restricted	199	143	14	-	213	143
Unrestricted	5,023	5,550	4,353	3,619	9,376	9,169
Total Net Assets	\$ 17,731	\$ 16,572	\$ 14,828	\$ 13,428	\$ 32,559	\$ 30,000

Net assets of the City increased by \$2,559,886. Key elements of the increase are as follows:

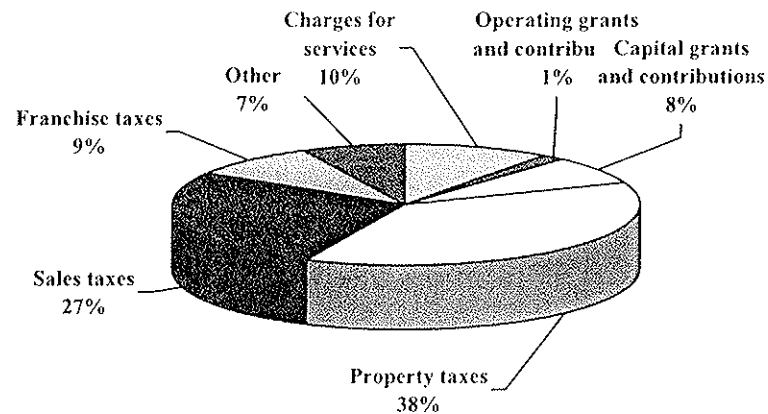
GOVERNMENT-WIDE FINANCIAL ANALYSIS (continued)

CHANGES IN NET ASSETS For the Fiscal Years Ended September 30, 2006 and 2005 (amounts expressed in thousands)						
	Governmental Activities		Business-type Activities		Total	
	2006	2005	2006	2005	2006	2005
REVENUES						
Program revenues:						
Charges for services	\$ 679	\$ 423	\$ 4,949	\$ 4,807	\$ 5,628	\$ 5,230
Operating grants and contributions	101	15	17	-	118	15
Capital grants and contributions	517	594	227	102	744	696
General revenues:						
Property taxes, penalties and interest	2,531	2,354	-	-	2,531	2,354
Sales taxes	1,823	1,707	-	-	1,823	1,707
Franchise taxes	599	581	-	-	599	581
Investment income and other	482	657	173	208	655	865
Total Revenues	6,732	6,331	5,366	5,117	12,098	11,448
EXPENSES						
General government	1,266	1,027	-	-	1,266	1,027
Public safety	2,254	2,309	-	-	2,254	2,309
Public works	231	240	-	-	231	240
Streets	1,239	1,248	-	-	1,239	1,248
Parks and recreation	527	521	-	-	527	521
Interest on long-term debt	196	168	-	-	196	168
Public utilities	-	-	3,344	3,427	3,344	3,427
Port commission	-	-	311	326	311	326
Beach operations	-	-	171	116	171	116
Total Expenses	5,713	5,513	3,826	3,869	9,539	9,382
Change in net assets before transfers	1,019	818	1,540	1,248	2,559	2,066
Transfers	140	(378)	(140)	378	-	-
Change in net assets	1,159	440	1,400	1,626	2,559	2,066
Net assets - beginning	16,572	16,132	13,428	11,802	30,000	27,934
Net assets - ending	<u>\$ 17,731</u>	<u>\$ 16,572</u>	<u>\$ 14,828</u>	<u>\$ 13,428</u>	<u>\$ 32,559</u>	<u>\$ 30,000</u>

GOVERNMENT-WIDE FINANCIAL ANALYSIS (continued)

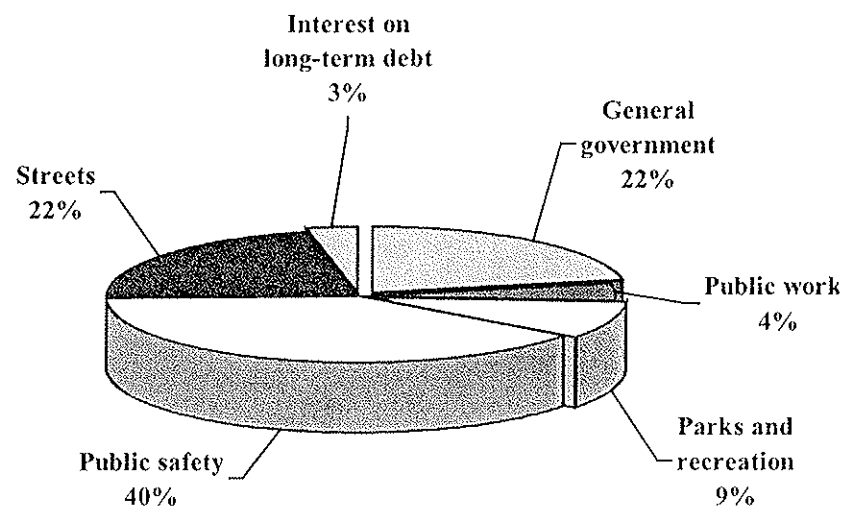
Graphic presentations of selected data from the summary tables follow to assist in the analysis of the City's activities.

GOVERNMENTAL REVENUES



For the fiscal year ended September 30, 2006, revenues from governmental activities totaled \$6.7 million.

GOVERNMENTAL FUNCTIONAL EXPENSES



For the fiscal year ended September 30, 2006, expenses for governmental activities totaled \$5.7 million.

FINANCIAL ANALYSIS OF THE CITY'S FUNDS

As previously noted, the City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The City's governmental funds are discussed below:

Governmental Funds

The focus of the City's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the City's financing requirements. In particular, fund balances may serve as a useful measure of a government's net resources available for spending for program purposes at the end of the fiscal year.

As of September 30, 2006, the City's governmental funds, which consist of a general fund, two debt service funds, three capital projects funds, and 14 special revenue funds, reported an ending fund balance of \$5,342,744, which is an increase of \$142,392 from last year's total of \$5,200,352.

The General Fund is the chief operating fund of the City. Its fund balance increased by \$205,997 during the fiscal year due to increased revenue from taxes, fines, and interest earnings. As a measure of the General Fund's liquidity, it may be useful to compare unreserved fund balance to total fund expenditures. Unreserved fund balance represents 10.2% of total General Fund expenditures.

Proprietary Fund

The City's proprietary fund statements provide the same type of information as found in the government-wide financial statements, but in more detail.

Unrestricted net assets of the Public Utility Fund at the end of the fiscal year amounted to \$3,344,180. The increase in total net assets for the year, after transfers to the General Fund of 195,472, was \$997,602. Net assets of the Port Commission and Beach Operating Funds also increased during the 2006 fiscal year. Increases in these funds were \$129,718 and 273,044 respectively.

Other factors concerning the finances of these funds have been addressed in the discussion of the City's business-type activities.

GENERAL FUND BUDGETARY HIGHLIGHTS

Actual expenditures exceeded final amended budget appropriations in the public safety, streets, and parks and recreation functions. Public safety and parks appropriations were exceeded primarily due to capital leases entered into but not reflected in the budget. Capital lease proceeds were used to offset these expenditures. Personnel costs were higher than anticipated in the police, fire and general government. Contracted services were higher than anticipated in the municipal court department offset by aggressive collections. Conservative budgetary practices showed positive budget variance as it relates to tax, fee, and investment income.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

The City's investment in capital assets as of September 30, 2006 amounts to \$33,159,416 (net of accumulated depreciation). This investment in capital assets includes land, buildings, improvements, vehicles, machinery and equipment, and infrastructure.

CAPITAL ASSETS AND DEBT ADMINISTRATION (continued)

Capital Assets (continued)

SCHEDULE OF CAPITAL ASSETS September 30, 2006 and 2005 (amounts expressed in thousands)						
	Governmental Activities		Business-type Activities		Total	
	2006	2005	2006	2005	2006	2005
Non-Depreciable Assets						
Land	\$ 934	\$ 934	\$ 1,501	\$ 1,501	\$ 2,435	\$ 2,435
Construction in progress	478	1,060	120	4,501	598	5,561
Other Capital Assets						
Machinery and equipment	1,488	1,402	654	718	2,142	2,120
Buildings and structures	4,923	4,653	4,324	4,119	9,247	8,772
Infrastructure	22,072	20,124	28,641	23,640	50,713	43,764
Accumulated depreciation on other capital assets	(13,274)	(12,812)	(18,702)	(18,212)	(31,976)	(31,024)
Totals	<u>\$ 16,621</u>	<u>\$ 15,361</u>	<u>\$ 16,538</u>	<u>\$ 16,267</u>	<u>\$ 33,159</u>	<u>\$ 31,628</u>

Additional information on the City's capital assets can be found in Note 7 in the notes to financial statements.

Long-Term Debt

At the end of the current fiscal year, the City had total bonds, certificates of obligation, notes, and capital lease obligations outstanding of \$10.9 million. The following table details the nature of this debt.

SCHEDULE OF LONG-TERM DEBT September 30, 2006 and 2005 (amounts expressed in thousands)						
	Governmental Activities		Business-type Activities		Total	
	2006	2005	2006	2005	2006	2005
Revenue bonds	\$ -	\$ -	\$ 5,980	\$ 6,225	\$ 5,980	\$ 6,225
Certificates of obligation	4,250	4,385	80	185	4,330	4,570
Notes	400	-	-	-	400	-
Capital leases	130	96	49	62	179	158
Total	<u>\$ 4,780</u>	<u>\$ 4,481</u>	<u>\$ 6,109</u>	<u>\$ 6,472</u>	<u>\$ 10,889</u>	<u>\$ 10,953</u>

Additional information on the City's long-term debt can be found in Note 11 in the notes to financial statements.

ECONOMIC FACTORS

There are signs of economic progress for the future. Sales tax revenues have been climbing especially for Cities on the coast. Super Wal-Mart has proved to be an economic benefit. The timing of the store opening date (May 2005) and the beginning of steeper sales tax increases are close. The value of the store (approx \$5M) has been added to the tax roll. The City entered into a sales tax rebate agreement with Wal-Mart. The amount of the agreement is the estimated value of Tiny Browning Blvd, the road constructed by Wal-Mart to enhance the access to the new store. Wal-Mart agreed to build the street and to "donate" it to the city in return for the City's sales tax rebate agreement. The street is anticipated to be paid off within two (2) years from an original estimate of four (4).

There are plans to build two (2) high-end housing projects within the City. Property taxes have been abated to reflect current taxable rate with any new homes being added to the City tax rolls upon completion of these homes, each at its own time of completion. One housing project has started.

The City adjusted water and sewer rates in April 2006 to ensure debt service coverage related to utility infrastructure repairs and replacements.

Weather continues to be a factor generation for the Public Utility Fund. Continued heavy rainfall decreases sales of water by the City and therefore decreases revenues of both water and sewer sales.

Alcoa has built a pier and performed dredging at the City's boat ramp located at the Light House Beach Park. This again allows fishermen quicker access to the Lavaca Bay. The City is also moving forward with construction of the Bay Front Boat Ramp funded by a federal grant.

The Beach added a small recreational building located in the area of the City's mobile homes/camper trailers park. This allows campers to use the facility for games and other recreational activities.

Future plans include continuation of the street rebuild or infrastructure replacement. The City has received a low cost loan from the Texas Water Development Board to replace antiquated water lines throughout the City. Plans are to replace water lines and valves to increase water pressure, provide cleaner water, decrease water loss percentage, and reduce outages due to very old infrastructure.

The City has again applied to the Texas Community Development Program for a grant of \$250,000 with a City match of \$50,000 to continue water and sewer line replacement in low income areas.

Helena Chemicals has increased the size of its operation at the Harbor of Refuge location and is currently using rail transportation at this location. Trinity Care Corp., an assisted living organization opened on April 28, 2007.

REQUESTS FOR INFORMATION

The financial report is designed to provide a general overview of Port Lavaca Texas' finances for all those with an interest in the City's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to City of Port Lavaca: Scotty Jones, Finance Director, 202 North Virginia, Port Lavaca, Texas 77979.

