

CITY OF PORT LAVACA, TEXAS

ANNUAL FINANCIAL STATEMENTS

*With Independent Auditors' Report Thereon
For the Year Ended September 30, 2007*

Prepared by: Finance Department
Scotty Jones
Director of Finance

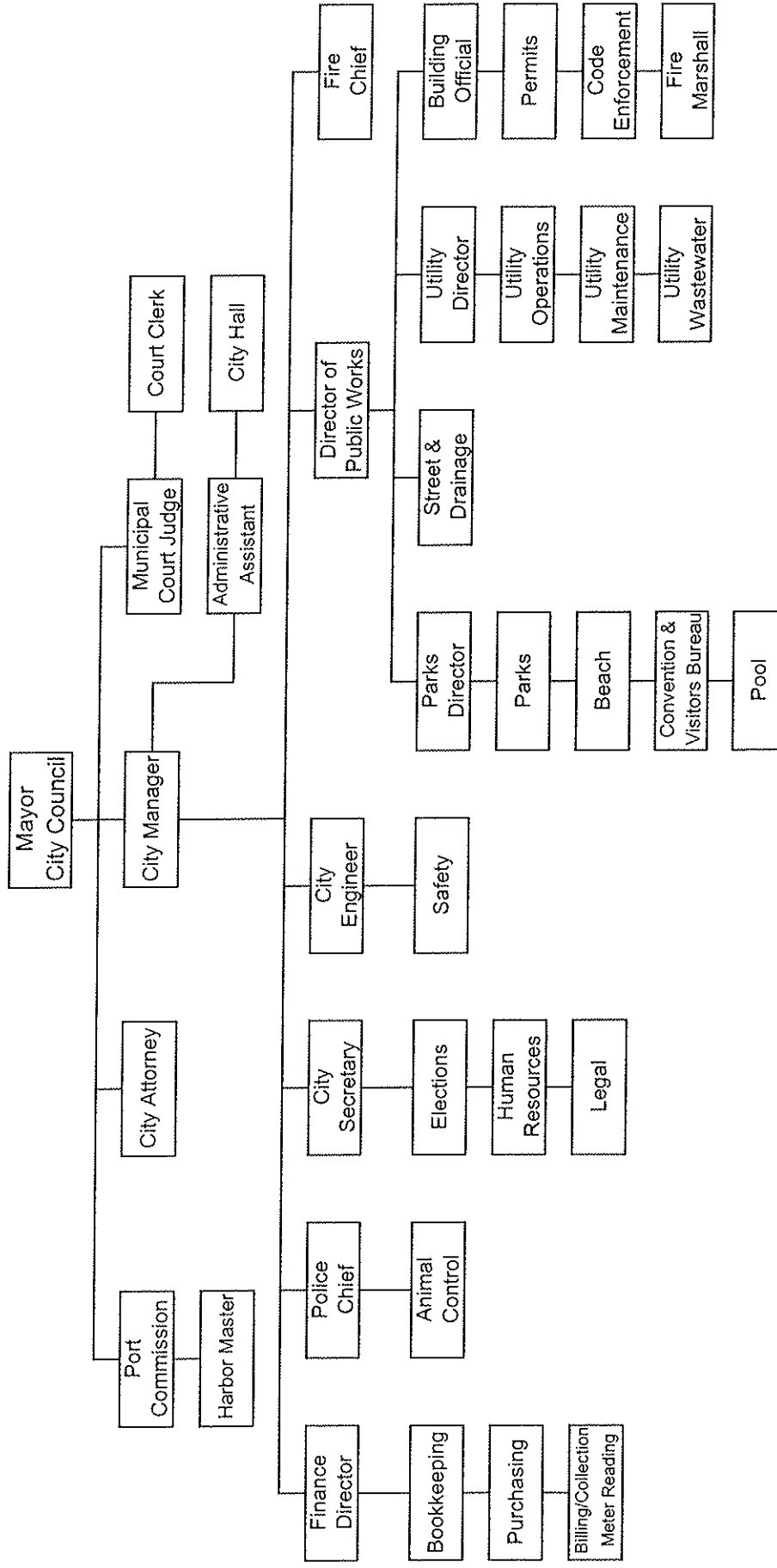
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INTRODUCTORY SECTION

CITY OF PORT LAVACA, TEXAS

Organizational Chart



FINANCIAL SECTION



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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, 2007, 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, 2007, 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 iv through xi 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.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 7, 2008, on our consideration of the City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Honorable Mayor and
Members of the City Council

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The introductory section, combining and individual fund statements and schedules, and schedule of expenditures of federal awards (as required by the U.S. Office of Management and Budget Circular A-133, *Auditing of States, Local Governments, and Non-Profit Organizations*) are presented for purposes of additional analysis and are not a required part of the basic financial statements. These combining and individual fund statements and schedules and the schedule of expenditures of federal awards 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. The introductory section has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on it.

Harrison Waldrop & Wheeler, L.L.P.
January 7, 2008

CITY OF PORT LAVACA, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the year ended September 30, 2007

As management of the City 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, 2007.

FINANCIAL HIGHLIGHTS

Government-Wide

- The assets of the City exceeded its liabilities at the close of the most recent fiscal year by \$35,605,593 (net assets). Of this amount, \$10,579,185 (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 \$3,055,558 over prior year.

Governmental Activities

- As of September 30, 2007, the City's governmental funds reported an ending fund balance of \$6,197,080, an increase of \$814,961 (15.14%) in comparison with the prior year.

Business-type Activities

- Net assets grew from \$14,779,305 in 2006 to \$15,721,856 (an increase of 6.38%) as of September 30, 2007.
- On a governmental-wide basis for business-type activities, program revenue net of expenses was \$960,121.

General Fund Performance

- At the end of the fiscal year, unreserved, undesignated fund balance for the General Fund was \$1,576,413, or 28.5% of total General Fund expenditures.
- The designated portion of the Fund's fund balance totaled \$3,661,726. 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 1-3 of this report.

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. A reconciliation is provided for both the governmental funds balance sheet and the governmental funds statement of revenues, expenditures, and changes in fund balances facilitate this comparison between the governmental funds and *governmental activities*. The basic governmental fund financial statements can be found on pages 4-8 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 9-11 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 an Expendable Trust Fund and an Agency Fund. Expendable Trust Funds are accounted for in essentially the same manner as governmental 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 12-13 of this report.

NOTES TO THE 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 14-34 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 35-43 of this report. Finally, the Federal Programs Section of the report includes information related to the City's federal grant programs. This information can be found on pages 48-54 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 \$35,605,593 as of September 30, 2007.

The largest portion of the City's net assets (69.3%) 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 (29.7%) represents unrestricted financial resources available for future operations. Additionally, a portion of the City's net assets (1 %) represents resources that are subject to restrictions on how they may be used.

SUMMARY OF STATEMENT OF NET ASSETS

As of September 30, 2007 and 2006

(amounts expressed in thousands)

	Governmental Activities		Business-type Activities		Total	
	2007	2006	2007	2006	2007	2006
Current and other assets	\$ 7,677	\$ 6,543	\$ 5,435	\$ 5,031	\$ 13,112	\$ 11,574
Capital assets, net	17,612	16,621	17,724	16,538	35,336	33,159
Total Assets	25,289	23,164	23,159	21,569	48,448	44,733
Current and other liabilities	1,207	1,250	1,606	1,075	2,813	2,325
Long-term liabilities	4,198	4,143	5,831	5,715	10,029	9,858
Total Liabilities	5,405	5,393	7,437	6,790	12,842	12,183
Net Assets:						
Invested in capital assets, net of debt	13,106	12,509	11,570	10,461	24,676	22,970
Restricted	221	199	129	14	350	213
Unrestricted	6,557	5,063	4,023	4,304	10,580	9,367
Total Net Assets	\$ 19,884	\$ 17,771	\$ 15,722	\$ 14,779	\$ 35,606	\$ 32,550

GOVERNMENT-WIDE FINANCIAL ANALYSIS (continued)

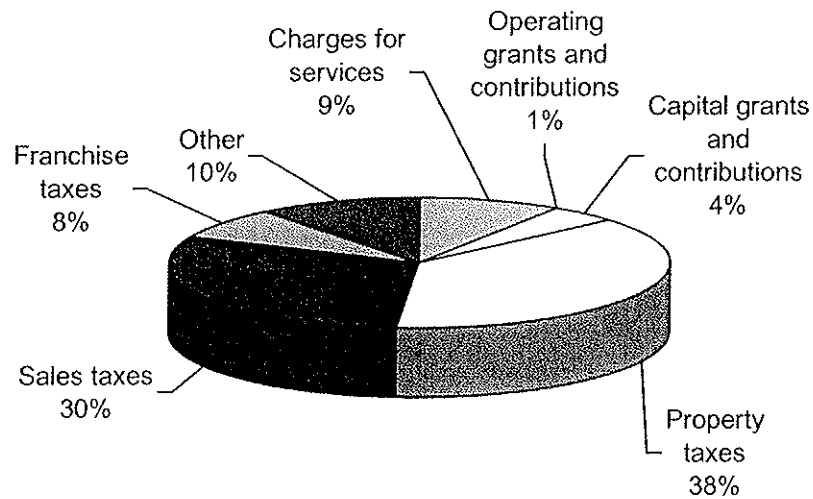
Net assets of the City increased by \$3,055,558. This increase was due primarily to increased revenues in governmental activities such as taxes, investment income, and fines.

