

CITY OF PORT LAVACA, TEXAS

ANNUAL FINANCIAL REPORT

For the fiscal year ended September 30, 2008

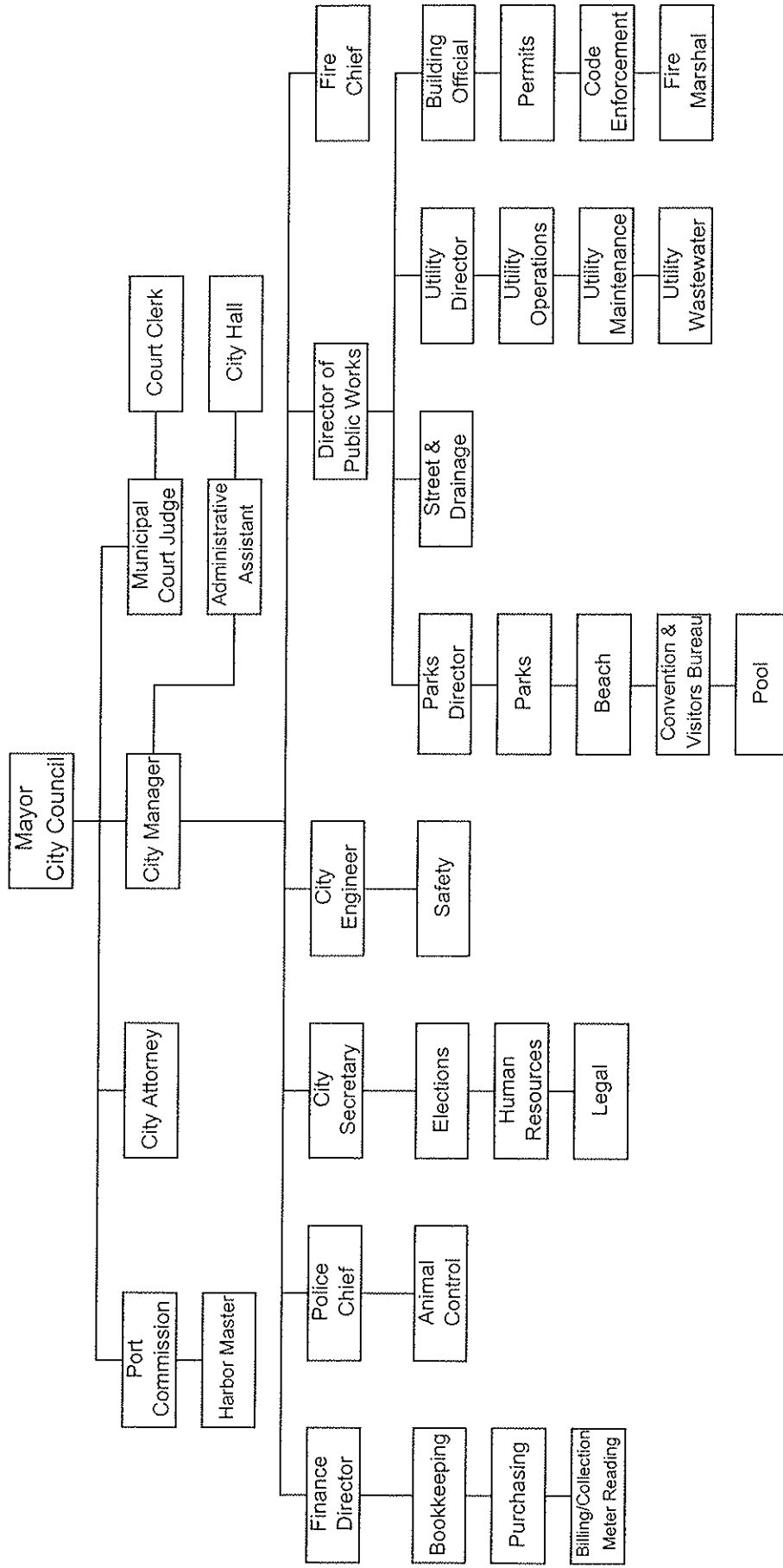
TABLE OF CONTENTS

	<u>Page</u>
INTRODUCTORY SECTION	
Organizational Chart	1
FINANCIAL SECTION	
Independent Auditors' Report	2
Management's Discussion and Analysis	4
Basic Financial Statements	
Government-wide Financial Statements	
Statement of Net Assets	12
Statement of Activities	13
Fund Financial Statements	
Balance Sheet - Governmental Funds	15
Reconciliation of Total Governmental Fund Balances to Net Assets of Governmental Activities	16
Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds	17
Reconciliation of the Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances to the Statement of Activities	18
Statement of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual - General Fund	19
Statement of Net Assets - Proprietary Funds	20
Statement of Revenues, Expenses, and Changes in Fund Net Assets - Proprietary Funds	21
Statement of Cash Flows - Proprietary Funds	22
Statement of Fiduciary Net Assets - Fiduciary Funds	24
Statement of Changes in Fiduciary Net Assets - Fiduciary Fund	25
Notes to Financial Statements	26
Combining and Individual Fund Statements and Schedules	
Combining Fund Statements	
Combining Balance Sheet - Nonmajor Governmental Funds	47
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances - Nonmajor Governmental Funds	51
General Fund Budgetary Schedules	
Schedule of Revenues and Other Financing Sources - Final Budget and Actual	55
Schedule of Expenditures and Other Financing Uses - Final Budget and Actual	57
FEDERAL PROGRAMS SECTION	
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	61
Report on Compliance with Requirements Applicable to Major Programs and Internal Control Over Compliance in Accordance with OMB Circular A-133	63
Schedule of Expenditures of Federal Awards	65
Notes to Schedule of Expenditures of Federal Awards	66
Schedule of Findings and Questioned Costs	67

INTRODUCTORY SECTION

CITY OF PORT LAVACA, TEXAS

Organizational Chart



FINANCIAL SECTION



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

STEPHEN W. VAN MANEN, CPA
HAMILTON H. REDMON, CPA
DENNIS C. CIIHAL, CPA
ERIC L. KUCERA, CPA
CLAYTON P. VAN PELT, CPA
ROBERT W. SCHAAR, CPA
MELISSA M. TERRY, CPA

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

INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Port Lavaca, Texas (the "City"), as of and for the year ended September 30, 2008, 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, 2008, 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 4 through 11 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 February 27, 2009, 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, LLP.
February 27, 2009

CITY OF PORT LAVACA, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the year ended September 30, 2008

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, 2008.

FINANCIAL HIGHLIGHTS

Government-wide

- The assets of the City exceeded its liabilities at the close of the most recent fiscal year by \$38,057,076 (net assets). Of this amount, \$12,328,005 (unrestricted net assets) may be used to meet the City's ongoing obligations to citizens and creditors.
- The City's total net assets increased by \$2,451,483 over the prior year.

Governmental Activities

- Net assets grew from \$19,883,737 in 2007 to \$22,039,134 (an increase of 10.84%) as of September 30, 2008.

Business-type Activities

- Net assets grew from \$15,721,856 in 2007 to \$16,017,942 (an increase of 1.88%) as of September 30, 2008.
- On a government-wide basis for business-type activities, program revenue net of expenses was \$1,375,655.

Governmental Funds

- As of September 30, 2008, the City's governmental funds reported an ending fund balance of \$7,763,899, an increase of \$1,566,819 (25.28%) in comparison with the prior year.
- At the end of the fiscal year, unreserved, undesignated fund balance for the General Fund was \$2,543,671, or 43.72% of total General Fund expenditures.
- The designated portion of the General Fund's fund balance totaled \$3,749,926. 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

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

Organization and Flow of Financial Section Information

Independent Auditors' Report

Provides the opinion of the Independent Auditors on the fair presentation of the basic financial statements.

Management's Discussion and Analysis

This supplementary information is required for state and local government financial statements and is intended to provide a narrative introduction and analysis.

Pages 4 to 11

Government-wide Financial Statements

Provides information on governmental and business-type activities of the primary government.

Pages 12 to 14

Fund Financial Statements

Provides information on the financial position of specific funds of the primary governments.

Pages 15 to 25

Notes to Financial Statements

Provides a summary of significant accounting policies and related disclosures.