BASIC FINANCIAL STATEMENTS

CITY OF PORT LAVACA, TEXAS

STATEMENT OF NET ASSETS

September 30, 2006

	Governmental Activities	Business-type Activities	Total
ASSETS			
Current assets			
Cash and cash equivalents	\$ 5,195,630	\$ 3,980,373	\$ 9,176,003
Receivables (net)	700,212	562,624	1,262,836
Due from other governments	561,652	6,125	567,777
Internal balances	3,902	(3,902)	-
Due from other funds	720	-	720
Prepaid expenses	25,800	10,120	35,920
Inventory	-	100,953	100,953
Restricted assets			
Bond reserves	-	80,199	80,199
Escrow accounts	-	16,125	16,125
Investments	1,200	-	1,200
Total current assets	6,489,116	4,752,617	11,241,733
Noncurrent assets			
Capital assets			
Land and other assets not being depreciated	1,412,114	1,621,309	3,033,423
Assets being depreciated (net)	15,208,935	14,917,058	30,125,993
Bond issue costs (net)	54,157	278,092	332,249
Total noncurrent assets	16,675,206	16,816,459	33,491,665
Total assets	23,164,322	21,569,076	44,733,398
LIABILITIES			
Current liabilities			
Accounts payable	410,068	354,141	764,209
Payroll related liabilities	32,726	1,261	33,987
Accrued interest payable	24,747	36,826	61,573
Other payables	46,384	2,297	48,681
Due to other governments	39,375	3,683	43,058
Accrued compensated absences	100,001	15,741	115,742
Deferred revenue	-	9,588	9,588
Customer deposits	-	239,439	239,439
Current portion of non-current liabilities			
Capital leases	76,175	28,019	104,194
Bonds, certificates and notes	560,286	255,000	815,286
Total current liabilities	1,289,762	945,995	2,235,757
Current liabilities payable from restricted assets			
Accrued interest payable	-	199	199
Bonds and certificates	-	80,000	80,000
Total payable from restricted assets	-	80,199	80,199
Long-term liabilities, net of current portion			
Capital leases	53,205	21,219	74,424
Bonds and certificates (net of unamortized discounts)	4,090,000	5,693,509	9,783,509
Total long-term liabilities	4,143,205	5,714,728	9,857,933
Total liabilities	5,432,967	6,740,922	12,173,889

	Governmental Activities	Business-type Activities	Total
NET ASSETS			
Invested in capital assets, net of related debt	\$ 12,509,383	\$ 10,460,620	\$ 22,970,003
Restricted for:			
Capital projects	19,627	-	19,627
Debt service	122,890	-	122,890
Facilities maintenance	56,864	13,887	70,751
Unrestricted	<u>5,022,591</u>	<u>4,353,647</u>	<u>9,376,238</u>
Total net assets	<u>\$ 17,731,355</u>	<u>\$ 14,828,154</u>	<u>\$ 32,559,509</u>

The accompanying notes are an integral part of this statement.

CITY OF PORT LAVACA, TEXAS
STATEMENT OF ACTIVITIES
For the year ended September 30, 2006

Function/Programs	Program Revenues			Net (Expense) Revenue and Changes in Net Assets		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business Type Activities
Governmental activities						
General government	\$ 1,265,792	\$ 224,776	\$ 9,354	\$ 124,914	\$ (906,748)	\$ -
Public safety	2,254,482	407,300	34,911	8,497	(1,803,774)	-
Public works	230,558	-	-	-	(230,558)	-
Streets	1,238,757	-	-	-	(1,238,757)	-
Parks and recreation	526,995	47,203	56,293	383,656	(39,843)	-
Interest on long-term debt	195,885	-	-	-	(195,885)	-
Total governmental activities	5,712,469	679,279	100,558	517,067	(4,415,565)	-
Business-type activities						
Public utilities	3,344,382	4,405,447	-	-	-	1,061,065
Port commission	310,482	398,846	3,000	15,963	-	107,327
Beach operations	171,037	144,488	13,887	211,321	-	198,659
Total business-type activities	3,825,901	4,948,781	16,887	227,284	-	1,367,051
Total government	\$ 9,538,370	\$ 5,628,060	\$ 117,445	\$ 744,351	(4,415,565)	(3,048,514)
General revenues:						
Taxes:						
Property taxes, levied for general purposes					2,244,362	-
Property taxes, levied for debt service					285,732	-
Sales taxes					1,823,450	-
Franchise taxes					598,795	-
Other taxes					173,856	-
Investment earnings					266,681	166,310
Gain on sale of capital assets					17,099	7,475
Miscellaneous					24,640	-
Transfers					140,472	(140,472)
Total general revenues and transfers					5,575,087	33,313
Change in net assets					1,159,522	1,400,364
Net assets - beginning					16,571,833	13,427,790
Net assets - ending					\$ 17,731,355	\$ 14,828,154
						\$ 32,559,509

The accompanying notes are an integral part of this statement.

CITY OF PORT LAVACA, TEXAS

BALANCE SHEET

GOVERNMENTAL FUNDS

September 30, 2006

	General	Other Governmental Funds	Total Governmental Funds
ASSETS			
Current assets			
Cash and cash equivalents	\$ 3,983,306	\$ 1,212,324	\$ 5,195,630
Receivables (net)	627,992	72,220	700,212
Due from other governments	436,958	124,694	561,652
Due from other funds	46,450	-	46,450
Prepaid items	25,800	-	25,800
Restricted assets			
Investments	-	1,200	1,200
Total assets	<u>\$ 5,120,506</u>	<u>\$ 1,410,438</u>	<u>\$ 6,530,944</u>
LIABILITIES AND FUND BALANCES			
Liabilities			
Accounts payable	\$ 325,586	\$ 84,482	\$ 410,068
Payroll related payables	5,593	-	5,593
Other payables	46,384	-	46,384
Due to other governments	39,375	-	39,375
Due to other funds	-	41,828	41,828
Accrued compensated absences	18,664	-	18,664
Deferred revenue	505,132	121,156	626,288
Total liabilities	<u>940,734</u>	<u>247,466</u>	<u>1,188,200</u>
Fund balances			
Reserved for:			
Prepaid items	25,800	-	25,800
Debt service	-	118,931	118,931
Unreserved, designated for:			
Operating reserves	2,529,900	-	2,529,900
Health insurance claims	500,000	-	500,000
Street improvements	300,000	-	300,000
Capital asset replacement	250,000	-	250,000
Unreserved, undesignated reported in:			
General fund	574,072	-	574,072
Special revenue funds	-	379,336	379,336
Capital projects funds	-	664,705	664,705
Total fund balances	<u>4,179,772</u>	<u>1,162,972</u>	<u>5,342,744</u>
Total liabilities and fund balances	<u>\$ 5,120,506</u>	<u>\$ 1,410,438</u>	<u>\$ 6,530,944</u>

The accompanying notes are an integral part of this statement.

CITY OF PORT LAVACA, TEXAS**RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCE TO NET ASSETS
OF GOVERNMENTAL ACTIVITIES**September 30, 2006

Total governmental fund balance \$ 5,342,744

Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported in governmental funds. At the beginning of the year, the cost of these assets was \$28,172,497 and the accumulated depreciation was \$12,811,939. In addition, long-term liabilities are not due and payable in the current period, and therefore are not reported as liabilities in the funds. The long-term debt was \$4,552,018 at the beginning of the year. The net effect of including the beginning balances for capital assets (net of depreciation) and long-term debt in the governmental activities is to increase net assets. 10,808,540

Current year capital outlays are expenditures in the fund financial statements, but they should be shown as increases in capital assets in the government-wide financial statements. The net effect of including the 2005/2006 capital outlays is to increase net assets. 1,410,652

Contributions of capital assets by third parties are not reported in the fund financial statements because these transactions do not involve current financial resources. The effect of including these contributions is to increase net assets. 392,153

The 2005/2006 depreciation expense increases accumulated depreciation. The effect of the current year's depreciation is to decrease net assets. (542,314)

The issuance of long-term debt provides current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net assets. The effect of this difference is to decrease net assets. (515,055)

Current year payments on long-term debt are expenditures in the fund financial statements, but they serve to reduce long-term liabilities in the government-wide financial statements. The effect of removing the 2005/2006 principal payments on long-term debt is to increase net assets. 216,538

Some property taxes and other revenues will not be collected for several months after the end of the City's fiscal year. Because these amounts are not available to pay current expenditures, they are reported as deferred revenue in the fund financial statements. The effect of including such deferred amounts is to increase net assets. 626,288

Various other reclassifications and eliminations are necessary to convert from the modified accrual basis of accounting to the accrual basis of accounting. These include recognizing deferred revenue as revenue and eliminating interfund transactions. The net effect of these reclassifications and recognitions is to decrease net assets. (8,191)

Net assets of governmental activities \$ 17,731,355

The accompanying notes are an integral part of this statement.

CITY OF PORT LAVACA, TEXAS

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES

GOVERNMENTAL FUNDS

For the year ended September 30, 2006

	<u>General</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
REVENUES			
Taxes			
Ad valorem	\$ 2,255,995	\$ 306,180	\$ 2,562,175
Sales	1,823,450	-	1,823,450
Other	607,882	164,769	772,651
Fines and forfeitures	348,912	20,655	369,567
Intergovernmental	138,425	70,656	209,081
Licenses and permits	73,974	44,172	118,146
Investment	199,676	67,005	266,681
Rental	43,360	-	43,360
Charges for services	13,206	-	13,206
Contributions and donations	-	55,424	55,424
Miscellaneous	24,490	150	24,640
Total revenues	<u>5,529,370</u>	<u>729,011</u>	<u>6,258,381</u>
EXPENDITURES			
Current			
General government	1,238,273	35,161	1,273,434
Public safety	2,230,634	84,984	2,315,618
Public works	226,067	-	226,067
Streets	1,323,173	-	1,323,173
Parks and recreation	504,510	1,870	506,380
Capital outlay	-	724,162	724,162
Debt service			
Principal retirement	81,538	135,000	216,538
Interest and fiscal charges	3,670	199,573	203,243
Total expenditures	<u>5,607,865</u>	<u>1,180,750</u>	<u>6,788,615</u>
Deficiency of revenues over expenditures	(78,495)	(451,739)	(530,234)
OTHER FINANCING SOURCES (USES)			
Transfers in	255,472	438,134	693,606
Transfers out	(503,134)	(50,000)	(553,134)
Proceeds from note agreements	400,286	-	400,286
Proceeds from capital leases	114,769	-	114,769
Sale of capital assets	17,099	-	17,099
Total other financing sources	<u>284,492</u>	<u>388,134</u>	<u>672,626</u>
Net change in fund balances	205,997	(63,605)	142,392
Fund balances - beginning	<u>3,973,775</u>	<u>1,226,577</u>	<u>5,200,352</u>
Fund balances - ending	<u>\$ 4,179,772</u>	<u>\$ 1,162,972</u>	<u>\$ 5,342,744</u>

The accompanying notes are an integral part of this statement.

CITY OF PORT LAVACA, TEXAS**RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES**
For the year ended September 30, 2006

Total net change in fund balances - governmental funds	\$ 142,392
---	-------------------

Amounts reported for governmental activities in the statement of activities are different because:

Current year capital outlays are expenditures in the fund financial statements, but they should be shown as increases in capital assets in the government-wide financial statements. The net effect of removing the 2005/2006 capital outlays is to increase net assets.	1,410,652
--	-----------

Contributions of capital assets by third parties are not reported in the fund financial statements because these transactions do not involve current financial resources. The effect of including these contributions is to increase net assets.	392,153
--	---------

Depreciation is not recognized as an expense on the governmental funds since it does not require the use of current financial resources. The net effect of the current year's depreciation is to decrease net assets.	(542,314)
---	-----------

The issuance of long-term debt provides current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net assets. The effect of this difference is to decrease net assets.	(515,055)
--	-----------

Current year payments on long-term debt are expenditures in the fund financial statements, but they serve to reduce long-term liabilities in the government-wide financial statements. The effect of removing the 2005/2006 principal payments on long-term debt is to increase net assets.	216,538
---	---------

Some property taxes and other revenues will not be collected for several months after the end of the City's fiscal year. Because these amounts are not available to pay current expenditures, they are reported as deferred revenue in the fund financial statements. The effect of including the increase in such deferred amounts is to increase net assets.	63,886
--	--------

Various other reclassifications and eliminations are necessary to convert from the modified accrual basis of accounting to the accrual basis of accounting. These include recognizing deferred revenue as revenue, adjusting current year revenue to show the revenue earned from the current year's tax levy, and eliminating interfund transactions. The net effect of these reclassifications and recognitions is to decrease net assets.	<u>(8,730)</u>
--	----------------

Change in net assets of governmental activities	<u>\$ 1,159,522</u>
--	----------------------------

The accompanying notes are an integral part of this statement.