	<i>Govt</i> Activities		<i>Business</i> Activities		Total	
	2007	2006	2007	2006	2007	2006
Revenues						
Program revenues:						
Charges for services	\$ 703	\$ 679	\$ 5,088	\$ 4,949	\$ 5,791	\$ 5,628
Operating grants and contributions	4	101	3	17	7	118
Capital grants and contributions	336	517	179	227	515	744
General revenues:					-	-
Property taxes, penalties and interest	2,888	2,531	-	-	2,888	2,531
Sales taxes	2,328	1,823	-	-	2,328	1,823
Franchise taxes	597	599	-	-	597	599
Investment income and other	565	482	235	173	800	655
Total Revenues	<u>7,421</u>	<u>6,732</u>	<u>5,505</u>	<u>5,366</u>	<u>12,926</u>	<u>12,098</u>
Expenses						
General government	1,300	1,226	-	-	1,300	1,226
Public safety	2,204	2,254	-	-	2,204	2,254
Public works	202	231	-	-	202	231
Streets	1,151	1,239	-	-	1,151	1,239
Parks and recreation	522	527	-	-	522	527
Interest on long-term debt	181	196	-	-	181	196
Public utilities	-	-	3,835	3,393	3,835	3,393
Port commission	-	-	345	311	345	311
Beach operations	-	-	130	171	130	171
Total Expenses	<u>5,560</u>	<u>5,673</u>	<u>4,310</u>	<u>3,875</u>	<u>9,870</u>	<u>9,548</u>
Increase in Net Assets						
Before Transfers	1,861	1,059	1,195	1,491	3,056	2,550
Transfers	252	140	(252)	(140)	-	-
Change in Net Assets	2,113	1,199	943	1,351	3,056	2,550
Net assets, beginning	<u>17,771</u>	<u>16,572</u>	<u>14,779</u>	<u>13,428</u>	<u>32,550</u>	<u>30,000</u>
Net Assets, Ending	<u>\$ 19,884</u>	<u>\$ 17,771</u>	<u>\$ 15,722</u>	<u>\$ 14,779</u>	<u>\$ 35,606</u>	<u>\$ 32,550</u>

GOVERNMENT-WIDE FINANCIAL ANALYSIS (continued)

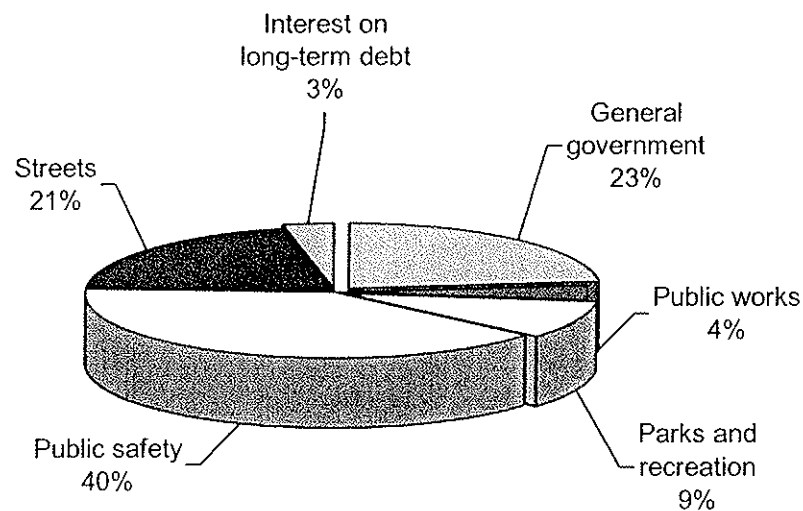
Graphic presentations of selected data from the summary tables follow to assist in the analysis of the City's activities.

GOVERNMENTAL REVENUES



For the fiscal year ended September 30, 2007, revenues from governmental activities totaled \$7.7 million.

GOVERNMENTAL FUNCTIONAL EXPENSES



For the fiscal year ended September 30, 2007, expenses for governmental activities totaled \$5.6 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, 2007, the City's governmental funds, which consist of a general fund, two debt service funds, two capital projects funds, and eight special revenue funds, reported an ending fund balance of \$6,197,080, which is an increase of \$814,961 from last year's total of \$5,382,119.

The General Fund is the chief operating fund of the City. Its fund balance increased by \$1,047,747 during the fiscal year due to increased revenue from taxes 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 28.5% of total General Fund expenditures.

Proprietary Funds - 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 \$2,914,175. The increase in total net assets for the year, after transfers to the General Fund of \$217,449, was \$621,825. Net assets of the Port Commission and Beach Operating Funds also increased during the 2007 fiscal year. Increases in these funds were \$205,086 and \$115,640 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 general government, debt service, and transfers out categories. Payments to the Wal-Mart Corporation under an existing note agreement were budgeted at \$100,000. Actual note payments totaled \$286,259. Payments exceeded budget due to higher than expected sales tax revenues. Personnel costs increases were approved by Council, however the budget amendment was not reflected in general government's corresponding budget. Contracted services were higher than anticipated in the municipal court department offset by aggressive collections. The City Charter revision costs were higher than anticipated in the legal budget. Conservative budgetary practices showed positive budget variance as it relates to parks and recreation, streets, public works, and public safety.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets - The City's investment in capital assets as of September 30, 2007 amounts to \$35,336,641 (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)

SCHEDULE OF CAPITAL ASSETS (amounts expressed in thousands)

	Governmental Activities		Business-type Activities		Total	
	2007	2006	2007	2006	2007	2006
Non-Depreciable Assets						
Land	\$ 934	\$ 934	\$ 1,501	\$ 1,501	\$ 2,435	\$ 2,435
Construction in progress	442	478	1,584	120	2,026	598
Other Capital Assets						
Machinery and equipment	1,774	1,488	643	654	2,417	2,142
Buildings and structures	4,923	4,923	4,324	4,324	9,247	9,247
Infrastructure	23,324	22,072	28,989	28,641	52,313	50,713
Accumulated depreciation on other capital assets	(13,785)	(13,274)	(19,317)	(18,702)	(33,102)	(31,976)
Totals	\$ 17,612	\$ 16,621	\$ 17,724	\$ 16,538	\$ 35,336	\$ 33,159

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 \$10.8 million. The following table details the nature of this debt.

SCHEDULE OF LONG-TERM DEBT (amounts expressed in thousands)

	Governmental Activities		Business-type Activities		Total	
	2007	2006	2007	2006	2007	2006
Revenue bonds	\$ -	\$ -	\$ 5,725	\$ 5,980	\$ 5,725	\$ 5,980
Certificates of obligation	4,090	4,250	440	80	4,530	4,330
Notes	114	400	-	-	114	400
Capital leases	302	130	21	49	323	179
Compensated absences	113	100	16	16	129	116
Total	\$ 4,619	\$ 4,880	\$ 6,202	\$ 6,125	\$ 10,821	\$ 11,005

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 increased from \$1,823,450 in 2006 to \$2,328,103 (27.7%). This trend has been seen for many Cities on the coast. Super Wal-Mart has proved to be an economic benefit for the City contributing to the sales tax boost.

The City has two (2) high-end housing projects which are both in the process of building homes. 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.

The City adjusted water and sewer rates in October 2007 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.

The City is also moving forward with construction of the Bay Front Boat Ramp funded by a federal grant. It is in the design and bid stage.

The Beach has completed the construction of the courtesy dock for ease of loading and unloading watercrafts. The Beach will soon proceed with phase II of the fishing pier expansion through Federal and local match funding.

Future plans include continuation of the street rebuild and infrastructure replacement. The City has completed 80% of the Texas Water Development Board Project 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 Alamo Heights phase II project is 70% complete replacing sewer lines in the Alamo Heights subdivision.

The City has received the Texas Community Development Program block 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. The City (Port Commission) is utilizing the 400 feet of Public dock for barge refurbishment and has started construction on 500 feet of bulkhead that will adjoin the public dock.

Trinity Care Corp., an assisted living organization, opened on April 28, 2007 and currently has 45 residents and doing well. New jobs will be created within the next year.

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, 2007

	Governmental Activities	Business-type Activities	Total
ASSETS			
Current assets			
Cash and cash equivalents	\$ 5,684,037	\$ 4,270,666	\$ 9,954,703
Investments	621,571	200,620	822,191
Receivables (net)	841,770	545,881	1,387,651
Due from other governments	447,216	49,984	497,200
Due from other funds	720	-	720
Prepaid expenses	28,755	6,937	35,692
Inventory	-	94,218	94,218
Total current assets	<u>7,624,069</u>	<u>5,168,306</u>	<u>12,792,375</u>
Noncurrent assets			
Capital assets			
Land and other assets not being depreciated	1,376,001	3,085,399	4,461,400
Assets being depreciated (net)	16,235,942	14,639,299	30,875,241
Bond issue costs (net)	<u>53,074</u>	<u>266,205</u>	<u>319,279</u>
Total noncurrent assets	<u>17,665,017</u>	<u>17,990,903</u>	<u>35,655,920</u>
Total assets	<u>25,289,086</u>	<u>23,159,209</u>	<u>48,448,295</u>
LIABILITIES			
Current liabilities			
Accounts payable	489,980	938,212	1,428,192
Cash overdraft	35,196	-	35,196
Payroll related liabilities	106,894	22,150	129,044
Accrued interest payable	31,238	38,383	69,621
Other payables	27,665	3,886	31,551
Due to other governments	23,339	3,455	26,794
Accrued compensated absences	47,611	6,680	54,291
Deferred revenue	33,750	6,514	40,264
Customer deposits	38,448	254,036	292,484
Current portion of non-current liabilities			
Capital leases	79,367	12,949	92,316
Bonds, certificates and notes	<u>294,027</u>	<u>320,000</u>	<u>614,027</u>
Total current liabilities	<u>1,207,515</u>	<u>1,606,265</u>	<u>2,813,780</u>
Long-term liabilities, net of current portion			
Accrued compensated absences	65,109	8,939	74,048
Capital leases	222,725	8,270	230,995
Bonds and certificates (net of unamortized discounts)	<u>3,910,000</u>	<u>5,813,879</u>	<u>9,723,879</u>
Total long-term liabilities	<u>4,197,834</u>	<u>5,831,088</u>	<u>10,028,922</u>
Total liabilities	<u>5,405,349</u>	<u>7,437,353</u>	<u>12,842,702</u>