Pages 26 - 46

OVERVIEW OF THE FINANCIAL STATEMENTS - (Continued)

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 12-14 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 are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of the governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented in the governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financial decisions. Both the governmental funds balance sheet and the governmental funds statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between the governmental funds and governmental activities. The basic governmental fund financial statements can be found on pages 15-18 of this report.

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 20-23 of this report.

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 Agency Funds. 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 24-25 of this report.

OVERVIEW OF THE FINANCIAL STATEMENTS - (Continued)

Notes to Financial Statements

The notes 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 financial statements can be found on pages 26-46 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 47-60 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 \$38,057,076 as of September 30, 2008.

The largest portion of the City's net assets (65.34%) 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 (32.39%) represents unrestricted financial resources available for future operations. Additionally, a portion of the City's net assets (2.27%) represents resources that are subject to restrictions on how they may be used.

City of Port Lavaca, Texas

Net Assets

	Governmental Activities		Business-type Activities		Total	
	2008	2007	2008	2007	2008	2007
Current and other assets	\$ 9,019	\$ 7,677	\$ 5,601	\$ 5,435	\$ 14,620	\$ 13,112
Capital assets, net	18,150	17,612	20,798	17,724	38,948	35,336
Total assets	27,169	25,289	26,399	23,159	53,568	48,448
Current and other liabilities	1,005	1,207	1,049	1,606	2,054	2,813
Noncurrent liabilities	4,125	4,198	9,332	5,831	13,457	10,029
Total liabilities	5,130	5,405	10,381	7,437	15,511	12,842
Net Assets:						
Invested in capital assets, net of debt	13,815	13,106	11,052	11,570	24,867	24,676
Restricted	849	221	13	129	862	350
Unrestricted	7,375	6,557	4,953	4,023	12,328	10,580
Total net assets	\$ 22,039	\$ 19,884	\$ 16,018	\$ 15,722	\$ 38,057	\$ 35,606

GOVERNMENT-WIDE FINANCIAL ANALYSIS - (Continued)

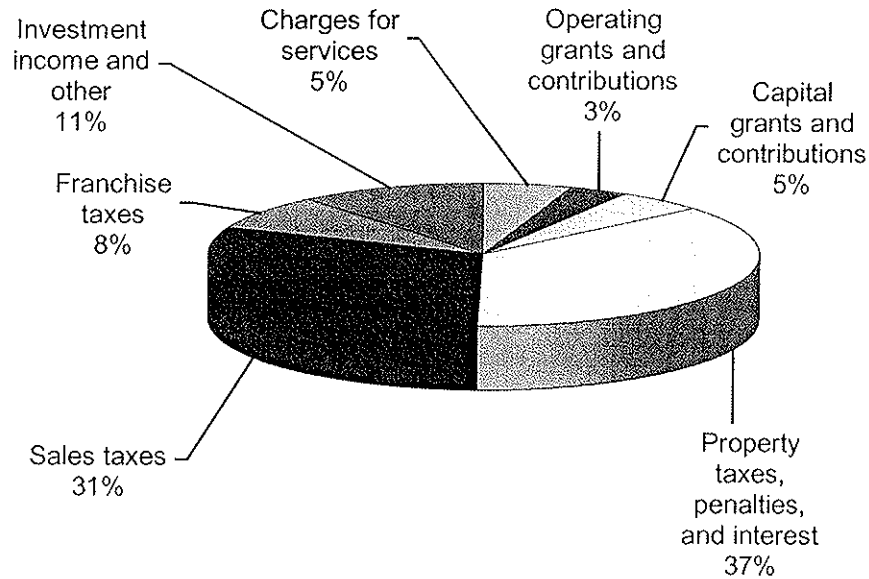
Net assets of the City increased by \$2,451,483. Key elements of the increase are due primarily because of increased revenues in governmental activities such as taxes, investment income, and fines.