CITY OF PORT LAVACA, TEXAS**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE****BUDGET AND ACTUAL****GENERAL FUND**

For the year ended September 30, 2006

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget
				Positive
				(Negative)
REVENUES				
Taxes	\$ 4,315,802	\$ 4,315,802	\$ 4,687,327	\$ 371,525
Fines and forfeitures	246,100	246,100	348,912	102,812
Intergovernmental	139,000	139,000	138,425	(575)
Licenses and permits	63,350	63,350	73,974	10,624
Investment	35,000	35,000	199,676	164,676
Rental	50,500	50,500	43,360	(7,140)
Charges for services	9,000	9,000	13,206	4,206
Miscellaneous	38,800	38,800	24,490	(14,310)
Total revenues	<u>4,897,552</u>	<u>4,897,552</u>	<u>5,529,370</u>	<u>631,818</u>
EXPENDITURES				
Current				
General government	1,257,540	1,257,540	1,238,273	19,267
Public safety	2,035,678	2,079,162	2,230,634	(151,472)
Public works	298,958	298,958	226,067	72,891
Streets	932,200	966,740	1,323,173	(356,433)
Parks and recreation	487,423	498,887	504,510	(5,623)
Debt service				
Principal retirement	-	-	81,538	(81,538)
Interest and fiscal charges	-	-	3,670	(3,670)
Total expenditures	<u>5,011,799</u>	<u>5,101,287</u>	<u>5,607,865</u>	<u>(506,578)</u>
Deficiency of revenues over expenditures	(114,247)	(203,735)	(78,495)	125,240
OTHER FINANCING SOURCES (USES)				
Transfers in	230,022	230,022	255,472	25,450
Transfers out	(75,275)	(502,910)	(503,134)	(224)
Proceeds from note agreements	-	-	400,286	400,286
Proceeds from capital leases	-	-	114,769	114,769
Sale of capital assets	2,500	2,500	17,099	14,599
Net other financing sources (uses)	<u>157,247</u>	<u>(270,388)</u>	<u>284,492</u>	<u>554,880</u>
Net change in fund balance	43,000	(474,123)	205,997	680,120
Fund balance - beginning	<u>3,973,775</u>	<u>3,973,775</u>	<u>3,973,775</u>	<u>-</u>
Fund balance - ending	<u>\$ 4,016,775</u>	<u>\$ 3,499,652</u>	<u>\$ 4,179,772</u>	<u>\$ 680,120</u>

The accompanying notes are an integral part of this statement.

CITY OF PORT LAVACA, TEXAS

STATEMENT OF NET ASSETS

PROPRIETARY FUNDS

September 30, 2006

	Business-type Activities - Enterprise Funds			
	Public Utility	Port Commission	Beach Operating	Total
ASSETS				
Current assets				
Cash and cash equivalents	\$ 3,009,111	\$ 656,084	\$ 315,178	\$ 3,980,373
Receivables (net)	557,872	4,718	34	562,624
Due from other governments	-	6,125	-	6,125
Prepaid expenses	8,302	990	828	10,120
Inventory	100,953	-	-	100,953
Restricted assets - cash and cash equivalents				
Bond reserves	-	80,199	-	80,199
Escrow accounts	16,125	-	-	16,125
Total current assets	3,692,363	748,116	316,040	4,756,519
Noncurrent assets				
Capital assets				
Land and other assets not being depreciated	235,987	1,111,509	273,813	1,621,309
Assets being depreciated (net)	11,506,000	2,180,708	1,230,350	14,917,058
Bond issue costs (net)	278,092	-	-	278,092
Net noncurrent assets	12,020,079	3,292,217	1,504,163	16,816,459
Total assets	15,712,442	4,040,333	1,820,203	21,572,978
LIABILITIES				
Current liabilities				
Accounts payable	317,832	31,657	4,652	354,141
Payroll related liabilities	1,261	-	-	1,261
Other payables	2,120	-	177	2,297
Due to other governments	3,683	-	-	3,683
Due to other funds	3,902	-	-	3,902
Accrued interest payable	36,826	-	-	36,826
Accrued compensated absences	15,741	-	-	15,741
Deferred revenue	5,471	4,117	-	9,588
Customer deposits	239,439	-	-	239,439
Current portion of noncurrent liabilities				
Capital leases	28,019	-	-	28,019
Bonds and certificates	255,000	-	-	255,000
Total current liabilities	909,294	35,774	4,829	949,897
Current liabilities payable from restricted assets				
Accrued interest payable	-	199	-	199
Bonds and certificates	-	80,000	-	80,000
Total payable from restricted assets	-	80,199	-	80,199
Long-term liabilities, net of current portion				
Capital leases	21,219	-	-	21,219
Bonds and certificates (net of unamortized discounts)	5,693,509	-	-	5,693,509
Total long-term liabilities	5,714,728	-	-	5,714,728
Total liabilities	6,624,022	115,973	4,829	6,744,824

	Business-type Activities - Enterprise Funds			
	Public Utility	Port Commission	Beach Operating	Total
NET ASSETS				
Invested in capital assets, net of related debt	\$ 5,744,240	\$ 3,212,217	\$ 1,504,163	\$ 10,460,620
Restricted for:				
Facilities maintenance	-	-	13,887	13,887
Unrestricted net assets	<u>3,344,180</u>	<u>712,143</u>	<u>297,324</u>	<u>4,353,647</u>
Total net assets	<u>\$ 9,088,420</u>	<u>\$ 3,924,360</u>	<u>\$ 1,815,374</u>	<u>\$ 14,828,154</u>

The accompanying notes are an integral part of this statement.

CITY OF PORT LAVACA, TEXAS**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS****PROPRIETARY FUNDS**

For the year ended September 30, 2006

	Business-type Activities - Enterprise Funds			
	Public Utility	Port Commission	Beach Operating	Total
OPERATING REVENUES				
Charges for services				
Water sales	\$ 2,067,386	\$ -	\$ -	\$ 2,067,386
Sewer services	1,512,839	-	-	1,512,839
Waste collection	630,877	-	-	630,877
Tap and service fees	43,246	-	-	43,246
Gate fees	-	-	26,766	26,766
Leases and rentals	-	359,672	117,592	477,264
Port tariffs	-	37,269	-	37,269
Penalties	91,783	1,715	-	93,498
Miscellaneous	59,316	190	130	59,636
Total operating revenues	<u>4,405,447</u>	<u>398,846</u>	<u>144,488</u>	<u>4,948,781</u>
OPERATING EXPENSES				
Personnel services	506,543	29,429	29	536,001
Materials and supplies	53,796	11,317	857	65,970
Services	1,024,676	67,760	48,391	1,140,827
Water purchases	1,009,438	-	-	1,009,438
Maintenance and repairs	213,042	45,542	66,910	325,494
Bad debts	12,000	-	-	12,000
Depreciation and amortization	376,598	149,308	54,850	580,756
Miscellaneous	11	-	-	11
Total operating expenses	<u>3,196,104</u>	<u>303,356</u>	<u>171,037</u>	<u>3,670,497</u>
Operating income (loss)	1,209,343	95,490	(26,549)	1,278,284
NONOPERATING REVENUES (EXPENSES)				
Noncapital grants and contributions	-	3,000	13,887	16,887
Gain on sale of capital assets	7,475	-	-	7,475
Investment income	124,534	26,391	15,385	166,310
Interest expense	(148,278)	(7,126)	-	(155,404)
Net nonoperating revenues	<u>(16,269)</u>	<u>22,265</u>	<u>29,272</u>	<u>35,268</u>
Income before capital contributions and transfers	1,193,074	117,755	2,723	1,313,552
Capital grants and contributions	-	15,963	211,321	227,284
Transfers in	-	-	65,000	65,000
Transfers out	<u>(195,472)</u>	<u>(4,000)</u>	<u>(6,000)</u>	<u>(205,472)</u>
Change in net assets	997,602	129,718	273,044	1,400,364
Net assets - beginning	<u>8,090,818</u>	<u>3,794,642</u>	<u>1,542,330</u>	<u>13,427,790</u>
Net assets - ending	<u>\$ 9,088,420</u>	<u>\$ 3,924,360</u>	<u>\$ 1,815,374</u>	<u>\$ 14,828,154</u>

The accompanying notes are an integral part of this statement.

CITY OF PORT LAVACA, TEXAS
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
For the year ended September 30, 2006

	Business-type Activities - Enterprise Funds			
	Public Utility	Port Commission	Beach Operating	Total
CASH FLOWS FROM OPERATING ACTIVITIES:				
Cash received from customers	\$ 4,384,433	\$ 399,840	\$ 144,488	\$ 4,928,761
Cash payments to suppliers for goods and services	(2,317,332)	(115,192)	(147,825)	(2,580,349)
Cash payments to employees for services	(520,488)	(29,829)	-	(550,317)
Net cash provided (used) by operating activities	<u>1,546,613</u>	<u>254,819</u>	<u>(3,337)</u>	<u>1,798,095</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:				
Customer deposits received (net)	24,977	-	-	24,977
Receipts from noncapital grants and contributions	-	3,000	13,887	16,887
Cash received from other funds	3,902	-	65,000	68,902
Cash paid to other funds	(195,472)	(4,000)	(6,000)	(205,472)
Net cash provided (used) by noncapital financing activities	<u>(166,593)</u>	<u>(1,000)</u>	<u>72,887</u>	<u>(94,706)</u>
CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES:				
Acquisition of capital assets	(108,093)	(34,828)	(550,174)	(693,095)
Receipts from capital grants and contributions	-	9,839	211,675	221,514
Proceeds from sale of capital assets	7,475	-	-	7,475
Proceeds from issuance of capital debt	14,994	-	-	14,994
Principal paid on capital debt	(297,545)	(80,000)	-	(377,545)
Interest paid on capital debt	(296,347)	(7,280)	-	(303,627)
Net cash used by capital financing activities	<u>(679,516)</u>	<u>(112,269)</u>	<u>(338,499)</u>	<u>(1,130,284)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:				
Investment income	124,534	26,391	15,385	166,310
Net cash provided by investing activities	<u>124,534</u>	<u>26,391</u>	<u>15,385</u>	<u>166,310</u>
Net increase (decrease) in cash and cash equivalents	825,038	167,941	(253,564)	739,415
Cash and cash equivalents at beginning of year	2,200,198	568,342	568,742	3,337,282
Cash and cash equivalents at end of year	<u>\$ 3,025,236</u>	<u>\$ 736,283</u>	<u>\$ 315,178</u>	<u>\$ 4,076,697</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:				
Operating income (loss)	\$ 1,209,343	\$ 95,490	\$ (26,549)	\$ 1,278,284
Adjustments to reconcile operating income to net cash provided by operating activities:				
Depreciation and amortization	376,598	149,308	54,850	580,756
Change in assets and liabilities:				
(Increase) decrease in accounts receivable	(14,485)	(3,123)	-	(17,608)
(Increase) decrease in prepaid expense	2,718	99	-	2,817
(Increase) decrease in inventory	(16,928)	-	-	(16,928)
Increase (decrease) in accounts and other payables	(2,159)	9,328	(31,638)	(24,469)
Increase (decrease) in payroll related liabilities	(13,945)	(400)	-	(14,345)
Increase (decrease) in deferred revenue	5,471	4,117	-	9,588
Net cash provided (used) by operating activities	<u>\$ 1,546,613</u>	<u>\$ 254,819</u>	<u>\$ (3,337)</u>	<u>\$ 1,798,095</u>

	Business-type Activities - Enterprise Funds			
	Public Utility	Port Commission	Beach Operating	Total
Reconciliation of cash and cash equivalents:				
Unrestricted	\$ 3,009,111	\$ 656,084	\$ 315,178	\$ 3,980,373
Restricted				
Bond reserves	-	80,199	-	80,199
Escrow accounts	16,125	-	-	16,125
Total cash and cash equivalents	<u>\$ 3,025,236</u>	<u>\$ 736,283</u>	<u>\$ 315,178</u>	<u>\$ 4,076,697</u>
Noncash capital financing activities:				
Acquisition of capital assets via capital leases	\$ 14,994	\$ -	\$ -	\$ 14,994
Total noncash capital financing activities	<u>\$ 14,994</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 14,994</u>

The accompanying notes are an integral part of this statement.

CITY OF PORT LAVACA, TEXAS
STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
September 30, 2006

	Fireman's Relief and Retirement Fund	Police Seized - Nonforfeiture Fund
ASSETS		
Cash and cash equivalents	\$ 487	\$ 19,425
Restricted assets		
Investments	-	1,400
Total assets	<u>487</u>	<u>\$ 20,825</u>
LIABILITIES		
Due to others	-	\$ 20,825
Due to other funds	720	-
Total liabilities	<u>720</u>	<u>\$ 20,825</u>
NET ASSETS		
Restricted for payment of pension benefits	-	
Unrestricted net assets	<u>(233)</u>	
Total net assets	<u>\$ (233)</u>	

The accompanying notes are an integral part of this statement.

CITY OF PORT LAVACA, TEXAS**STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS****FIDUCIARY FUND***For the year ended September 30, 2006*

	Fireman's Relief and Retirement Fund
ADDITIONS	
Employer contributions	\$ 3,767
DEDUCTIONS	
Benefits	<u>3,658</u>
Change in net assets	109
Net assets - beginning	<u>(342)</u>
Net assets - ending	<u>\$ (233)</u>

The accompanying notes are an integral part of this statement.