	Governmental Activities	Business-type Activities	Total
NET ASSETS			
Invested in capital assets, net of related debt	\$ 13,105,824	\$ 11,569,600	\$ 24,675,424
Restricted for:			
Capital projects	-	114,852	114,852
Debt service	161,807	-	161,807
Facilities maintenance	59,585	14,740	74,325
Unrestricted	<u>6,556,521</u>	<u>4,022,664</u>	<u>10,579,185</u>
Total net assets	<u>\$ 19,883,737</u>	<u>\$ 15,721,856</u>	<u>\$ 35,605,593</u>

The accompanying notes are an integral part of this statement.

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CITY OF PORT LAVACA, TEXAS
STATEMENT OF ACTIVITIES
For the year ended September 30, 2007

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	\$ 1,300,514	\$ 204,372	\$ -	\$ 323,843	\$ (772,299)	\$ -
Public safety	2,204,124	449,776	3,903	11,828	(1,738,617)	-
Public works	201,814	-	-	-	(201,814)	-
Streets	1,150,865	-	-	-	(1,150,865)	-
Parks and recreation	522,218	48,929	-	-	(473,289)	-
Interest on long-term debt	180,891	-	-	-	(180,891)	-
Total governmental activities	5,560,426	703,077	3,903	335,671	(4,517,775)	-
Business-type activities						
Public utilities	3,835,279	4,498,543	-	-	-	663,264
Port commission	345,062	431,090	3,000	77,109	-	166,137
Beach operations	129,800	158,770	-	101,750	-	130,720
Total business-type activities	4,310,141	5,088,403	3,000	178,859	-	960,121
Total government	\$ 9,870,567	\$ 5,791,480	\$ 6,903	\$ 514,530	(4,517,775)	(3,557,654)
General revenues:						
Taxes:						
Property taxes, levied for general purposes					2,532,357	-
Property taxes, levied for debt service					355,102	-
Sales taxes					2,328,103	-
Franchise taxes					597,082	-
Other taxes					197,276	-
Investment earnings					325,364	234,879
Miscellaneous					43,049	-
Transfers					252,449	(252,449)
Total general revenues and transfers					6,630,782	(17,570)
Change in net assets					2,113,007	942,551
Net assets - beginning, as restated					17,770,730	14,779,305
Net assets - ending					\$ 19,883,737	\$ 15,721,856
						\$ 35,605,593

The accompanying notes are an integral part of this statement.

CITY OF PORT LAVACA, TEXAS**BALANCE SHEET****GOVERNMENTAL FUNDS**

September 30, 2007

	General	Other Governmental Funds	Total Governmental Funds
ASSETS			
Current assets			
Cash and cash equivalents	\$ 4,710,553	\$ 973,484	\$ 5,684,037
Investments	621,571	-	621,571
Receivables (net)	747,172	94,598	841,770
Due from other governments	386,565	60,651	447,216
Due from other funds	60,922	-	60,922
Prepaid items	28,755	-	28,755
Total assets	<u>\$ 6,555,538</u>	<u>\$ 1,128,733</u>	<u>\$ 7,684,271</u>
LIABILITIES AND FUND BALANCES			
Liabilities			
Accounts payable	\$ 440,793	\$ 49,187	\$ 489,980
Cash overdraft	35,196	-	35,196
Payroll related payables	79,761	-	79,761
Other payables	27,665	-	27,665
Due to other governments	23,339	-	23,339
Due to other funds	-	60,202	60,202
Accrued compensated absences	18,873	-	18,873
Customer and other deposits	38,448	-	38,448
Deferred revenue	624,569	89,158	713,727
Total liabilities	<u>1,288,644</u>	<u>198,547</u>	<u>1,487,191</u>
Fund balances			
Reserved for:			
Prepaid items	28,755	-	28,755
Unreserved, designated for:			
Operating reserves	2,762,226	-	2,762,226
Health insurance claims	500,000	-	500,000
Street improvements	149,500	-	149,500
Capital asset replacement	250,000	-	250,000
Unreserved, undesignated reported in:			
General fund	1,576,413	-	1,576,413
Special revenue funds	-	767,415	767,415
Debt service funds	-	148,960	148,960
Capital projects funds	-	13,811	13,811
Total fund balances	<u>5,266,894</u>	<u>930,186</u>	<u>6,197,080</u>
Total liabilities and fund balances	<u>\$ 6,555,538</u>	<u>\$ 1,128,733</u>	<u>\$ 7,684,271</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, 2007

Total governmental fund balance

\$ 6,197,080

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 \$29,895,355 and the accumulated depreciation was \$13,274,306. 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 \$4,861,003 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.

11,760,046

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 2006/2007 capital outlays is to increase net assets.

1,601,484

The 2006/2007 depreciation expense increases accumulated depreciation. The effect of the current year's depreciation is to decrease net assets.

(579,599)

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.

(295,392)

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 2006/2007 principal payments on long-term debt is to increase net assets.

568,939

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.

679,977

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.

(48,798)**Net assets of governmental activities**\$ 19,883,737

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, 2007*

	<u>General</u>	<u>2005 Certificates of Obligation</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
REVENUES				
Taxes				
Ad valorem	\$ 2,457,826	\$ -	\$ 346,927	\$ 2,804,753
Sales	2,328,103	-	-	2,328,103
Other	604,879	-	189,479	794,358
Fines, fees and forfeitures	344,777	-	65,171	409,948
Intergovernmental	137,633	-	377,114	514,747
Licenses and permits	94,271	-	-	94,271
Investment	276,286	16,195	32,883	325,364
Rental	47,582	-	-	47,582
Charges for services	5,120	-	-	5,120
Miscellaneous	43,049	-	-	43,049
Total revenues	<u>6,339,526</u>	<u>16,195</u>	<u>1,011,574</u>	<u>7,367,295</u>
EXPENDITURES				
Current				
General government	1,250,320	-	60,276	1,310,596
Public safety	2,324,651	-	65,160	2,389,811
Public works	200,936	-	-	200,936
Streets	924,048	-	-	924,048
Parks and recreation	408,748	-	-	408,748
Capital outlay	-	841,269	301,190	1,142,459
Debt service				
Principal retirement	408,939	-	160,000	568,939
Interest and fiscal charges	6,810	-	167,590	174,400
Total expenditures	<u>5,524,452</u>	<u>841,269</u>	<u>754,216</u>	<u>7,119,937</u>
Excess (deficiency) of revenues over expenditures	815,074	(825,074)	257,358	247,358
OTHER FINANCING SOURCES (USES)				
Transfers in	277,449	65,360	319,570	662,379
Transfers out	(359,930)	-	(50,000)	(409,930)
Proceeds from capital leases	295,392	-	-	295,392
Sale of capital assets	19,762	-	-	19,762
Total other financing sources	<u>232,673</u>	<u>65,360</u>	<u>269,570</u>	<u>567,603</u>
Net change in fund balances	1,047,747	(759,714)	526,928	814,961
Fund balances - beginning, as restated	4,219,147	759,714	403,258	5,382,119
Fund balances - ending	<u>\$ 5,266,894</u>	<u>\$ -</u>	<u>\$ 930,186</u>	<u>\$ 6,197,080</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, 2007

Total net change in fund balances - governmental funds	\$ 814,961
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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 2006/2007 capital outlays is to increase net assets.	1,601,484
--	-----------

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.	(579,599)
---	-----------

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.	(295,392)
--	-----------

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 2006/2007 principal payments on long-term debt is to increase net assets.	568,939
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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.	53,689
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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.	(51,075)
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Change in net assets of governmental activities	<u>\$ 2,113,007</u>
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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, 2007*

	<u>Budgeted Amounts</u>		<u>Actual</u>	Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>	<u>Amounts</u>	
REVENUES				
Taxes	\$ 4,615,601	\$ 4,615,601	\$ 5,390,808	\$ 775,207
Fines and forfeitures	252,100	252,100	344,777	92,677
Intergovernmental	149,500	149,500	137,633	(11,867)
Licenses and permits	66,700	66,700	94,271	27,571
Investment	70,000	70,000	276,286	206,286
Rental	41,000	41,000	47,582	6,582
Charges for services	11,500	11,500	5,120	(6,380)
Miscellaneous	40,200	40,200	43,049	2,849
Total revenues	<u>5,246,601</u>	<u>5,246,601</u>	<u>6,339,526</u>	<u>1,092,925</u>
EXPENDITURES				
Current				
General government	1,201,939	1,218,034	1,250,320	(32,286)
Public safety	2,209,517	2,406,909	2,324,651	82,258
Public works	314,522	303,422	200,936	102,486
Streets	1,055,716	1,040,516	924,048	116,468
Parks and recreation	486,907	467,707	408,748	58,959
Debt service				
Principal retirement	100,000	222,341	408,939	(186,598)
Interest and fiscal charges	-	5,064	6,810	(1,746)
Total expenditures	<u>5,368,601</u>	<u>5,663,993</u>	<u>5,524,452</u>	<u>139,541</u>
Excess (deficiency) of revenues over expenditures	(122,000)	(417,392)	815,074	1,232,466
OTHER FINANCING SOURCES (USES)				
Transfers in	252,000	252,000	277,449	25,449
Transfers out	(92,000)	(92,000)	(359,930)	(267,930)
Proceeds from capital leases	-	295,392	295,392	-
Sale of capital assets	5,000	5,000	19,762	14,762
Net other financing sources	<u>165,000</u>	<u>460,392</u>	<u>232,673</u>	<u>(227,719)</u>
Net change in fund balance	43,000	43,000	1,047,747	1,004,747
Fund balance - beginning, as restated	<u>4,219,147</u>	<u>4,219,147</u>	<u>4,219,147</u>	<u>-</u>
Fund balance - ending	<u>\$ 4,262,147</u>	<u>\$ 4,262,147</u>	<u>\$ 5,266,894</u>	<u>\$ 1,004,747</u>

The accompanying notes are an integral part of this statement.

CITY OF PORT LAVACA, TEXAS**STATEMENT OF NET ASSETS****PROPRIETARY FUNDS**

September 30, 2007

	Business-type Activities - Enterprise Funds			
	Public Utility	Port Commission	Beach Operating	Total
ASSETS				
Current assets				
Cash and cash equivalents	\$ 3,158,839	\$ 820,545	\$ 291,282	\$ 4,270,666
Investments	200,620	-	-	200,620
Receivables (net)	535,533	10,309	39	545,881
Due from other governments	-	23,234	26,750	49,984
Prepaid expenses	4,277	2,201	459	6,937
Inventory	94,218	-	-	94,218
Total current assets	3,993,487	856,289	318,530	5,168,306
Noncurrent assets				
Capital assets				
Land and other assets not being depreciated	1,682,968	1,126,868	275,563	3,085,399
Assets being depreciated (net)	11,104,499	2,189,377	1,345,423	14,639,299
Bond issue costs (net)	266,205	-	-	266,205
Net noncurrent assets	13,053,672	3,316,245	1,620,986	17,990,903
Total assets	17,047,159	4,172,534	1,939,516	23,159,209
LIABILITIES				
Current liabilities				
Accounts payable	888,825	41,562	7,825	938,212
Payroll related liabilities	22,150	-	-	22,150
Accrued interest payable	38,383	-	-	38,383
Other payables	3,886	-	-	3,886
Due to other governments	3,455	-	-	3,455
Accrued compensated absences	6,680	-	-	6,680
Deferred revenue	4,988	1,526	-	6,514
Customer deposits	253,359	-	677	254,036
Current portion of noncurrent liabilities				
Capital leases	12,949	-	-	12,949
Bonds and certificates	320,000	-	-	320,000
Total current liabilities	1,554,675	43,088	8,502	1,606,265
Long-term liabilities, net of current portion				
Accrued compensated absences	8,939	-	-	8,939
Capital leases	8,270	-	-	8,270
Bonds and certificates (net of unamortized discounts)	5,813,879	-	-	5,813,879
Total long-term liabilities	5,831,088	-	-	5,831,088
Total liabilities	7,385,763	43,088	8,502	7,437,353
NET ASSETS				
Invested in capital assets, net of related debt	6,632,369	3,316,245	1,620,986	11,569,600
Restricted for:				
Capital projects	114,852	-	-	114,852
Facilities maintenance	-	-	14,740	14,740
Unrestricted net assets	2,914,175	813,201	295,288	4,022,664
Total net assets	\$ 9,661,396	\$ 4,129,446	\$ 1,931,014	\$ 15,721,856

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, 2007

	Business-type Activities - Enterprise Funds			
	Public Utility	Port Commission	Beach Operating	Total
OPERATING REVENUES				
Charges for services				
Water sales	\$ 2,019,091	\$ -	\$ -	\$ 2,019,091
Sewer services	1,622,458	-	-	1,622,458
Waste collection	659,576	-	-	659,576
Tap and service fees	45,168	-	-	45,168
Gate fees	-	-	28,116	28,116
Leases and rentals	-	371,599	128,326	499,925
Port tariffs	-	57,197	-	57,197
Penalties	93,030	1,193	-	94,223
Miscellaneous	59,220	1,101	2,328	62,649
Total operating revenues	<u>4,498,543</u>	<u>431,090</u>	<u>158,770</u>	<u>5,088,403</u>
OPERATING EXPENSES				
Personnel services	553,670	28,865	-	582,535
Materials and supplies	85,615	1,180	1,114	87,909
Services	1,063,793	111,287	47,157	1,222,237
Water purchases	1,029,977	-	-	1,029,977
Maintenance and repairs	394,625	49,478	8,782	452,885
Depreciation and amortization	413,388	151,812	72,599	637,799
Miscellaneous	6,588	-	148	6,736
Total operating expenses	<u>3,547,656</u>	<u>342,622</u>	<u>129,800</u>	<u>4,020,078</u>
Operating income	950,887	88,468	28,970	1,068,325
NONOPERATING REVENUES (EXPENSES)				
Noncapital grants and contributions	-	3,000	-	3,000
Investment income	176,010	42,949	15,920	234,879
Interest expense	(287,623)	(2,440)	-	(290,063)
Net nonoperating revenues	<u>(111,613)</u>	<u>43,509</u>	<u>15,920</u>	<u>(52,184)</u>
Income before capital contributions and transfers	839,274	131,977	44,890	1,016,141
Capital grants and contributions	-	77,109	101,750	178,859
Transfers out	<u>(217,449)</u>	<u>(4,000)</u>	<u>(31,000)</u>	<u>(252,449)</u>
Change in net assets	621,825	205,086	115,640	942,551
Net assets - beginning, as restated	<u>9,039,571</u>	<u>3,924,360</u>	<u>1,815,374</u>	<u>14,779,305</u>
Net assets - ending	<u>\$ 9,661,396</u>	<u>\$ 4,129,446</u>	<u>\$ 1,931,014</u>	<u>\$ 15,721,856</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, 2007

	Business-type Activities - Enterprise Funds			
	Public Utility	Port Commission	Beach Operating	Total
CASH FLOWS FROM OPERATING ACTIVITIES:				
Cash received from customers	\$ 4,520,399	\$ 422,908	\$ 159,442	\$ 5,102,749
Cash payments to suppliers for goods and services	(2,046,156)	(153,251)	(53,836)	(2,253,243)
Cash payments to employees for services	(532,903)	(28,865)	-	(561,768)
Net cash provided (used) by operating activities	<u>1,941,340</u>	<u>240,792</u>	<u>105,606</u>	<u>2,287,738</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:				
Customer deposits received (net)	13,920	-	-	13,920
Receipts from noncapital grants and contributions	-	3,000	-	3,000
Cash paid to other funds	(221,351)	(4,000)	(31,000)	(256,351)
Net cash provided (used) by noncapital financing activities	<u>(207,431)</u>	<u>(1,000)</u>	<u>(31,000)</u>	<u>(239,431)</u>
CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES:				
Acquisition of capital assets	(1,446,981)	(175,840)	(189,422)	(1,812,243)
Receipts from capital grants and contributions	-	60,000	75,000	135,000
Proceeds from issuance of capital debt	440,000	-	-	440,000
Principal paid on capital debt	(283,019)	(80,000)	-	(363,019)
Interest paid on capital debt	(285,696)	(2,639)	-	(288,335)
Net cash used by capital financing activities	<u>(1,575,696)</u>	<u>(198,479)</u>	<u>(114,422)</u>	<u>(1,888,597)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:				
Investment purchases	(200,000)	-	-	(200,000)
Investment income	175,390	42,949	15,920	234,259
Net cash provided (used) by investing activities	<u>(24,610)</u>	<u>42,949</u>	<u>15,920</u>	<u>34,259</u>
Net increase (decrease) in cash and cash equivalents	133,603	84,262	(23,896)	193,969
Cash and cash equivalents at beginning of year	3,025,236	736,283	315,178	4,076,697
Cash and cash equivalents at end of year	<u>\$ 3,158,839</u>	<u>\$ 820,545</u>	<u>\$ 291,282</u>	<u>\$ 4,270,666</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:				
Operating income	\$ 950,887	\$ 88,468	\$ 28,970	\$ 1,068,325
Adjustments to reconcile operating income to net cash provided by operating activities:				
Depreciation and amortization	413,388	151,812	72,599	637,799
Change in assets and liabilities:				
(Increase) decrease in accounts receivable	22,339	(5,591)	(5)	16,743
(Increase) decrease in prepaid expense	4,025	(1,211)	369	3,183
(Increase) decrease in inventory	6,735	-	-	6,735
Increase (decrease) in accounts and other payables	523,682	9,905	3,673	537,260
Increase (decrease) in payroll related liabilities	20,767	-	-	20,767
Increase (decrease) in deferred revenue	(483)	(2,591)	-	(3,074)
Net cash provided (used) by operating activities	<u>\$ 1,941,340</u>	<u>\$ 240,792</u>	<u>\$ 105,606</u>	<u>\$ 2,287,738</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, 2007

	Fireman's Relief and Retirement Fund	Police Seized - Nonforfeiture Fund
ASSETS		
Cash and cash equivalents	\$ 487	\$ 14,411
Restricted assets		
Investments	-	-
Total assets	<u>487</u>	<u>\$ 14,411</u>
LIABILITIES		
Due to others	-	\$ 14,411
Due to other funds	720	-
Total liabilities	<u>720</u>	<u>\$ 14,411</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, 2007*

	Fireman's Relief and Retirement Fund
ADDITIONS	
Employer contributions	\$ 3,700
DEDUCTIONS	
Benefits	<u>3,700</u>
Change in net assets	-
Net assets - beginning	<u>(233)</u>
Net assets - ending	<u><u>\$ (233)</u></u>

The accompanying notes are an integral part of this statement.