INDEX

<u>Note</u>		<u>Page</u>
1	Summary of Significant Accounting Policies	26
2	Reconciliation of Government-Wide to Fund Financial Statements	31
3	Stewardship, Compliance and Accountability	32
4	Deposits and Investments	33
5	Receivables	34
6	Due from Other Governments	34
7	Capital Assets	35
8	Interfund Receivables, Payables and Transfers	36
9	Lease Obligations	37
10	Lessor Agreements	38
11	Long-Term Debt	38
12	Designations of Proprietary Fund Net Assets	40
13	Risk Management	40
14	Contingencies and Commitments	41
15	Pension Plans	42
16	Deferred Compensation Plan	44
17	Adjustments To and Restatements Of Beginning Balances	45

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of Port Lavaca, Texas (the "City"), was incorporated January 31, 1956 under a home rule charter. The City operates under a Council-Manager form of government. The City council consists of the mayor and six council members. The mayor and two council members are elected at large with the remaining council members elected by district. The City provides services related to the following: public safety (police and fire), highways and streets, sanitation, health and welfare, culture and recreation, economic development, planning and zoning, and general administrative services.

A. Reporting Entity

In evaluating how to define the government, for financial reporting purposes, the City's management has considered all potential component units. The decision to include a potential component unit in the reporting entity was made by applying the criteria set forth in the Governmental Accounting Standards Board ("GASB") Statement No. 14, *The Financial Reporting Entity*, and as amended by GASB Statement No. 39, *Determining Whether Certain Organizations are Component Units*. Under these guidelines, the reporting entity consists of the primary government (all funds of the City), organizations for which the primary government is financially accountable and any other organization for which the nature and significance of their relationship with the primary government is such that exclusion could cause the City's financial statements to be misleading or incomplete. Entities other than the primary government that are included in the primary government's financial statements are called component units. No legally separate organizations met the necessary criteria for inclusion as component units for the year ended September 30, 2006.

B. Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all nonfiduciary activities of the City. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes, and intergovernmental revenues are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not included among program revenues are reported instead as general revenues.

Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund financial statements. Revenues are recorded when transactions occur and expenses are recorded when a liability is incurred, regardless of the timing of 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.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation (continued)

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Sales taxes, franchise taxes, fines, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the City.

The City reports the following major governmental fund:

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

The City reports the following major enterprise (proprietary) funds:

The Public Utility Fund accounts for the activities of the City related to its provision of water, wastewater, and sanitation services.

The Port Commission Fund accounts for the harbor and port activities of the City.

The Beach Operating Fund accounts for the revenues and expenses related to the operation of the City's Lighthouse Beach and adjacent RV park.

Additionally, the City reports the following fund types:

Pension Trust Fund - The Fireman's Relief and Retirement Fund accounts for the accumulation and payment of retirement benefits to the City's eligible retired volunteer fire fighters.

Agency Fund - The Police Seized Nonforfeiture Fund accounts for assets seized by the City's police department in various law enforcement actions prior to disposition of the assets by court authorities.

Private-sector standards of accounting and financial reporting promulgated by the Financial Accounting Standards Board ("FASB") issued prior to December 1, 1989 generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of GASB. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The City has elected not to follow subsequent private-sector guidance.

Amounts reported as program revenues include: 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation (continued)

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the City's enterprise funds are charges to customers for sales and services. The Public Utility Fund also recognizes as operating revenue the portion of tap fees intended to recover the cost connecting new customers to the water system. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first, then unrestricted resources as they are needed.

D. Budgets and Budgetary Accounting

As set forth in the City Charter, the City Council adopts an annual budget for each operating fund of the City. The budgets for the City's governmental funds are prepared in accordance with the basis of accounting utilized by those funds. The budgets for the three enterprise funds are adopted under a basis consistent with generally accepted accounting principles ("GAAP"), except that depreciation, certain capital expenses, nonoperating income and expense items are not considered. The City Manager is authorized to transfer budgeted amounts within and among departments of individual funds; however, any revisions that alter the total expenditures/expenses must be approved by the City Council. All encumbered and unencumbered appropriations lapse at the end of the fiscal year with the exception of those of the parks department of the general fund. Unspent appropriations from this department are reported as a component of general fund reserved fund balance.

E. Deposits and Investments

The City's cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition.

The City may invest excess funds in any instruments authorized by its adopted investment policy. The City's authorized investment options are more restrictive than those allowed under the Public Funds Investment Act of Texas. Investments authorized under the City's investment policy include the following: Obligations of the United States or its agencies and instrumentalities which have a liquid market with a readily determinable market value; direct obligations of the State of Texas and agencies thereof; other obligations, the principal of and interest on which are unconditionally guaranteed by the State of Texas or United States of America; obligations of the State, agencies thereof, Counties, Cities, and other political subdivisions of any state having been rated as investment quality by a nationally recognized investment rating firm, and having received a rating of not less than A or its equivalent; certificates of deposit of state or national banks domiciled in Texas, guaranteed or insured by the Federal Deposit Insurance Corporation or by obligations previously mentioned; fully collateralized direct repurchase agreements with a defined termination date secured by obligations of the United States or its agencies or instrumentalities pledged with a third party; and certain joint pools of political subdivisions in the State of Texas that invest in instruments and follow practices allowed by current law.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

F. Receivables and Payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as "due to/from other funds". Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances".

All receivables are reported net of an applicable allowance for uncollectibles. Trade accounts receivable in excess of 60 days comprise the trade accounts receivable allowance for uncollectibles. The property tax receivable allowance is equal to 5 percent of outstanding property taxes at September 30, 2006.

The Calhoun County Appraisal District bills and collects property taxes for the City. These taxes are levied on October 1st of each year and are payable by the following January 31st, at which time penalties and interest charges are assessed on unpaid balances. An enforceable lien on property is attached on all ad valorem taxes unpaid as of January 1st following the year of levy.

G. Inventories and Prepaid Items

All inventories are valued at the lower of cost or market on a first-in, first-out basis. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased, and no material amounts of inventory were held by these funds as of year-end. Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

H. Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, drainage systems, sidewalks, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide statement of net assets. Except for infrastructure assets, the City defines capital assets as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of one year. Infrastructure assets are capitalized if their cost exceeds \$100,000. Assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair 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 the lives of assets are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed. During the current year, the Public Utility Fund capitalized \$147,295 of interest expense.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

H. Capital Assets (continued)

Property, plant, and equipment of the City is depreciated using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Buildings and Improvements	5-50
Public Domain Infrastructure	50-75
Utility System Infrastructure	20-75
Machinery and Equipment	5-10

I. Compensated Absences

It is the City's policy to permit employees to accumulate vacation and sick pay benefits. Unused vacation benefits are reported in the accompanying financial statements according to the provisions of GASB Statement No. 16. Earned but unused sick pay benefits are not recorded as liabilities as the City's policy for payment of these benefits excludes them based on the applicable GASB and FASB pronouncements.

J. Long-Term Obligations

In the government-wide financial statements and in enterprise funds 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, discounts, losses on refundings, as well as issuance costs are deferred and amortized over the life of the bonds using the straight-line method. Bonds payable are reported net of the applicable deferred amounts.

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.

K. Fund Equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance, if any, represent tentative management plans that are subject to change.

L. Use of Estimates

The preparation of the government-wide and fund financial statements in conformity with generally accepted accounting principles requires the City to make estimates and assessments that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of financial statements and the reported amounts of revenues and expenditures during the reporting period. Accordingly, actual results could differ from those estimates.

NOTE 2 - RECONCILIATION OF GOVERNMENT-WIDE TO FUND FINANCIAL STATEMENTS**A. Explanation of Certain Differences Between the Governmental Fund Balance Sheet and the Government-Wide Statement of Net Assets**

A reconciliation between total governmental fund balances and net assets of governmental activities can be found on page 14. One element of that reconciliation explains that, "various other reclassifications and eliminations are necessary to convert from the modified accrual basis of accounting to the accrual basis of accounting". The detail of these reclassifications is as follows:

Amounts recorded as bond issue costs in the fund financial statements do not represent the use of current economic resources under the accrual basis of accounting. As such, these amounts increase net assets.	\$ 54,157
The current year increase in accrued compensated absences increases expenses in the government-wide statements but not the fund statements. The effect of recording this increase is to decrease net assets.	(10,468)
Safety pay wages are earned as of the end of the fiscal year, but are not paid until the end of the calendar year. As such, this accrual represents an expense in the government-wide statements, but not an expenditure in the fund statements. The effect of recording this accrual is to decrease net assets.	(27,133)
Interest payable on long-term debt is not reported as an expenditure in the fund financial statements. This interest is recorded as an expense in the government-wide statements. The effect of recording interest payable is to decrease net assets.	(24,747)
Total various other reclassifications	<u>\$ (8,191)</u>

B. Explanation of Certain Differences Between the Governmental Fund Statement of Revenues, Expenditures, and Changes in Fund Balances and the Government-Wide Statement of Activities

A reconciliation between total net change in fund balances - governmental funds and the change in net assets of governmental activities can be found on page 16. One element of that reconciliation states that "various other reclassifications and eliminations are necessary to convert from the modified accrual basis of accounting to the accrual basis of accounting". The detail of these other reclassifications is as follows:

Amounts recorded as amortization of bond issue costs under the accrual basis of accounting are not recorded as expenditures in the fund financial statements. As such, these amounts increase the amount of expenses reported in the government-wide statements.	\$ (1,105)
The current year increase in accrued compensated absences and safety pay represent additional expenses in the government-wide statements that are not reported in the fund statements. The effect of recording these increases is to increase expenses in the government-wide statements.	(16,088)
The current year decrease in accrued interest payable reduces expenses reported under the accrual basis of accounting. The effect of recording this adjustment is to decrease expenses in the government-wide statements.	<u>8,463</u>
Total various other reclassifications	<u>\$ (8,730)</u>

NOTE 3 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY**A. Deficit Fund Equity**

As of September 30, 2006, three funds of the City had a deficit fund equity balance. The Fireman's Relief and Retirement Fund, a pension trust fund, had a deficit equity balance of \$233. Management will eliminate this deficit with transfers from other funds in the next fiscal year. The Bullet Proof Vest Grant Fund, a nonmajor special revenue fund, and the Texas Capital Fund, a nonmajor capital projects fund, had deficit equity balances of \$958 and \$95,009 as of the end of the fiscal year. Both of these deficits will be eliminated with the receipt of grant reimbursements due from other governments as of year-end but not recognized as revenues under the modified accrual basis of accounting.

B. Excess Expenditures Over Appropriations

General Fund expenditures in a number of different departments exceeded the amount appropriated during the current fiscal year. These variances are detailed below.

<u>General Fund Department</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Negative Variance</u>
City Council	\$ 13,505	\$ 14,081	\$ (576)
Municipal Court	50,012	59,238	(9,226)
Tax	56,625	70,909	(14,284)
Purchasing	36,926	37,029	(103)
City Hall	107,050	122,283	(15,233)
Police	1,201,236	1,291,133	(89,897)
Fire	777,151	824,292	(47,141)
Animal Control	100,775	115,209	(14,434)
Streets	966,740	1,323,173	(356,433)
Parks	289,974	317,706	(27,732)
Debt Service	-	85,208	(85,208)

The most significant variance was in the Streets department. This variance was caused by the acquisition during the year by the City of Tiny Browning Boulevard. Title to this street, constructed by the Wal-Mart Corporation ("Wal-Mart"), was transferred to the City in return for a note payable to Wal-Mart in the amount of \$400,286. The proceeds from this note agreement contributed to a positive variance of \$555,104 in Other Financing Sources reported by the General Fund for the 2006 fiscal year.

NOTE 4 - DEPOSITS AND INVESTMENTS

As of September 30, 2006, the City had the following investments:

<u>Investment Type</u>	<u>Amortized Cost</u>	<u>Weighted Average Maturity (Days)</u>
Public Funds Investment Pool		
L.O.G.I.C. Pool	\$ 7,846,984	39

The investment pool operates in a manner consistent with the Securities and Exchange Commission's (SEC) Rule 2(a)(7) of the Investment Company Act of 1940 but are not registered with the SEC as an investment company. Instead, the regulatory oversight for the pools is the State of Texas. The pool uses amortized cost rather than market value to report net assets to compute share prices. Accordingly, the fair value of the position in the pools is the same as the value of the shares in the pools.

Restricted investments are also reported in the City's financial statements. These amounts represent the estimated value of seized vehicles held as of year-end, which the City intends to sell in a public auction.

A. Interest Rate Risk

In accordance with the City's investment policy, the City manages its exposure to declines in fair values by limiting the weighted average maturity of its investment portfolio for investments to less than one year from the time of purchase. The maximum weighted average of the L.O.G.I.C. Pool is 39 days.

B. Credit Risk

It is the City's policy to limit its investments to those with ratings of not less than A or its equivalent. The L.O.G.I.C. Pool, which holds all of the City's investments, operates in full compliance with the Public Funds Investment Act. The L.O.G.I.C. Pool is rated AAAM by Standard & Poor's.