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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, 2007.

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 funds:

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 2005 Certificates of Obligation Fund is a capital projects fund. It accounts for the revenues received and expenditures incurred related to the City's issuance of certificates of obligation issued during 2005.

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.

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.

The City reports its investments at fair value in the accompanying financial statements.

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. Allowance accounts related to trade accounts receivable are based upon management estimates. The property tax receivable allowance is equal to 5 percent of outstanding property taxes at September 30, 2007.

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 \$2,868 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.

During the current year, the City incurred a total of \$469,067 in interest charges on long-term obligations. Of this amount, \$466,199 was charged to expense and \$2,868 was capitalized.

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 5. 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.	\$ 53,074
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.	(12,510)
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)
Gross proceeds from the sale of capital assets are reported in the fund financial statements. However, in the government-wide statements the amount reported is reduced by the book value of the assets that were sold. The effect of recording this adjustment is to decrease net assets.	(30,991)
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.	(31,238)
Total various other reclassifications	<u>\$ (48,798)</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 7. 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.	\$ (1,083)
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.	(12,510)

NOTE 2: RECONCILIATION OF GOVERNMENT-WIDE TO FUND FINANCIAL STATEMENTS (continued)**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**
(continued)

Gross proceeds from the sale of capital assets are reported in the fund financial statements. However, in the government-wide statements the amount reported is reduced by the book value of the assets that were sold. The effect of recording this adjustment is to decrease income reported in the government-wide statements. \$ (30,991)

The current year increase in accrued interest payable increases expenses reported under the accrual basis of accounting. The effect of recording this adjustment is to increase expenses in the government-wide statements. (6,491)

Total various other reclassifications \$ (51,075)

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

As of September 30, 2007, two 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 Texas Capital Fund, a nonmajor capital projects fund, had a deficit equity balance of \$61,998. Most of this deficit 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. The City's General Fund will make up the remaining portion of the deficit that totals approximately \$6,000.

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 manager	\$ 149,521	\$ 156,476	\$ 6,955
Elections	19,300	29,328	10,028
Legal	65,400	79,910	14,510
Municipal court	62,527	68,492	5,965
Tax	60,320	73,026	12,706
Nondepartmental	500,832	503,633	2,801
Swimming pool	20,400	23,120	2,720
Debt service	227,405	415,749	188,344
Transfers out	92,000	359,930	267,930

The most significant variances related to debt service and transfers out transactions. Payments to the Wal-Mart Corporation ("Wal-Mart") under an existing note agreement were budgeted at \$100,000. Actual note payments totaled \$286,259. Payments exceeded the amount budgeted due to higher than expected sales tax revenues. The negative variance in transfers out resulted from unbudgeted transfers to the 2006/2007 Projects Fund, a nonmajor Special Revenue fund. These transfers were intended to fund various projects not completed in the current fiscal year.

NOTE 4: DEPOSITS AND INVESTMENTS

As of September 30, 2007, the City had the following investments:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Weighted Average Maturity (Days)</u>
Public Funds Investment Pools		
L.O.G.I.C. Pool	\$ 6,367,245	34
TexSTAR Pool	2,674,215	20
U.S. Government Securities	<u>822,191</u>	320
	<u>\$ 9,863,651</u>	

The investment pools operate 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 pools use 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.

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 maturity for the investment pools, according to their investment policies, is 60 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. Both investment pools operate in full compliance with the Public Funds Investment Act and are rated AAAM by Standard & Poor's.

C. Concentration of Credit Risk

The City's investment policy requires that the investment portfolio shall be diversified in terms of investment instruments, maturity scheduling, and financial institutions to reduce the risk of loss resulting from over concentration of assets in a specific class of investments, specific maturity, or specific user. At year-end, the City was not exposed to concentration of credit risk.

D. 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, 2007, and for the year then ended, the City was not exposed to any custodial credit risk.

E. Custodial Credit Risk - Investments

For an investment, this is the risk that, in the event of the failure of the counterparty, the City will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The City's investment policy requires that securities be held in the name of the City or held on behalf of the City and that all securities are purchased using the delivery versus payment method. As of September 30, 2007, 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	\$ 584,374	\$ -	\$ -	\$ -	\$ 35,120	\$ 619,494
Franchise taxes	86,077	-	-	-	-	86,077
Municipal court fines	103,881	-	-	-	-	103,881
Charges for services	76,162	627,166	19,804	-	-	723,132
Appraisal district	14,582	-	-	-	-	14,582
Occupancy taxes	-	-	-	-	59,823	59,823
Miscellaneous	55,693	1,129	-	39	1,411	58,272
Gross receivables	920,769	628,295	19,804	39	96,354	1,665,261
Less: Allowance for uncollectibles	(173,597)	(92,762)	(9,495)	-	(1,756)	(277,610)
Net total receivables	<u>\$ 747,172</u>	<u>\$ 535,533</u>	<u>\$ 10,309</u>	<u>\$ 39</u>	<u>\$ 94,598</u>	<u>\$ 1,387,651</u>

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, 2007 was \$0.75 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	\$ 497,681	\$ -	\$ 497,681
Charges for services	38,081	33,750	71,831
Municipal court fines	55,057	-	55,057
Nonmajor Funds			
Ad valorem taxes	33,364	-	33,364
Grant reimbursements	55,794	-	55,794
	<u>\$ 679,977</u>	<u>\$ 33,750</u>	<u>\$ 713,727</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, 2007:

	General Fund	Port Commission	Beach Operating	Nonmajor Funds	Total
Sales taxes	\$ 386,565	\$ -	\$ -	\$ -	\$ 386,565
Grant reimbursements	-	23,234	26,750	60,651	110,635
	<u>\$ 386,565</u>	<u>\$ 23,234</u>	<u>\$ 26,750</u>	<u>\$ 60,651</u>	<u>\$ 497,200</u>

NOTE 7: CAPITAL ASSETS

The capital asset activity of the City was as follows for the year ended September 30, 2007:

	Beginning Balance	Additions	Deletions/ Transfers	Ending Balance
Governmental activities				
Capital assets, not being depreciated:				
Land	\$ 934,397	\$ -	\$ -	\$ 934,397
Construction in progress	477,717	316,690	(352,803)	441,604
Total capital assets not being depreciated	1,412,114	316,690	(352,803)	1,376,001
Capital assets, being depreciated:				
Machinery and equipment	1,488,384	385,967	(99,960)	1,774,391
Buildings and structures	4,922,546	-	-	4,922,546
Infrastructure	22,072,311	1,251,630	-	23,323,941
Total capital assets being depreciated	28,483,241	1,637,597	(99,960)	30,020,878
Less accumulated depreciation for:				
Machinery and equipment	(779,351)	(144,003)	68,969	(854,385)
Buildings and structures	(1,986,869)	(134,569)	-	(2,121,438)
Infrastructure	(10,508,086)	(301,027)	-	(10,809,113)
Total accumulated depreciation	(13,274,306)	(579,599)	68,969	(13,784,936)
Total capital assets being depreciated, net	15,208,935	1,057,998	(30,991)	16,235,942
Governmental activities capital assets, net	\$ 16,621,049	\$ 1,374,688	\$ (383,794)	\$ 17,611,943
Business-type activities				
Capital assets, not being depreciated:				
Land	\$ 1,501,012	\$ -	\$ -	\$ 1,501,012
Construction in progress	120,297	1,471,965	(7,875)	1,584,387
Total capital assets not being depreciated	1,621,309	1,471,965	(7,875)	3,085,399
Capital assets, being depreciated:				
Machinery and equipment	654,385	-	(11,105)	643,280
Buildings and structures	4,323,856	-	-	4,323,856
Infrastructure	28,641,044	348,153	-	28,989,197
Total capital assets being depreciated	33,619,285	348,153	(11,105)	33,956,333
Less accumulated depreciation for:				
Machinery and equipment	(536,062)	(30,766)	11,105	(555,723)
Buildings and structures	(1,824,501)	(150,400)	-	(1,974,901)
Infrastructure	(16,341,664)	(444,746)	-	(16,786,410)
Total accumulated depreciation	(18,702,227)	(625,912)	11,105	(19,317,034)
Total capital assets being depreciated, net	14,917,058	(277,759)	-	14,639,299
Business-type activities capital assets, net	\$ 16,538,367	\$ 1,194,206	\$ (7,875)	\$ 17,724,698

NOTE 7: CAPITAL ASSETS (continued)

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

Governmental activities:

General government	\$ 36,121
Public safety	98,014
Public works	3,979
Streets, including depreciation of general infrastructure assets	329,835
Parks and recreation	111,650
Total depreciation expense - governmental activities	<u>\$ 579,599</u>

Business-type activities:

Public Utility	\$ 401,501
Port Commission	151,812
Beach Operations	72,599
Total depreciation expense - business-type activities	<u>\$ 625,912</u>

NOTE 8: INTERFUND RECEIVABLES, PAYABLES AND TRANSFERSA. 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, 2007, were as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General	Fireman's Relief and Retirement	\$ 720
	Nonmajor Debt Service	45,884
	Nonmajor Capital Projects	14,318
		<u>\$ 60,922</u>

B. Interfund Transfers

Each year various funds of the City transfer funds to other funds. Besides planned operating transfers from the Public Utility Fund to the General Fund, the most significant transfers were from the General Fund to the 2006/2007 Projects Fund, a nonmajor Special Revenue fund (as previously discussed in Note 3B). During the current fiscal year, transfers between funds consisted of the following:

	<u>Transfers In</u>			
	2005			
	<u>General</u>	<u>Certificates of Obligation</u>	<u>Nonmajor</u>	<u>Total</u>
Transfers out:				
General	\$ -	\$ 65,360	\$ 294,570	\$ 359,930
Public Utility	217,449	-	-	217,449
Port Commission	4,000	-	-	4,000
Beach Operating	6,000	-	25,000	31,000
Nonmajor	50,000	-	-	50,000
	<u>\$ 277,449</u>	<u>\$ 65,360</u>	<u>\$ 319,570</u>	<u>\$ 662,379</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 \$21,880 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>	
2008	\$ 10,047
2009	<u>3,476</u>
	<u>\$ 13,523</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	\$ 169,837	\$ 61,696
Other equipment	<u>370,413</u>	<u>39,828</u>
	540,250	101,524
Less: Accumulated depreciation	<u>(86,445)</u>	<u>(33,617)</u>
	<u>\$ 453,805</u>	<u>\$ 67,907</u>

The future minimum lease obligations and the net present value of these minimum lease payments as of September 30, 2007, were as follows:

<u>Year Ending</u> <u>September 30</u>	<u>Governmental</u> <u>Activities</u>	<u>Business-type</u> <u>Activities</u>
2008	\$ 93,684	\$ 13,805
2009	55,145	8,600
2010	30,778	-
2011	30,778	-
2012	30,778	-
2013-2017	<u>123,114</u>	<u>-</u>
Total minimum lease payments	364,277	\$ 22,405
Less: Amount representing interest	<u>(62,185)</u>	<u>(1,186)</u>
Present value of minimum lease payments	<u>\$ 302,092</u>	<u>\$ 21,219</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, 2007:

<u>Year Ending September 30</u>	
2008	\$ 170,351
2009	103,359
2010	63,590
2011	54,675
2012	<u>42,593</u>
	434,568
Thereafter	<u>38,225</u>
	<u>\$ 472,793</u>

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

Long-term liability activity for the year ended September 30, 2007 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	\$4,250,000	\$ -	\$ 160,000	\$ 4,090,000	\$ 180,000
Notes payable	400,286	-	286,259	114,027	114,027
Capital leases	129,380	295,392	122,680	302,092	79,367
Compensated absences	<u>100,001</u>	<u>143,477</u>	<u>130,758</u>	<u>112,720</u>	<u>47,611</u>
Total governmental activity long-term liabilities	<u>\$4,879,667</u>	<u>\$ 438,869</u>	<u>\$ 699,697</u>	<u>\$ 4,618,839</u>	<u>\$ 421,005</u>
Business-type activities					
Bonds and certificates payable:					
Revenue bonds	\$5,980,000	\$ -	\$ 255,000	\$ 5,725,000	\$ 265,000
Certificates	80,000	440,000	80,000	440,000	55,000
Less deferred amounts:					
Issuance discounts	<u>(31,491)</u>	<u>-</u>	<u>370</u>	<u>(31,121)</u>	<u>-</u>
Net bonds and certificates	6,028,509	440,000	335,370	6,133,879	320,000
Capital leases	49,238	-	28,019	21,219	12,949
Compensated absences	<u>15,741</u>	<u>22,584</u>	<u>22,706</u>	<u>15,619</u>	<u>6,680</u>
Total business-type activity long-term liabilities	<u>\$6,093,488</u>	<u>\$ 462,584</u>	<u>\$ 386,095</u>	<u>\$ 6,170,717</u>	<u>\$ 339,629</u>

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

General obligation bonds at September 30, 2007 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, 2023; interest rates varying between 3.00% and 4.45%.

\$ 3,110,000

\$1,000,000 2005 Certificates of Obligation due in annual installments ranging from \$20,000 to \$80,000 through February 15, 2024; interest rates at 4.00% and 4.50%.

980,000

Total General Obligation Bonds

\$ 4,090,000

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
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	215,000	133,467	348,467
2013-2017	1,200,000	536,791	1,736,791
2018-2022	1,480,000	260,359	1,740,359
2023-2024	415,000	12,873	427,873
	<u>\$4,090,000</u>	<u>\$1,548,677</u>	<u>\$ 5,638,677</u>

The City entered into a note agreement with Wal-Mart in August 2004. The original amount of this note was \$400,286 and \$286,259 in 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 2008 fiscal year.

C. Revenue Bonds and Certificates

Revenue bonds and certificates payable were comprised of the following individual issues at September 30, 2007:

\$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%.

\$ 2,525,000

\$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%.

3,200,000

\$1,535,000 Series 2004 Certificates of Obligation, issued through the Texas Water Development Board, due in annual installments ranging from \$55,000 to \$70,000 through February 15, 2014; interest rates varying between 2.30% and 2.65%.

440,000

Total Revenue Bonds and Certificates

\$ 6,165,000

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
2008	\$ 320,000	\$ 285,801	\$ 605,801
2009	330,000	273,238	603,238
2010	345,000	260,223	605,223
2011	370,000	246,093	616,093
2012	385,000	230,894	615,894
2013-2017	1,960,000	902,988	2,862,988
2018-2022	2,455,000	370,115	2,825,115
	<u>\$6,165,000</u>	<u>\$2,569,352</u>	<u>\$ 8,734,352</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, 2007.

NOTE 12: DESIGNATIONS OF PROPRIETARY FUND NET ASSETS

Management has designated for operating reserves \$1,350,900 of the Public Utility Fund's \$2,647,970 unrestricted net assets. The designated amount represents approximately 120 days of operating expenses. The Public Utility Fund had \$1,297,070 of unrestricted, undesignated net assets as of September 30, 2007.

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, 2007, 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. Premiums paid by the City during the year for the individual and aggregate stop loss coverage totaled \$116,818.

Paid health-related claims totaled \$258,380 during the current fiscal year. The insurance carrier estimated that \$27,550 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:

	Beginning	Claims	Claims Paid		Ending
	Payable	Incurred	City	Insurer	Payable
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
2006-2007	45,277	283,700	258,380	46,439	24,158

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

The City was not involved in any litigation as of September 30, 2007, 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, 2007, 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, \$510,000 had been advanced as of September 30, 2007, leaving a total of \$1,025,000 available to the City. Proceeds from this loan will be used to make improvements to the City's water and sewer infrastructure. This debt is described further at Note 11C.

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

As of September 30, 2007, 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:			
Street improvements	\$ 15,500	\$ 149,500	City funds
Trinity Shores infrastructure	426,104	2,269	City funds
	<u>441,604</u>	<u>151,769</u>	
Enterprise projects:			
Water system improvements	1,093,787	841,214	TWDB loan
Sewer system improvements	465,616	403,384	City funds
Nautical landing expansion	23,234	153,218	City funds
Pier reconstruction	1,750	48,933	City funds
	<u>1,584,387</u>	<u>1,446,749</u>	
	<u>\$ 2,025,991</u>	<u>\$ 1,598,518</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 821 municipalities having the benefit plan administered by TMRS. Each of the 821 municipalities has an annual, individual actuarial valuation performed. All assumptions for the December 31, 2006 valuations are contained in the 2006 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, 2006 valuation is effective for rates beginning January 2008).

Annual Pension Cost

For the fiscal year ending September 30, 2007, the City's portion of the annual pension cost for the TMRS plan was \$146,234, and actual contributions were \$146,234. 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>
2007	\$146,234	100%	-
2006	140,456	100%	-
2005	145,259	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)
12/31/2006	\$ 3,861,317	\$ 4,843,816	\$ 982,499	79.7%	\$2,564,346	38.3%
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, 2007 there were 13 individuals receiving benefits under the plan. Benefit payments for the year totaled \$3,700.

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, 2007.

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 \$78,014 as of September 30, 2007, 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: FUND BALANCE AND NET ASSETS RESTATEMENTS

Certain adjustments were made in the current year to previously reported fund balance and net assets totals. The adjustments were as follows:

- Amounts payable to other governments by the General Fund were overstated in previously issued financial statements by \$39,375. This error resulted in previously reported fund balance, governmental activities net assets, net change in fund balance, and change in net assets to be understated by this amount as of and for the year ended September 30, 2006.
- Previously reported accounts payable by the Public Utility Fund were understated by \$48,849. This error caused previously reported Public Utility Fund net assets and change in net assets as well as business type activities net assets and change in net assets to be overstated by \$48,849 as of and for the year ended September 30, 2006.