C. Custodial Credit Risk - Deposits

The City's custodial credit risk refers to the risk that in the event of a bank failure, the City's deposits may not be returned to it. The City's investment policies require that deposits at financial institutions be insured by the Federal Deposit Insurance Corporation ("FDIC") and/or collateralized by securities pledged to the City by the depository in an amount equal to at least 102% of the carrying value of deposits held. As of September 30, 2006, and for the year then ended, the City was not exposed to any custodial credit risk.

NOTE 5 - RECEIVABLES

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

	General	Public Utility	Port Commission	Beach Operations	Nonmajor Funds	Total
Receivables:						
Ad valorem taxes	\$ 516,638	\$ -	\$ -	\$ -	\$ 26,515	\$ 543,153
Franchise taxes	89,212	-	-	-	-	89,212
Municipal court fines	108,460	-	-	-	-	108,460
Charges for services	59,842	-	-	-	-	59,842
Appraisal district	32,948	-	-	-	2,981	35,929
Customer accounts	-	640,192	4,718	-	-	644,910
Occupancy taxes	-	-	-	-	43,345	43,345
Miscellaneous	700	1,700	-	34	705	3,139
Gross receivables	807,800	641,892	4,718	34	73,546	1,527,990
Less: Allowance for uncollectibles	(179,808)	(84,020)	-	-	(1,326)	(265,154)
Net total receivables	\$ 627,992	\$ 557,872	\$ 4,718	\$ 34	\$ 72,220	\$ 1,262,836

The City is permitted by a local charter to levy taxes up to limits set by the Constitution and laws of the State of Texas. Currently, the State of Texas does not set limits on the rate at which ad valorem taxes may be assessed. The combined tax rate for the year ended September 30, 2006 was \$0.72 per \$100 of assessed valuation. Property taxes attach as an enforceable lien on property as of January 1. Taxes are levied on October 1 and payable by the following January 31, which comprises the collection dates for the current tax roll. The Calhoun County Appraisal District bills, collects, and remits daily all ad valorem taxes.

The City's governmental funds report deferred revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period (unavailable). The governmental funds may also defer revenue recognition in connection with resources that have been received, but not yet recognizable (unearned). At the end of the current fiscal year, the various components of deferred revenue reported in the governmental funds were as follows:

	Unavailable	Unearned	Total
General Fund			
Ad valorem taxes	\$ 423,150	\$ -	\$ 423,150
Charges for services	29,921	-	29,921
Municipal court fines	52,061	-	52,061
Nonmajor Funds			
Ad valorem taxes receivable	25,189	-	25,189
Grant reimbursements	95,967	-	95,967
	<u>\$ 626,288</u>	<u>\$ -</u>	<u>\$ 626,288</u>

NOTE 6 - DUE FROM OTHER GOVERNMENTS

Various funds of the City reported amounts due from other governments as of the end of the current fiscal year. These amounts are comprised of the following at September 30, 2006:

	General Fund	Port Commission	Nonmajor Funds	Total
Sales taxes	\$ 335,708	\$ -	\$ -	\$ 335,708
Interlocal agreements	101,250	-	-	101,250
Grant reimbursements	-	6,125	124,694	130,819
	<u>\$ 436,958</u>	<u>\$ 6,125</u>	<u>\$ 124,694</u>	<u>\$ 567,777</u>

NOTE 7 - CAPITAL ASSETS

The capital asset activity of the City was as follows for the year ended September 30, 2006:

	Beginning Balance	Additions	Deletions/ Transfers	Ending Balance
Governmental activities				
Capital assets, not being depreciated:				
Land	\$ 934,397	\$ -	\$ -	\$ 934,397
Construction in progress	1,059,054	458,855	(1,040,192)	477,717
Total capital assets not being depreciated	1,993,451	458,855	(1,040,192)	1,412,114
Capital assets, being depreciated:				
Machinery and equipment	1,402,347	165,145	(79,108)	1,488,384
Buildings and structures	4,652,683	270,702	(839)	4,922,546
Infrastructure	20,124,016	1,948,295	-	22,072,311
Total capital assets being depreciated	26,179,046	2,384,142	(79,947)	28,483,241
Less accumulated depreciation for:				
Machinery and equipment	(731,906)	(126,553)	79,108	(779,351)
Buildings and structures	(1,856,247)	(131,461)	839	(1,986,869)
Infrastructure	(10,223,786)	(284,300)	-	(10,508,086)
Total accumulated depreciation	(12,811,939)	(542,314)	79,947	(13,274,306)
Total capital assets being depreciated, net	13,367,107	1,841,828	-	15,208,935
Governmental activities capital assets, net	\$ 15,360,558	\$ 2,300,683	\$ (1,040,192)	\$ 16,621,049
Business-type activities				
Capital assets, not being depreciated:				
Land	\$ 1,501,012	\$ -	\$ -	\$ 1,501,012
Construction in progress	4,500,918	248,290	(4,628,911)	120,297
Total capital assets not being depreciated	6,001,930	248,290	(4,628,911)	1,621,309
Capital assets, being depreciated:				
Machinery and equipment	717,921	14,974	(78,510)	654,385
Buildings and structures	4,119,326	204,530	-	4,323,856
Infrastructure	23,639,534	5,001,510	-	28,641,044
Total capital assets being depreciated	28,476,781	5,221,014	(78,510)	33,619,285
Less accumulated depreciation for:				
Machinery and equipment	(580,640)	(33,932)	78,510	(536,062)
Buildings and structures	(1,681,511)	(142,990)	-	(1,824,501)
Infrastructure	(15,949,318)	(392,346)	-	(16,341,664)
Total accumulated depreciation	(18,211,469)	(569,268)	78,510	(18,702,227)
Total capital assets being depreciated, net	10,265,312	4,651,746	-	14,917,058
Business-type activities capital assets, net	\$ 16,267,242	\$ 4,900,036	\$ (4,628,911)	\$ 16,538,367

NOTE 7 - CAPITAL ASSETS (continued)

Depreciation expense was charged to functions/programs of the City as follows:

Governmental activities:

General government	\$ 35,738
Public safety	80,374
Public works	6,361
Streets, including depreciation of general infrastructure assets	316,640
Parks and recreation	103,201
Total depreciation expense - governmental activities	<u>\$ 542,314</u>

Business-type activities:

Public Utility	\$ 365,110
Port Commission	149,308
Beach Operations	54,850
Total depreciation expense - business-type activities	<u>\$ 569,268</u>

NOTE 8 - INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS

A. Interfund Receivables and Payables

At times during the fiscal year the various funds of the City were involved in transactions that created interfund receivable and payable balances. These transactions related to such things as the purchase of goods by one fund on behalf of another and the receipt of revenue in one fund that belongs to or is designated for another fund. Interfund receivable and payable balances as of September 30, 2006, were as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General	Fireman's Relief and Retirement	\$ 720
	Public Utility	3,902
	Nonmajor Special Revenue	30,390
	Nonmajor Capital Projects	11,438
		<u>\$ 46,450</u>

B. Interfund Transfers

Each year various funds of the City transfer funds to other funds. The most significant of these are the planned transfers from the City's General Fund to the 2003 Certificates of Obligation Fund, a nonmajor capital projects fund. These transfers are intended to provide the necessary resources to meet the operating and debt service obligations of the receiving funds. During the current fiscal year, transfers between funds consisted of the following:

	<u>Transfers In</u>			
	<u>General</u>	<u>Beach Operating</u>	<u>Nonmajor</u>	<u>Total</u>
Transfers out:				
General	\$ -	\$ 65,000	\$ 438,134	\$ 503,134
Public Utility	195,472	-	-	195,472
Port Commission	4,000	-	-	4,000
Beach Operating	6,000	-	-	6,000
Nonmajor	50,000	-	-	50,000
	<u>\$ 255,472</u>	<u>\$ 65,000</u>	<u>\$ 438,134</u>	<u>\$ 758,606</u>

NOTE 9 - LEASE OBLIGATIONS**A. Operating Leases**

The City is obligated under various operating lease agreements relating to office equipment and one pertaining to equipment for outside maintenance use. Lease payments made pursuant to these agreements totaled \$24,978 during the current fiscal year. The City expects these leases to be replaced in the ordinary course of business with similar leases. Future minimum lease payments under the existing agreements are as follows:

<u>Year Ending</u> <u>September 30</u>	
2007	\$ 21,880
2008	8,085
2009	<u>3,476</u>
	<u>\$ 33,441</u>

B. Capital Leases

The City has entered into lease agreements to finance its purchase of various vehicles and other transportation equipment. These lease agreements qualify as capital leases for accounting purposes and, therefore, have been recorded at the present value of their future minimum lease payments as of their various dates of inception.

The assets acquired through capital leases are as follows:

	<u>Governmental</u> <u>Activities</u>	<u>Business-type</u> <u>Activities</u>
Machinery and equipment		
Vehicles	\$ 124,445	\$ 61,696
Other equipment	<u>120,413</u>	<u>39,828</u>
	244,858	101,524
Less: Accumulated depreciation	<u>(36,728)</u>	<u>(20,927)</u>
	<u>\$ 208,130</u>	<u>\$ 80,597</u>

The future minimum lease obligations and the net present value of these minimum lease payments as of September 30, 2006, were as follows:

<u>Year Ending</u> <u>September 30</u>	<u>Governmental</u> <u>Activities</u>	<u>Business-type</u> <u>Activities</u>
2007	\$ 81,411	\$ 29,963
2008	47,140	13,805
2009	<u>8,600</u>	<u>8,600</u>
Total minimum lease payments	137,151	52,368
Less: Amount representing interest	<u>(7,771)</u>	<u>(3,130)</u>
Present value of minimum lease payments	<u>\$ 129,380</u>	<u>\$ 49,238</u>

NOTE 10 - LESSOR AGREEMENTS

The Port Commission Fund leases dock frontage and harbor rights to various unrelated third parties. Substantially all of the Fund's capital assets are leased to third parties. Following is an analysis of minimum future rentals due the Port Commission Fund under noncancelable lease agreements as of September 30, 2006:

<u>Year Ending September 30</u>	
2007	\$ 213,992
2008	126,044
2009	68,386
2010	39,117
2011	<u>30,203</u>
	477,742
Thereafter	<u>61,955</u>
	<u>\$ 539,697</u>

NOTE 11 - LONG-TERM DEBT**A. Changes in Long-Term Liabilities**

Long-term liability activity for the year ended September 30, 2006 was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Governmental activities					
Bonds payable	\$4,385,000	\$ -	\$ 135,000	\$ 4,250,000	\$ 160,000
Notes payable	-	400,286	-	400,286	400,286
Capital leases	<u>96,149</u>	<u>114,769</u>	<u>81,538</u>	<u>129,380</u>	<u>76,175</u>
Total governmental activity long-term liabilities	<u>\$4,481,149</u>	<u>\$ 515,055</u>	<u>\$ 216,538</u>	<u>\$ 4,779,666</u>	<u>\$ 636,461</u>
Business-type activities					
Bonds and certificates payable:					
Revenue bonds	\$6,225,000	\$ -	\$ 245,000	\$ 5,980,000	\$ 255,000
Certificates	185,000	-	105,000	80,000	80,000
Less deferred amounts:					
Issuance discounts	<u>(31,861)</u>	<u>-</u>	<u>370</u>	<u>(31,491)</u>	<u>-</u>
Net bonds and certificates	6,378,139	-	350,370	6,028,509	335,000
Capital leases	<u>61,790</u>	<u>14,993</u>	<u>27,545</u>	<u>49,238</u>	<u>28,019</u>
Total business-type activity long-term liabilities	<u>\$6,439,929</u>	<u>\$ 14,993</u>	<u>\$ 377,915</u>	<u>\$ 6,077,747</u>	<u>\$ 363,019</u>

NOTE 11 - LONG-TERM DEBT (continued)**B. General Obligation Bonds and Governmental Notes**

General obligation bonds at September 30, 2006 were comprised of the following individual issues:

\$3,575,000 2003 Certificates of Obligation due in annual installments ranging from \$140,000 to \$260,000 through February 15, 2003; interest rates varying between 3.00% and 4.45%.	\$ 3,250,000
\$1,000,000 2005 Certificates of Obligation due in annual installments ranging from \$20,000 to \$80,000 through February 15, 2004; interest rates at 4.00% and 4.50%.	<u>1,000,000</u>
Total General Obligation Bonds	<u>\$ 4,250,000</u>

Annual debt service requirements to maturity for the City's general obligation bonds are as follows:

Year Ending September 30	Governmental Activities		
	Principal	Interest	Total
2007	\$ 160,000	\$ 166,990	\$ 326,990
2008	180,000	161,265	341,265
2009	195,000	154,865	349,865
2010	200,000	147,999	347,999
2011	205,000	141,058	346,058
2012-2016	1,155,000	582,213	1,737,213
2017-2021	1,415,000	322,610	1,737,610
2022-2024	740,000	38,667	778,667
	<u>\$4,250,000</u>	<u>\$1,715,667</u>	<u>\$ 5,965,667</u>

The City entered into a note agreement with the Wal-Mart Corporation ("Wal-Mart") in August 2004. The original amount of this note was \$400,286 and no payments had been made through the end of the current fiscal year. This note was executed by the City in return for Wal-Mart transferring ownership of Tiny Browning Boulevard to the City. This transfer took place in June of 2006. The note is payable only from "excess" sales tax proceeds as defined in the note agreement. Management anticipates that the note will be paid in full prior to the end of the 2007 fiscal year.