NOTE 18: SUBSEQUENT EVENTS

On December 15, 2007, the City issued \$1,700,000 in revenue certificates of obligation. This issue was titled the "City of Port Lavaca, Texas Combination Tax and Surplus Harbor System Revenue Certificates of Obligation, Series 2008". Proceeds from this issue will be used for construction and related costs of bulkhead improvements at the City's harbor. These certificates bear interest at a rate of 3.93% and are due in 20 (twenty) annual installments ranging from \$20,000 to \$125,000 beginning in February of 2009. It is management's intention to use excess revenues from the City's Port Commission fund to repay these certificates. It is not anticipated that any additional ad valorem taxes will be levied for their repayment.

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COMBINING AND INDIVIDUAL FUND STATEMENTS AND SCHEDULES

CITY OF PORT LAVACA, TEXAS
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
September 30, 2007

	Special Revenue				
	Hotel Occupancy Tax	Police Forfeitures	2006/2007 Projects	Bullet Proof Vest Grant	Court Technology Fund
ASSETS					
Current assets					
Cash and cash equivalents	\$ 331,349	\$ 28,658	\$ 243,300	\$ 3	\$ 41,243
Receivables (net)	59,823	-	-	-	-
Due from other governments	-	-	-	-	-
Total assets	<u>\$ 391,172</u>	<u>\$ 28,658</u>	<u>\$ 243,300</u>	<u>\$ 3</u>	<u>\$ 41,243</u>
LIABILITIES AND FUND BALANCE					
Liabilities					
Accounts payable	\$ 260	\$ 1,247	\$ -	\$ -	\$ -
Due to other funds	-	-	-	-	-
Deferred revenue	-	-	-	-	-
Total liabilities	<u>260</u>	<u>1,247</u>	<u>-</u>	<u>-</u>	<u>-</u>
Fund balance					
Unreserved, undesignated	390,912	27,411	243,300	3	41,243
Total fund balance	<u>390,912</u>	<u>27,411</u>	<u>243,300</u>	<u>3</u>	<u>41,243</u>
Total liabilities and fund balance	<u>\$ 391,172</u>	<u>\$ 28,658</u>	<u>\$ 243,300</u>	<u>\$ 3</u>	<u>\$ 41,243</u>

(continued)

Special Revenue				Debt Service		
Bayfront Peninsula Pier	Homeland Security Grants	Solid Waste Project	Total	2003 Certificates of Obligation	2005 Certificates of Obligation	Total
\$ 59,585	\$ 104	\$ -	\$ 704,242	\$ 164,712	\$ 28,721	\$ 193,433
-	-	-	59,823	30,410	4,365	34,775
-	-	4,857	4,857	-	-	-
<u>\$ 59,585</u>	<u>\$ 104</u>	<u>\$ 4,857</u>	<u>\$ 768,922</u>	<u>\$ 195,122</u>	<u>\$ 33,086</u>	<u>\$ 228,208</u>
\$ -	\$ -	\$ -	\$ 1,507	\$ -	\$ -	\$ -
-	-	-	-	45,884	-	45,884
-	-	-	-	29,270	4,094	33,364
-	-	-	1,507	75,154	4,094	79,248
59,585	104	4,857	767,415	119,968	28,992	148,960
<u>59,585</u>	<u>104</u>	<u>4,857</u>	<u>767,415</u>	<u>119,968</u>	<u>28,992</u>	<u>148,960</u>
<u>\$ 59,585</u>	<u>\$ 104</u>	<u>\$ 4,857</u>	<u>\$ 768,922</u>	<u>\$ 195,122</u>	<u>\$ 33,086</u>	<u>\$ 228,208</u>

CITY OF PORT LAVACA, TEXAS
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
September 30, 2007

(concluded)

	Capital Projects			Total Nonmajor Governmental Funds
	TPW Boat Ramp Grant	Texas Capital Fund	Total	
ASSETS				
Current assets				
Cash and cash equivalents	\$ 75,809	\$ -	\$ 75,809	\$ 973,484
Receivables (net)	-	-	-	94,598
Due from other governments	-	55,794	55,794	60,651
Total assets	<u>\$ 75,809</u>	<u>\$ 55,794</u>	<u>\$ 131,603</u>	<u>\$ 1,128,733</u>
LIABILITIES AND FUND BALANCE				
Liabilities				
Accounts payable	\$ -	\$ 47,680	\$ 47,680	\$ 49,187
Due to other funds	-	14,318	14,318	60,202
Deferred revenue	-	55,794	55,794	89,158
Total liabilities	<u>-</u>	<u>117,792</u>	<u>117,792</u>	<u>198,547</u>
Fund balance				
Unreserved, undesignated	75,809	(61,998)	13,811	930,186
Total fund balance	<u>75,809</u>	<u>(61,998)</u>	<u>13,811</u>	<u>930,186</u>
Total liabilities and fund balance	<u>\$ 75,809</u>	<u>\$ 55,794</u>	<u>\$ 131,603</u>	<u>\$ 1,128,733</u>

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

For the year ended September 30, 2007

	Special Revenue				
	Hotel Occupancy Tax	Police Forfeitures	2006/2007 Projects	Bullet Proof Vest Grant	Court Technology Fund
REVENUES					
Taxes	\$ 189,479	\$ -	\$ -	\$ -	\$ -
Fines, fees and forfeitures	-	58,754	-	-	6,417
Intergovernmental	-	-	-	2,228	-
Investment	14,927	2,006	-	3	1,721
Total revenues	<u>204,406</u>	<u>60,760</u>	<u>-</u>	<u>2,231</u>	<u>8,138</u>
EXPENDITURES					
Current					
General government	30,276	-	-	-	-
Public safety	-	50,792	-	2,540	-
Capital outlay	-	-	-	-	-
Debt service					
Principal retirement	-	-	-	-	-
Interest and fiscal charges	-	-	-	-	-
Total expenditures	<u>30,276</u>	<u>50,792</u>	<u>-</u>	<u>2,540</u>	<u>-</u>
Excess (deficiency) of revenues over expenditures	174,130	9,968	-	(309)	8,138
OTHER FINANCING SOURCES (USES)					
Transfers in	-	-	243,300	1,270	-
Transfers out	(50,000)	-	-	-	-
Total other financing sources (uses)	<u>(50,000)</u>	<u>-</u>	<u>243,300</u>	<u>1,270</u>	<u>-</u>
Net change in fund balances	124,130	9,968	243,300	961	8,138
Fund balances - beginning	<u>266,782</u>	<u>17,443</u>	<u>-</u>	<u>(958)</u>	<u>33,105</u>
Fund balances - ending	<u>\$ 390,912</u>	<u>\$ 27,411</u>	<u>\$ 243,300</u>	<u>\$ 3</u>	<u>\$ 41,243</u>

(continued)

Special Revenue				Debt Service		
Bayfront Peninsula Pier	Homeland Security Grants	Solid Waste Project	Total	2003 Certificates of Obligation	2005 Certificates of Obligation	Total
\$ -	\$ -	\$ -	\$ 189,479	\$ 282,292	\$ 64,635	\$ 346,927
-	-	-	65,171	-	-	-
-	11,828	28,857	42,913	-	-	-
2,721	4	-	21,382	8,723	1,969	10,692
2,721	11,832	28,857	318,945	291,015	66,604	357,619
-	-	30,000	60,276	-	-	-
-	11,828	-	65,160	-	-	-
-	-	-	-	-	-	-
-	-	-	-	140,000	20,000	160,000
-	-	-	-	124,665	42,925	167,590
-	11,828	30,000	125,436	264,665	62,925	327,590
2,721	4	(1,143)	193,509	26,350	3,679	30,029
-	-	-	244,570	-	-	-
-	-	-	(50,000)	-	-	-
-	-	-	194,570	-	-	-
2,721	4	(1,143)	388,079	26,350	3,679	30,029
56,864	100	6,000	379,336	93,618	25,313	118,931
\$ 59,585	\$ 104	\$ 4,857	\$ 767,415	\$ 119,968	\$ 28,992	\$ 148,960

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

For the year ended September 30, 2007

(concluded)

	Capital Projects			Total Nonmajor Governmental Funds
	TPW Boat Ramp Grant	Texas Capital Fund	Total	
REVENUES				
Taxes	\$ -	\$ -	\$ -	\$ 536,406
Fines, fees and forfeitures	-	-	-	65,171
Intergovernmental	-	334,201	334,201	377,114
Investment	809	-	809	32,883
Total revenues	<u>809</u>	<u>334,201</u>	<u>335,010</u>	<u>1,011,574</u>
EXPENDITURES				
Current				
General government	-	-	-	60,276
Public safety	-	-	-	65,160
Capital outlay	-	301,190	301,190	301,190
Debt service				
Principal retirement	-	-	-	160,000
Interest and fiscal charges	-	-	-	167,590
Total expenditures	<u>-</u>	<u>301,190</u>	<u>301,190</u>	<u>754,216</u>
Excess (deficiency) of revenues over expenditures	809	33,011	33,820	257,358
OTHER FINANCING SOURCES (USES)				
Transfers in	75,000	-	75,000	319,570
Transfers out	-	-	-	(50,000)
Total other financing sources (uses)	<u>75,000</u>	<u>-</u>	<u>75,000</u>	<u>269,570</u>
Net change in fund balances	75,809	33,011	108,820	526,928
Fund balances - beginning	-	(95,009)	(95,009)	403,258
Fund balances - ending	<u>\$ 75,809</u>	<u>\$ (61,998)</u>	<u>\$ 13,811</u>	<u>\$ 930,186</u>