C. Revenue Bonds and Certificates

Revenue bonds and certificates payable were comprised of the following individual issues at September 30, 2006:

\$2,895,000 Series 1996 Utility System Improvement and Refunding Bonds due in annual installments ranging from \$30,000 to \$555,000 through February 15, 2022; interest rates varying between 5.10% and 5.75%.	\$ 2,555,000
\$4,950,000 Series 1996 Utility System Revenue Bonds due in annual installments ranging from \$225,000 to \$360,000 through February 15, 2018; interest rates varying between 3.85% and 4.45%.	3,425,000
\$315,000 Combination Tax Surplus and Harbor System Revenue Certificates of Obligation due in one installment on March 15, 2007; interest rate at 6.10%.	<u>80,000</u>
Total Revenue Bonds and Certificates	<u>\$ 6,060,000</u>

NOTE 11 - LONG-TERM DEBT (continued)**C. Revenue Bonds and Certificates** (continued)

The annual debt service requirements to maturity for the above listed revenue bonds and certificates are as follows:

Year Ending September 30	Business-type Activities		
	Principal	Interest	Total
2007	\$ 335,000	\$ 289,059	\$ 624,059
2008	265,000	276,101	541,101
2009	275,000	264,893	539,893
2010	285,000	252,973	537,973
2011	305,000	240,175	545,175
2012-2016	1,740,000	980,353	2,720,353
2017-2021	2,300,000	499,864	2,799,864
2022-2024	555,000	15,956	570,956
	<u>\$6,060,000</u>	<u>\$2,819,374</u>	<u>\$ 8,879,374</u>

The revenues of the Public Utility Fund and the Port Commission Fund are pledged for the repayment of debt reported by those funds. The City complied in all material respects with the various covenants applicable to its long-term debt agreements for the year ending September 30, 2006.

NOTE 12 - DESIGNATIONS OF PROPRIETARY FUND NET ASSETS

Management has designated for operating reserves \$1,424,616 of the Public Utility Fund's \$3,344,180 unrestricted net assets. The designated amount represents approximately 120 days of operating expenses. The Public Utility Fund had \$1,919,564 of unrestricted, undesignated net assets as of September 30, 2006.

NOTE 13 - RISK MANAGEMENT

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During the year ended September 30, 2006, the City purchased insurance through the Texas Municipal League (TML) to cover its risk of loss in these areas. Substantially all risk of loss for events occurring during the current year has been transferred to TML by the payment of insurance premiums. Settled claims resulting from these risks have not exceeded insurance coverage in any of the past three fiscal years.

In the health insurance area, the City assumes all risk up to \$35,000 of eligible medical claims per participant, per year. A re-insurance policy has been purchased through the TML Intergovernmental Employee Benefits Pool that pays any additional claims in excess of this individual stop loss amount. The City's total medical claim risk exposure is also limited by an aggregate stop-loss amount that is determined by the re-insurance carrier on an annual basis. This total was \$615,815 for the fiscal year ended September 30, 2006. Premiums paid by the City during the year for the individual and aggregate stop loss coverage totaled \$164,098.

Health-related claims totaled \$301,499 during the current fiscal year. The insurance carrier estimated that \$25,195 in claims had been incurred but not reported as of the fiscal year end. These estimated claims as well as known payables are included in the claim liability reported by various funds in the accompanying financial statements.

NOTE 13 - RISK MANAGEMENT (continued)

Following is a reconciliation of health-related claim liabilities and payments for the years noted:

	Claims Payable	Claims Incurred	Claims Paid		Claims Payable
			City	Insurer	
1995-1996	\$ 3,229	\$368,333	\$232,798	\$112,273	\$ 26,491
1996-1997	26,491	434,437	240,925	121,566	98,437
1997-1998	98,437	478,912	379,963	68,368	129,018
1998-1999	129,018	385,185	402,132	72,460	39,611
1999-2000	39,611	431,974	337,659	80,659	53,267
2000-2001	53,267	407,333	295,172	104,406	61,022
2001-2002	61,022	361,143	249,000	98,797	74,368
2002-2003	74,368	514,900	453,662	24,214	111,392
2003-2004	111,392	765,907	526,946	189,497	160,856
2004-2005	160,856	479,688	336,367	229,462	74,715
2005-2006	74,715	315,422	301,499	43,361	45,277

NOTE 14 - CONTINGENCIES AND COMMITMENTS**A. Litigation**

The City was not involved in any litigation as of September 30, 2006, and management was not aware of any threatened litigation or unasserted claims as of that date.

B. Grant Programs

The City participates in grant programs that are governed by various rules and regulations of the grantor agencies. Costs charged to the respective grant programs are subject to audit and adjustment by the grantor agencies; therefore, to the extent that the City has not complied with the rules and regulations governing the grants, refunds of any monies received may be required, and the collectibility of any related receivables at September 30, 2006, may be impaired. In the opinion of the administration of the City, there are no significant contingent liabilities relating to compliance with the rules and regulations governing the City's various grant programs.

C. Water Purchase Commitment

The City has entered into an agreement with the Guadalupe Blanco River Authority ("GBRA") that obligates the City to purchase its water from GBRA through November 15, 2030.

D. Loan Commitment

The Texas Water Development Board ("TWDB") has committed to loan the City a total of \$1,535,000. Of this amount, \$70,000 had been advanced and repaid as of September 30, 2006, leaving a total of \$1,465,000 available to the City. Proceeds from this loan will be used to make improvements to the City's water and sewer infrastructure. Repayments will be made in varying amounts and subject to varying rates of interest through February 15, 2024.

NOTE 14 - CONTINGENCIES AND COMMITMENTS (continued)**E. Construction Commitments**

As of September 30, 2006, the following construction projects were in progress:

<u>Project Description</u>	<u>Costs Incurred To Date</u>	<u>Estimated Remaining Costs</u>	<u>Source of Funds</u>
Governmental projects:			
Smith and Vail street improvements	\$ 352,803	\$ 380,000	2005 C.O. debt proceeds
Trinity Shores infrastructure	124,914	294,085	Texas Capital Fund grants
	<u>477,717</u>	<u>674,085</u>	
Enterprise projects:			
Water system improvements	112,422	1,422,479	TWDB loan
Harbor of Refuge improvements	7,875	82,125	Grant funds and local match
	<u>120,297</u>	<u>1,504,604</u>	
	<u>\$ 598,014</u>	<u>\$ 2,178,689</u>	

NOTE 15 - PENSION PLANS

All of the City's full-time employees are eligible to participate in the statewide retirement plan offered through the Texas Municipal Retirement System. The City also offers pension benefits to its volunteer firefighters.

A. Texas Municipal Retirement System**Plan Description**

The City provides pension benefits for all of its full-time employees through a nontraditional, joint contributory, hybrid defined benefit plan in the statewide Texas Municipal Retirement System ("TMRS"), an agent multiple-employer public employee retirement system. The City of Port Lavaca is one of 811 municipalities having the benefit plan administered by TMRS. Each of the 811 municipalities has an annual, individual actuarial valuation performed. All assumptions for the December 31, 2005 valuations are contained in the 2005 TMRS Comprehensive Annual Financial Report, a copy of which may be obtained by writing to P.O. Box 149153, Austin, Texas 78714-9153.

Benefits

Benefits depend upon the sum of the employee's contributions to the plan, with interest, and the City-financed monetary credits, with interest. At the date the plan began, the City granted monetary credits for service rendered before the plan began of a theoretical amount equal to two times what would have been contributed by the employee, with interest, prior to establishment of the plan. Monetary credits for service since the plan began are a percent (100%, 150%, or 200%) of the employee's accumulated contributions. In addition, the City can grant, as often as annually, another type of monetary credit referred to as an updated service credit which is a theoretical amount which, when added to the employee's accumulated contributions and the monetary credits for service since the plan began, would be the total monetary credits and employee contributions accumulated with interest if the current employee contribution rate and City matching percent had always been in existence and if the employee's salary had always been the average of his salary in the last three years that are one year before the effective date. At retirement, the benefit is calculated as if the sum of the employee's accumulated contributions with interest and the employer-financed monetary credits with interest were used to purchase an annuity.

NOTE 15 - PENSION PLANS (continued)**A. Texas Municipal Retirement System** (continued)**Benefits** (continued)

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

Deposit Rate:	5%
Matching Ratio (City to Employee):	1.5 to 1
A member is vested after:	5 years

Members can retire at certain ages, based on the years of service with the City. The service retirement eligibilities for the City are: 5 yrs/age 60, 25 yrs/any age.

Contributions

Under the state law governing TMRS, the actuary annually determines the City contribution rate. This rate consists of the normal cost contribution rate and the prior service cost contribution rate, both of which are calculated to be a level percent of payroll from year to year. The normal cost contribution rate finances the currently accruing monetary credits due to the City matching percent, which are the obligation of the City as of an employee's retirement date, not at the time the employee's contributions are made. The normal cost contribution rate is the actuarially determined percent of payroll necessary to satisfy the obligation of the City to each employee at the time his/her retirement becomes effective. The prior service contribution rate amortizes the unfunded (overfunded) actuarial liability (asset) over the remainder of the plan's 25-year amortization period. The unit credit actuarial cost method is used for determining the City contribution 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 (i.e. December 31, 2005 valuation is effective for rates beginning January 2007).

Annual Pension Cost

For the fiscal year ending September 30, 2006, the City's portion of the annual pension cost for the TMRS plan was \$140,456, and actual contributions were \$140,456. The City's net pension obligation at the beginning and end of the current fiscal year was zero.

Trend Information (Unaudited)

Information for the three most recent actuarial valuations for the TMRS plan follows:

Contributions Required and Contributions Made

<u>Year-End September 30</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
2006	\$140,456	100%	-
2005	145,259	100%	-
2004	146,367	100%	-

NOTE 15 - PENSION PLANS (continued)A. Texas Municipal Retirement System (continued)Trend Information (Unaudited) (continued)

<u>Schedule of Funding Progress</u>						UAAL as a
Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded AAL (UAAL)	Funded Ratio	Annual Covered Payroll	Percentage of Covered Payroll
	(a)	(b)	(b-a)	(a/b)	(c)	((b-a)/c)
12/31/2005	\$ 3,859,964	\$ 4,725,863	\$ 865,899	81.7%	\$2,695,442	32.1%
12/31/2004	3,785,938	4,549,285	763,347	83.2%	2,482,661	30.7%
12/31/2003	3,602,243	4,440,266	828,023	81.1%	2,451,067	34.2%
12/31/2002	3,700,729	4,435,505	734,776	83.4%	2,377,752	30.9%
12/31/2001	3,320,210	3,855,851	535,641	86.1%	2,320,140	23.1%

Actuarial Assumptions

Actuarial Cost Method	Unit Credit
Amortization Method	Level Percent of Payroll
Remaining Amortization Period	25 Years – Open Period
Asset Valuation Method	Amortized Cost (to accurately reflect the requirements of GASB Stmt. No. 25)
Investment Rate of Return	7%
Projected Salary Increases	None
Includes Inflation At	3.5%
Cost-of-Living Adjustments	None

B. Volunteer Firefighters Pension Benefit Plan

The City provides a pension benefit for all retired volunteer firemen who qualify under the provisions of the Texas Local Fire Fighters Retirement Act. To be eligible, individuals must have completed at least 20 years of service and be at least 55 years old. Monthly payments of \$25 are made to qualifying individuals until their death, at which time the surviving spouse, if any, is entitled to receive payments of \$17 per month until death. As of September 30, 2006 there were 13 individuals receiving benefits under the plan. Benefit payments for the year totaled \$3,658.

An actuarial study has not been performed to determine the City's accrued liability related to this benefit plan. Management estimates that the unfunded liability for vested benefits was between \$40,000 and \$50,000 as of September 30, 2006.

NOTE 16 - DEFERRED COMPENSATION PLAN

The City offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The plan, available to all City employees, permits the deferral of a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death, or unforeseen emergency.

The assets of this plan, which totaled \$84,675 as of September 30, 2006, are held in trust for the exclusive benefit of participants and their beneficiaries. As such, no amounts related to these assets are included in the accompanying financial statements.

NOTE 17 - ADJUSTMENTS TO AND RESTATEMENTS OF BEGINNING BALANCES**A. Governmental Fund Balances**

The beginning fund balances of various governmental funds were adjusted for the following:

	<u>General</u>	<u>Nonmajor</u>	<u>Total</u>
Beginning fund balance, as previously reported	\$ 3,339,465	\$ 1,851,932	\$ 5,191,397
To transfer portion of fund balance previously reported in Internal Service Fund	442,931	-	442,931
To transfer fund balances to enterprise funds	-	(387,997)	(387,997)
To transfer ending fund balance of Fixed Asset Replacement Fund	141,128	(141,128)	-
To reduce fund balance for prior year expenditures not previously reported	-	(96,230)	(96,230)
To adjust for accounts receivable not recorded as of previous year-end	45,000	-	45,000
To remove amounts recorded as expenditures of the previous year which are expenditures of the current year	21,513	-	21,513
To record current portion of accrued compensated absences	<u>(16,262)</u>	<u>-</u>	<u>(16,262)</u>
Beginning fund balance, as restated	<u>\$ 3,973,775</u>	<u>\$ 1,226,577</u>	<u>\$ 5,200,352</u>

Management estimates that the adjustments noted above would have reduced the amounts reported as change in fund balance for the year ended September 30, 2005 by \$69,142 and \$404,399 for the General Fund and the combined Nonmajor Funds, respectively.

NOTE 17 - ADJUSTMENTS TO AND RESTATEMENTS OF BEGINNING BALANCES (continued)

B. Proprietary Fund Net Assets

The beginning net asset balances of the three proprietary (enterprise) funds were adjusted for the following:

	<u>Public Utility</u>	<u>Port Commission</u>	<u>Beach Operating</u>	<u>Total</u>
Beginning net assets, as previously reported	\$ 12,009,693	\$ 3,863,223	\$ 1,093,242	\$ 16,966,158
To adjust for change in capitalization threshold and correct accumulated depreciation	(5,178,234)	(18,636)	(30,627)	(5,227,497)
To capitalize construction period interest not previously capitalized	1,220,419	-	-	1,220,419
To transfer fund balances previously reported in governmental funds to enterprise funds	-	-	387,997	387,997
To capitalize assets not previously recorded	54,328	-	90,890	145,218
To remove net accounts receivable for prebilled customer accounts	-	(51,034)	-	(51,034)
To transfer portion of net assets previously reported in Internal Service Fund	(15,388)	-	828	(14,560)
To record prepaid expenses not previously reported	<u>-</u>	<u>1,089</u>	<u>-</u>	<u>1,089</u>
Beginning net assets, as restated	<u>\$ 8,090,818</u>	<u>\$ 3,794,642</u>	<u>\$ 1,542,330</u>	<u>\$ 13,427,790</u>

Management estimates that these adjustments would have increased the previously reported change in net assets of the Public Utility Fund and the Beach Operating Fund by \$728,542 and \$478,886, respectively, for the year ended September 30, 2005.

NOTE 17 - ADJUSTMENTS TO AND RESTATEMENTS OF BEGINNING BALANCES (continued)**C. Government-Wide Net Assets**

The beginning governmental activities net assets in the government-wide financial statements were adjusted for the following:

Beginning net assets, as previously reported	\$ 23,520,921
To adjust for change in capitalization threshold and correct accumulated depreciation	(6,994,843)
To remove net assets related to funds properly classified as business-type	(387,997)
To adjust for revenues for amounts previously deferred that should not be deferred under the accrual basis of accounting	350,169
To record receivables previously not booked	257,233
Adjustment to properly record expenses pertaining to previous years	(96,230)
To remove assets that are properly reported in business-type activities	(90,890)
To adjust for proper reporting of balances pertaining to amounts previously reported in Internal Service Fund	<u>13,470</u>
Beginning net assets, as restated	<u>\$ 16,571,833</u>

Net assets of the business-type activities were adjusted as described per B. above. Management estimates that the changes described above to the governmental activities of the City would have decreased the previously reported change in net assets by \$478,886 for the year ended September 30, 2005.

COMBINING AND INDIVIDUAL FUND STATEMENTS AND SCHEDULES

CITY OF PORT LAVACA, TEXAS
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
September 30, 2006

Special Revenue

	<u>Hotel Occupancy Tax</u>	<u>Police Forfeitures</u>	<u>Hurricane Cleanup</u>	<u>Texas Forest Grant</u>	<u>Bullet Proof Vest Grant</u>	<u>Court Technology Fund</u>
ASSETS						
Current assets						
Cash and cash equivalents	\$ 223,527	\$ 16,243	\$ -	\$ -	\$ -	\$ 33,105
Receivables (net)	43,345	-	-	-	-	-
Due from other governments	-	-	28,542	185	958	-
Restricted assets						
Investments	-	1,200	-	-	-	-
Total assets	<u>\$ 266,872</u>	<u>\$ 17,443</u>	<u>\$ 28,542</u>	<u>\$ 185</u>	<u>\$ 958</u>	<u>\$ 33,105</u>
LIABILITIES AND FUND BALANCE						
Liabilities						
Accounts payable	\$ 90	\$ -	\$ -	\$ -	\$ -	\$ -
Due to other governments	-	-	-	-	-	-
Due to other funds	-	-	28,542	185	958	-
Deferred revenue	-	-	-	-	958	-
Total liabilities	<u>90</u>	<u>-</u>	<u>28,542</u>	<u>185</u>	<u>1,916</u>	<u>-</u>
Fund balance						
Reserved for:						
Debt service	-	-	-	-	-	-
Unreserved, undesignated	266,782	17,443	-	-	(958)	33,105
Total fund balance	<u>266,782</u>	<u>17,443</u>	<u>-</u>	<u>-</u>	<u>(958)</u>	<u>33,105</u>
Total liabilities and fund balance	<u>\$ 266,872</u>	<u>\$ 17,443</u>	<u>\$ 28,542</u>	<u>\$ 185</u>	<u>\$ 958</u>	<u>\$ 33,105</u>

(continued)

Special Revenue					Debt Service		
Bayfront Peninsula Pier	2005 LETPP Grant	TEEX Fire School	Solid Waste Project	Total	2003 Certificates of Obligation	2005 Certificates of Obligation	Total
\$ 56,864	\$ 100	\$ -	\$ 6,000	\$ 335,839	\$ 91,046	\$ 24,904	\$ 115,950
-	-	705	-	44,050	26,003	2,167	28,170
-	-	-	-	29,685	-	-	-
-	-	-	-	1,200	-	-	-
<u>\$ 56,864</u>	<u>\$ 100</u>	<u>\$ 705</u>	<u>\$ 6,000</u>	<u>\$ 410,774</u>	<u>\$ 117,049</u>	<u>\$ 27,071</u>	<u>\$ 144,120</u>
\$ -	\$ -	\$ -	\$ -	\$ 90	\$ -	\$ -	\$ -
-	-	-	-	-	-	-	-
-	-	705	-	30,390	-	-	-
-	-	-	-	958	23,431	1,758	25,189
-	-	705	-	31,438	23,431	1,758	25,189
-	-	-	-	-	93,618	25,313	118,931
56,864	100	-	6,000	379,336	-	-	-
<u>56,864</u>	<u>100</u>	<u>-</u>	<u>6,000</u>	<u>379,336</u>	<u>93,618</u>	<u>25,313</u>	<u>118,931</u>
<u>\$ 56,864</u>	<u>\$ 100</u>	<u>\$ 705</u>	<u>\$ 6,000</u>	<u>\$ 410,774</u>	<u>\$ 117,049</u>	<u>\$ 27,071</u>	<u>\$ 144,120</u>

CITY OF PORT LAVACA, TEXAS
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
September 30, 2006

(concluded)

	Capital Projects			Total Nonmajor Governmental Funds
	Texas Capital Fund	2005 Certificates of Obligation	Total	
ASSETS				
Current assets				
Cash and cash equivalents	\$ -	\$ 760,535	\$ 760,535	\$ 1,212,324
Receivables (net)	-	-	-	72,220
Due from other governments	95,009	-	95,009	124,694
Restricted assets				
Investments	-	-	-	1,200
Total assets	<u>\$ 95,009</u>	<u>\$ 760,535</u>	<u>\$ 855,544</u>	<u>\$ 1,410,438</u>
LIABILITIES AND FUND BALANCE				
Liabilities				
Accounts payable	\$ 83,571	\$ 821	\$ 84,392	\$ 84,482
Due to other governments	-	-	-	-
Due to other funds	11,438	-	11,438	41,828
Deferred revenue	95,009	-	95,009	121,156
Total liabilities	<u>190,018</u>	<u>821</u>	<u>190,839</u>	<u>247,466</u>
Fund balance				
Reserved for:				
Debt service	-	-	-	118,931
Unreserved, undesignated	(95,009)	759,714	664,705	1,044,041
Total fund balance	<u>(95,009)</u>	<u>759,714</u>	<u>664,705</u>	<u>1,162,972</u>
Total liabilities and fund balance	<u>\$ 95,009</u>	<u>\$ 760,535</u>	<u>\$ 855,544</u>	<u>\$ 1,410,438</u>

CITY OF PORT LAVACA, TEXAS**COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES****NONMAJOR GOVERNMENTAL FUNDS**

For the year ended September 30, 2006

	Special Revenue				
	Hotel Occupancy Tax	Police Forfeitures	FEMA Grant	Texas Parks Grant	2004 Law Enforce.
REVENUES					
Taxes	\$ 164,769	\$ -	\$ -	\$ -	\$ -
Fines and forfeitures	-	12,964	-	-	-
Intergovernmental	-	-	9,354	869	4,475
Licenses and permits	-	-	-	-	-
Investment	7,951	1,665	15	149	-
Contributions and donations	-	-	-	-	-
Miscellaneous	-	-	-	-	-
Total revenues	<u>172,720</u>	<u>14,629</u>	<u>9,369</u>	<u>1,018</u>	<u>4,475</u>
EXPENDITURES					
Current					
General government	16,522	-	18,454	-	-
Public safety	-	8,325	-	-	4,524
Parks and recreation	-	-	-	1,870	-
Capital outlay	-	-	-	-	-
Debt service					
Principal retirement	-	-	-	-	-
Interest and fiscal charges	-	-	-	-	-
Total expenditures	<u>16,522</u>	<u>8,325</u>	<u>18,454</u>	<u>1,870</u>	<u>4,524</u>
Excess (deficiency) of revenues over expenditures	156,198	6,304	(9,085)	(852)	(49)
OTHER FINANCING SOURCES (USES)					
Transfers in	-	-	9,085	852	49
Transfers out	(50,000)	-	-	-	-
Total other financing sources (uses)	<u>(50,000)</u>	<u>-</u>	<u>9,085</u>	<u>852</u>	<u>49</u>
Net change in fund balances	106,198	6,304	-	-	-
Fund balances - beginning	<u>160,584</u>	<u>11,139</u>	<u>-</u>	<u>-</u>	<u>-</u>
Fund balances - ending	<u>\$ 266,782</u>	<u>\$ 17,443</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

(continued)

Special Revenue							
2004 SHSP Grant	Texas Forest Grant	Bullet Proof Vest Grant	Court Technology Fund	Bayfront Peninsula Pier	2005 LETPP Grant	Solid Waste Project	Total
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 164,769
-	-	-	7,691	-	-	-	20,655
25,868	185	-	-	-	-	-	40,751
-	-	-	-	-	44,172	-	44,172
-	-	-	1,028	1,440	100	-	12,348
-	-	-	-	55,424	-	-	55,424
-	-	-	-	-	-	-	-
<u>25,868</u>	<u>185</u>	<u>-</u>	<u>8,719</u>	<u>56,864</u>	<u>44,272</u>	<u>-</u>	<u>338,119</u>
-	185	-	-	-	-	-	35,161
26,047	-	1,916	-	-	44,172	-	84,984
-	-	-	-	-	-	-	1,870
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
<u>26,047</u>	<u>185</u>	<u>1,916</u>	<u>-</u>	<u>-</u>	<u>44,172</u>	<u>-</u>	<u>122,015</u>
(179)	-	(1,916)	8,719	56,864	100	-	216,104
169	-	958	24,386	-	-	6,000	41,499
-	-	-	-	-	-	-	(50,000)
<u>169</u>	<u>-</u>	<u>958</u>	<u>24,386</u>	<u>-</u>	<u>-</u>	<u>6,000</u>	<u>(8,501)</u>
(10)	-	(958)	33,105	56,864	100	6,000	207,603
<u>10</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>171,733</u>
<u>\$ -</u>	<u>\$ -</u>	<u>\$ (958)</u>	<u>\$ 33,105</u>	<u>\$ 56,864</u>	<u>\$ 100</u>	<u>\$ 6,000</u>	<u>\$ 379,336</u>