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

For the year ended September 30, 2007

	Final Budget	Actual	Variance Positive (Negative)
REVENUES			
Taxes			
Ad valorem	\$ 2,432,816	\$ 2,457,826	\$ 25,010
Sales	1,685,785	2,328,103	642,318
Franchise	491,500	598,044	106,544
Beverage	5,500	6,835	1,335
Total taxes	4,615,601	5,390,808	775,207
Fines and forfeitures			
Municipal court	172,000	242,836	70,836
Tax penalties and fees	80,000	101,941	21,941
Miscellaneous	100	-	(100)
Total fines and forfeitures	252,100	344,777	92,677
Intergovernmental			
County reimbursements	145,000	135,000	(10,000)
Grants and allocations	4,500	2,633	(1,867)
Total intergovernmental	149,500	137,633	(11,867)
Licenses and permits			
Licenses			
Building/electrical	5,000	11,390	6,390
Animal	1,000	2,093	1,093
Alcoholic beverage	1,000	1,049	49
Permits			
Building	30,000	34,672	4,672
Electrical	6,000	9,877	3,877
Plumbing	6,000	5,368	(632)
Mechanical	3,500	3,532	32
Miscellaneous	14,200	26,290	12,090
Total licenses and permits	66,700	94,271	27,571
Investment	70,000	276,286	206,286
Rental	41,000	47,582	6,582
Charges for services			
Swimming pool fees	3,500	1,347	(2,153)
Police service fees	3,000	3,773	773
Fire service fees	5,000	-	(5,000)
Total charges for services	11,500	5,120	(6,380)

	Final Budget	Actual	Variance Positive (Negative)
REVENUES (continued)			
Miscellaneous			
Reimbursements and refunds	\$ 23,200	\$ 28,864	\$ 5,664
Other	17,000	14,185	(2,815)
Total miscellaneous	40,200	43,049	2,849
 Total revenues	 5,246,601	 6,339,526	 1,092,925
OTHER FINANCING SOURCES			
Transfers in	252,000	277,449	25,449
Proceeds from capital leases	295,392	295,392	-
Sale of capital assets	5,000	19,762	14,762
Total other financing sources	552,392	592,603	40,211
 Total revenues and other financing sources	 \$ 5,798,993	 \$ 6,932,129	 \$ 1,133,136

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

For the year ended September 30, 2007

	Final Budget	Actual	Variance Positive (Negative)
EXPENDITURES			
Current			
General government			
City council			
Personnel services	\$ 9,080	\$ 7,784	\$ 1,296
Materials and supplies	625	615	10
Services	2,500	1,673	827
Total city council	12,205	10,072	2,133
City manager			
Personnel services	119,371	128,642	(9,271)
Materials and supplies	2,850	2,090	760
Services	5,100	4,446	654
Maintenance	1,200	298	902
Capital expenditures	21,000	21,000	-
Total city manager	149,521	156,476	(6,955)
City secretary			
Personnel services	57,867	57,935	(68)
Materials and supplies	1,675	1,657	18
Services	3,000	743	2,257
Maintenance	750	-	750
Total city secretary	63,292	60,335	2,957
Human resources			
Materials and supplies	1,000	708	292
Services	2,500	1,276	1,224
Total human resources	3,500	1,984	1,516
Elections			
Materials and supplies	300	23,686	(23,386)
Services	19,000	5,642	13,358
Total elections	19,300	29,328	(10,028)
Legal			
Services	65,400	79,910	(14,510)
Total legal	65,400	79,910	(14,510)
Municipal court			
Personnel services	41,967	40,935	1,032
Materials and supplies	4,060	4,707	(647)
Services	11,100	17,654	(6,554)
Maintenance	5,200	5,200	-
Sundry	200	(4)	204
Total municipal court	62,527	68,492	(5,965)

(continued)

	Final Budget	Actual	Variance Positive (Negative)
EXPENDITURES (continued)			
Current (continued)			
General government (continued)			
Tax			
Services	\$ 60,320	\$ 73,026	\$ (12,706)
Total tax	60,320	73,026	(12,706)
Purchasing			
Personnel services	31,865	31,054	811
Materials and supplies	1,250	895	355
Services	4,300	2,933	1,367
Maintenance	700	170	530
Total purchasing	38,115	35,052	3,063
Finance			
Personnel services	138,647	136,309	2,338
Materials and supplies	3,050	5,467	(2,417)
Services	3,625	2,587	1,038
Maintenance	3,500	2,631	869
Total finance	148,822	146,994	1,828
City hall			
Materials and supplies	6,950	6,325	625
Services	59,750	64,294	(4,544)
Maintenance	7,500	14,399	(6,899)
Capital outlay	20,000	-	20,000
Total city hall	94,200	85,018	9,182
Non-departmental			
Personnel services	224,224	305,157	(80,933)
Services	149,054	108,704	40,350
Maintenance	38,233	42,410	(4,177)
Sundry	83,321	47,362	35,959
Capital outlay	6,000	-	6,000
Total non-departmental	500,832	503,633	(2,801)
Total general government	1,218,034	1,250,320	(32,286)
Public safety			
Police			
Personnel services	1,107,319	1,060,773	46,546
Materials and supplies	47,150	59,945	(12,795)
Services	70,300	60,262	10,038
Maintenance	26,700	32,716	(6,016)
Sundry	2,000	1,907	93
Capital outlay	24,392	24,392	-
Total police	1,277,861	1,239,995	37,866

CITY OF PORT LAVACA, TEXAS**GENERAL FUND****SCHEDULE OF EXPENDITURES AND OTHER FINANCING USES****FINAL BUDGET AND ACTUAL***For the year ended September 30, 2007*

	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
EXPENDITURES (continued)			
Current (continued)			
Public safety (continued)			
Fire			
Personnel services	\$ 702,927	\$ 685,104	\$ 17,823
Materials and supplies	27,900	27,033	867
Services	34,250	36,363	(2,113)
Maintenance	33,800	21,779	12,021
Sundry	4,800	3,700	1,100
Capital expenditures	260,000	250,000	10,000
Total fire	<u>1,063,677</u>	<u>1,023,979</u>	<u>39,698</u>
Animal control			
Personnel services	48,066	41,324	6,742
Materials and supplies	9,905	9,390	515
Services	5,000	8,154	(3,154)
Maintenance	2,400	1,809	591
Total animal control	<u>65,371</u>	<u>60,677</u>	<u>4,694</u>
Total public safety	<u>2,406,909</u>	<u>2,324,651</u>	<u>82,258</u>
Public works			
Public works			
Personnel services	61,923	14,557	47,366
Materials and supplies	1,950	2,816	(866)
Services	3,700	396	3,304
Maintenance	1,000	72	928
Total public works	<u>68,573</u>	<u>17,841</u>	<u>50,732</u>
Engineering			
Personnel services	66,601	45,561	21,040
Materials and supplies	8,400	2,218	6,182
Services	8,585	11,658	(3,073)
Maintenance	2,000	445	1,555
Total engineering	<u>85,586</u>	<u>59,882</u>	<u>25,704</u>
Code enforcement/inspections			
Personnel services	103,403	104,743	(1,340)
Materials and supplies	10,150	8,743	1,407
Services	32,850	8,720	24,130
Maintenance	2,860	1,007	1,853
Total code enforcement/inspections	<u>149,263</u>	<u>123,213</u>	<u>26,050</u>
Total public works	<u>303,422</u>	<u>200,936</u>	<u>102,486</u>

(continued)

	Final Budget	Actual	Variance Positive (Negative)
EXPENDITURES (continued)			
Current (continued)			
Streets			
Personnel services	\$ 298,611	\$ 226,149	\$ 72,462
Materials and supplies	35,705	42,926	(7,221)
Services	174,750	169,696	5,054
Maintenance	391,450	377,219	14,231
Capital outlay	140,000	108,058	31,942
Total streets	1,040,516	924,048	116,468
Parks and recreation			
Parks			
Personnel services	185,681	172,946	12,735
Materials and supplies	20,950	20,592	358
Services	23,700	26,557	(2,857)
Maintenance	29,650	19,474	10,176
Capital outlay	5,000	-	5,000
Total parks	264,981	239,569	25,412
Convention/visitors bureau			
Personnel services	71,726	67,110	4,616
Materials and supplies	6,900	4,822	2,078
Services	59,600	47,490	12,110
Maintenance	44,100	26,637	17,463
Total convention/visitors bureau	182,326	146,059	36,267
Swimming pool			
Materials and supplies	8,250	7,402	848
Services	6,150	8,290	(2,140)
Maintenance	6,000	7,304	(1,304)
Sundry	-	124	(124)
Total swimming pool	20,400	23,120	(2,720)
Total parks and recreation	467,707	408,748	58,959
Total current	5,436,588	5,108,703	327,885
Debt service			
Principal retirement	222,341	408,939	(186,598)
Interest and fiscal charges	5,064	6,810	(1,746)
Total debt service	227,405	415,749	(188,344)
Total expenditures	5,663,993	5,524,452	139,541

CITY OF PORT LAVACA, TEXAS**GENERAL FUND****SCHEDULE OF EXPENDITURES AND OTHER FINANCING USES****FINAL BUDGET AND ACTUAL***For the year ended September 30, 2007*

	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
OTHER FINANCING USES			
Transfers out	<u>\$ 92,000</u>	<u>\$ 359,930</u>	<u>\$ (267,930)</u>
Total other financing uses	<u>92,000</u>	<u>359,930</u>	<u>(267,930)</u>
 Total expenditures and other financing uses	 <u>\$ 5,755,993</u>	 <u>\$ 5,884,382</u>	 <u>\$ (128,389)</u>