CITY OF PORT LAVACA, TEXAS**COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES****NONMAJOR GOVERNMENTAL FUNDS**

For the year ended September 30, 2006

	Debt Service		
	2003	2005	
	Certificates	Certificates	
	of	of	
	Obligation	Obligation	Total
REVENUES			
Taxes	\$ 264,160	\$ 42,020	\$ 306,180
Fines and forfeitures	-	-	-
Intergovernmental	-	-	-
Licenses and permits	-	-	-
Investment	6,022	3,325	9,347
Contributions and donations	-	-	-
Miscellaneous	-	-	-
Total revenues	<u>270,182</u>	<u>45,345</u>	<u>315,527</u>
EXPENDITURES			
Current			
General government	-	-	-
Public safety	-	-	-
Parks and recreation	-	-	-
Capital outlay	-	-	-
Debt service			
Principal retirement	135,000	-	135,000
Interest and fiscal charges	<u>129,477</u>	<u>70,096</u>	<u>199,573</u>
Total expenditures	<u>264,477</u>	<u>70,096</u>	<u>334,573</u>
Excess (deficiency) of revenues over expenditures	5,705	(24,751)	(19,046)
OTHER FINANCING SOURCES (USES)			
Transfers in	-	-	-
Transfers out	-	-	-
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>-</u>
Net change in fund balances	5,705	(24,751)	(19,046)
Fund balances - beginning	<u>87,913</u>	<u>50,064</u>	<u>137,977</u>
Fund balances - ending	<u>\$ 93,618</u>	<u>\$ 25,313</u>	<u>\$ 118,931</u>

(concluded)

Capital Projects				Total Nonmajor Governmental Funds
Texas Capital Fund	2003 Certificates of Obligation	2005 Certificates of Obligation	Total	
\$ -	\$ -	\$ -	\$ -	\$ 470,949
-	-	-	-	20,655
29,905	-	-	29,905	70,656
-	-	-	-	44,172
-	-	45,310	45,310	67,005
-	-	-	-	55,424
-	-	150	150	150
29,905	-	45,460	75,365	729,011
-	-	-	-	35,161
-	-	-	-	84,984
-	-	-	-	1,870
124,914	265,307	333,941	724,162	724,162
-	-	-	-	135,000
-	-	-	-	199,573
124,914	265,307	333,941	724,162	1,180,750
(95,009)	(265,307)	(288,481)	(648,797)	(451,739)
-	396,635	-	396,635	438,134
-	-	-	-	(50,000)
-	396,635	-	396,635	388,134
(95,009)	131,328	(288,481)	(252,162)	(63,605)
-	(131,328)	1,048,195	916,867	1,226,577
\$ (95,009)	\$ -	\$ 759,714	\$ 664,705	\$ 1,162,972

CITY OF PORT LAVACA, TEXAS**GENERAL FUND****SCHEDULE OF REVENUES AND OTHER FINANCING SOURCES****FINAL BUDGET AND ACTUAL***For the year ended September 30, 2006*

	Final Budget	Actual	Variance Positive (Negative)
REVENUES			
Taxes			
Ad valorem	\$ 2,174,402	\$ 2,255,995	\$ 81,593
Sales	1,575,500	1,823,450	247,950
Franchise	560,400	598,795	38,395
Beverage	5,500	9,087	3,587
Total taxes	4,315,802	4,687,327	371,525
Fines and forfeitures			
Municipal court	156,100	219,497	63,397
Tax penalties and fees	80,000	106,630	26,630
Miscellaneous	10,000	22,785	12,785
Total fines and forfeitures	246,100	348,912	102,812
Intergovernmental			
County reimbursements	135,000	135,000	-
Grants and allocations	4,000	3,425	(575)
Total intergovernmental	139,000	138,425	(575)
Licenses and permits			
Licenses			
Building/electrical	8,000	11,160	3,160
Animal	1,500	1,735	235
Alcoholic beverage	1,000	767	(233)
Permits			
Building	30,000	30,604	604
Electrical	8,500	6,233	(2,267)
Plumbing	6,000	4,901	(1,099)
Mechanical	2,500	2,817	317
Miscellaneous	5,850	15,757	9,907
Total licenses and permits	63,350	73,974	10,624
Investment	35,000	199,676	164,676
Rental	50,500	43,360	(7,140)
Charges for services			
Swimming pool fees	3,500	3,843	343
Police service fees	3,000	2,743	(257)
Fire service fees	2,500	6,620	4,120
Total charges for services	9,000	13,206	4,206

	Final Budget	Actual	Variance Positive (Negative)
REVENUES (continued)			
Miscellaneous			
Reimbursements and refunds	\$ 21,800	\$ 15,059	\$ (6,741)
Other	17,000	9,431	(7,569)
Total miscellaneous	38,800	24,490	(14,310)
 Total revenues	 4,897,552	 5,529,370	 631,818
OTHER FINANCING SOURCES			
Transfers in	230,022	255,472	25,450
Proceeds from note agreements	-	400,286	400,286
Proceeds from capital leases	-	114,769	114,769
Sale of capital assets	2,500	17,099	14,599
Total other financing sources	232,522	787,626	555,104
 Total revenues and other financing sources	 \$ 5,130,074	 \$ 6,316,996	 \$ 1,186,922

CITY OF PORT LAVACA, TEXAS**GENERAL FUND****SCHEDULE OF EXPENDITURES AND OTHER FINANCING USES****FINAL BUDGET AND ACTUAL**

For the year ended September 30, 2006

	Final Budget	Actual	Variance Positive (Negative)
EXPENDITURES			
Current			
General government			
City council			
Personnel services	\$ 9,080	\$ 9,402	\$ (322)
Materials and supplies	625	1,027	(402)
Services	3,800	3,652	148
Total city council	13,505	14,081	(576)
City manager			
Personnel services	116,191	116,638	(447)
Materials and supplies	2,900	2,700	200
Services	5,050	4,199	851
Maintenance	1,200	438	762
Total city manager	125,341	123,975	1,366
City secretary			
Personnel services	55,945	57,220	(1,275)
Materials and supplies	1,675	1,393	282
Services	3,000	1,591	1,409
Maintenance	750	-	750
Total city secretary	61,370	60,204	1,166
Human resources			
Materials and supplies	1,000	1,119	(119)
Services	2,500	433	2,067
Total human resources	3,500	1,552	1,948
Elections			
Materials and supplies	300	1,074	(774)
Services	9,000	4,083	4,917
Total elections	9,300	5,157	4,143
Legal			
Services	40,400	35,217	5,183
Total legal	40,400	35,217	5,183
Municipal court			
Personnel services	39,612	39,989	(377)
Materials and supplies	1,200	1,758	(558)
Services	4,000	12,506	(8,506)
Maintenance	5,000	5,000	-
Sundry	200	(15)	215
Total municipal court	50,012	59,238	(9,226)

(continued)

	Final Budget	Actual	Variance Positive (Negative)
EXPENDITURES (continued)			
Current (continued)			
General government (continued)			
Tax			
Services	\$ 56,625	\$ 70,909	\$ (14,284)
Total tax	56,625	70,909	(14,284)
Purchasing			
Personnel services	30,676	30,835	(159)
Materials and supplies	950	801	149
Services	4,600	4,705	(105)
Maintenance	700	688	12
Total purchasing	36,926	37,029	(103)
Finance			
Personnel services	134,918	135,096	(178)
Materials and supplies	3,050	5,139	(2,089)
Services	3,625	1,312	2,313
Maintenance	3,500	3,048	452
Total finance	145,093	144,595	498
City hall			
Materials and supplies	5,800	6,871	(1,071)
Services	52,250	67,418	(15,168)
Maintenance	14,000	5,844	8,156
Capital outlay	35,000	42,150	(7,150)
Total city hall	107,050	122,283	(15,233)
Non-departmental			
Personnel services	199,224	323,025	(123,801)
Services	134,337	141,085	(6,748)
Maintenance	38,233	36,367	1,866
Sundry	128,624	55,711	72,913
Capital outlay	108,000	7,845	100,155
Total non-departmental	608,418	564,033	44,385
Total general government	1,257,540	1,238,273	19,267
Public safety			
Police			
Personnel services	1,029,636	1,072,264	(42,628)
Materials and supplies	40,400	57,649	(17,249)
Services	67,800	50,350	17,450
Maintenance	24,200	25,967	(1,767)
Sundry	2,000	1,440	560
Capital outlay	37,200	83,463	(46,263)
Total police	1,201,236	1,291,133	(89,897)

CITY OF PORT LAVACA, TEXAS

GENERAL FUND

SCHEDULE OF EXPENDITURES AND OTHER FINANCING USES

BUDGET (GAAP BASIS) AND ACTUAL

For the year ended September 30, 2006

	Final Budget	Actual	Variance Positive (Negative)
EXPENDITURES (continued)			
Current (continued)			
Public safety (continued)			
Fire			
Personnel services	\$ 687,451	\$ 719,622	\$ (32,171)
Materials and supplies	25,800	31,541	(5,741)
Services	31,800	38,521	(6,721)
Maintenance	31,350	33,814	(2,464)
Sundry	750	794	(44)
Total fire	777,151	824,292	(47,141)
Animal control			
Personnel services	45,716	44,977	739
Materials and supplies	5,475	9,842	(4,367)
Services	4,950	5,934	(984)
Maintenance	1,150	2,306	(1,156)
Capital outlay	43,484	52,150	(8,666)
Total animal control	100,775	115,209	(14,434)
Total public safety	2,079,162	2,230,634	(151,472)
Public works			
Public works			
Personnel services	63,543	13,577	49,966
Materials and supplies	1,950	228	1,722
Services	3,700	479	3,221
Maintenance	1,000	20	980
Capital outlay	5,200	-	5,200
Total public works	75,393	14,304	61,089
Engineering			
Personnel services	63,752	64,657	(905)
Materials and supplies	2,100	1,303	797
Services	8,590	4,709	3,881
Maintenance	2,000	51	1,949
Capital outlay	7,000	5,850	1,150
Total engineering	83,442	76,570	6,872
Code enforcement/inspections			
Personnel services	100,023	101,870	(1,847)
Materials and supplies	10,250	7,978	2,272
Services	21,650	24,999	(3,349)
Maintenance	2,300	346	1,954
Capital outlay	5,900	-	5,900
Total code enforcement/inspections	140,123	135,193	4,930
Total public works	298,958	226,067	72,891

(continued)

	Final Budget	Actual	Variance Positive (Negative)
EXPENDITURES (continued)			
Current (continued)			
Streets			
Personnel services	\$ 276,125	\$ 268,128	\$ 7,997
Materials and supplies	33,055	34,041	(986)
Services	133,850	135,972	(2,122)
Maintenance	387,950	365,535	22,415
Sundry	20,020	18,702	1,318
Capital outlay	115,740	500,795	(385,055)
Total streets	966,740	1,323,173	(356,433)
Parks and recreation			
Parks			
Personnel services	177,225	175,798	1,427
Materials and supplies	9,500	15,205	(5,705)
Services	25,250	31,872	(6,622)
Maintenance	43,385	19,491	23,894
Capital outlay	34,614	75,340	(40,726)
Total parks	289,974	317,706	(27,732)
Convention/visitors bureau			
Personnel services	67,864	52,648	15,216
Materials and supplies	7,400	4,780	2,620
Services	48,750	55,328	(6,578)
Maintenance	24,300	20,580	3,720
Capital outlay	40,949	35,847	5,102
Total convention/visitors bureau	189,263	169,183	20,080
Swimming pool			
Materials and supplies	8,500	7,569	931
Services	5,150	6,828	(1,678)
Maintenance	6,000	3,224	2,776
Total swimming pool	19,650	17,621	2,029
Total parks and recreation	498,887	504,510	(5,623)
Total current	5,101,287	5,522,657	(421,370)
Debt service			
Principal retirement	-	81,538	(81,538)
Interest and fiscal charges	-	3,670	(3,670)
Total debt service	-	85,208	(85,208)
Total expenditures	5,101,287	5,607,865	(506,578)

CITY OF PORT LAVACA, TEXAS**GENERAL FUND****SCHEDULE OF EXPENDITURES AND OTHER FINANCING USES****BUDGET (GAAP BASIS) AND ACTUAL***For the year ended September 30, 2006*

(concluded)

	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
OTHER FINANCING USES			
Transfers out	\$ 502,910	\$ 503,134	\$ (224)
Total other financing uses	<u>502,910</u>	<u>503,134</u>	<u>(224)</u>
 Total expenditures and other financing uses	 <u>\$ 5,604,197</u>	 <u>\$ 6,110,999</u>	 <u>\$ (506,802)</u>