City of Port Lavaca, Texas						
Changes in Net Assets						
	Governmental Activities		Business-type Activities		Total	
	2008	2007	2008	2007	2008	2007
REVENUES						
Program revenues:						
Charges for services	\$ 412	\$ 703	\$ 5,613	\$ 5,088	\$ 6,025	\$ 5,791
Operating grants and contributions	270	4	2	3	272	7
Capital grants and contributions	407	336	153	179	560	515
General revenues:						
Property taxes, penalties, and interest	2,895	2,887	-	-	2,895	2,887
Sales taxes	2,440	2,328	-	-	2,440	2,328
Franchise taxes	624	597	-	-	624	597
Investment income and other	876	555	177	235	1,053	790
Total revenues	<u>7,924</u>	<u>7,410</u>	<u>5,945</u>	<u>5,505</u>	<u>13,869</u>	<u>12,915</u>
EXPENSES						
General government	1,500	1,289	-	-	1,500	1,289
Public safety	2,490	2,204	-	-	2,490	2,204
Public works	1,445	1,353	-	-	1,445	1,353
Parks and recreation	530	522	-	-	530	522
Interest on long-term debt	168	181	-	-	168	181
Public utilities	-	-	3,913	3,835	3,913	3,835
Port commission	-	-	329	345	329	345
Beach operations	-	-	151	130	151	130
Total expenses	<u>6,133</u>	<u>5,549</u>	<u>4,393</u>	<u>4,310</u>	<u>10,526</u>	<u>9,859</u>
Change in net assets						
before special item and transfers	1,791	1,861	1,552	1,195	3,343	3,056
Special item - GBRA clearwell	-	-	(892)	-	(892)	-
Transfers	364	252	(364)	(252)	-	-
Change in net assets	2,155	2,113	296	943	2,451	3,056
Net assets at beginning of year	19,884	17,771	15,722	14,779	35,606	32,550
Net assets at end of year	<u>\$ 22,039</u>	<u>\$ 19,884</u>	<u>\$ 16,018</u>	<u>\$ 15,722</u>	<u>\$ 38,057</u>	<u>\$ 35,606</u>

GOVERNMENT-WIDE FINANCIAL ANALYSIS - (Continued)

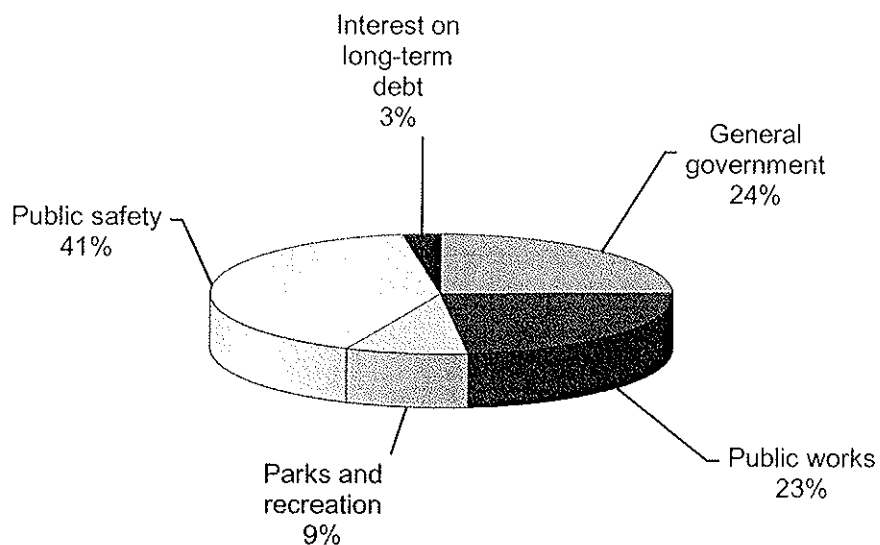
Graphic presentations of selected data from the summary tables follow to assist in the analysis of the City's activities.

GOVERNMENTAL REVENUES



For the fiscal year ended September 30, 2008, revenues from governmental activities totaled \$7.9 million.

GOVERNMENTAL FUNCTIONAL EXPENSES



For the fiscal year ended September 30, 2008, expenses for governmental activities totaled \$6.1 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, 2008, the City's governmental funds, which consist of a general fund, two debt service funds, four capital projects funds, and nine special revenue funds, reported an ending fund balance of \$7,763,899, which is an increase of \$1,566,819 from last year's total of \$6,197,080.

The General Fund is the chief operating fund of the City. It's fund balance increased by \$809,332 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, undesignated fund balance represents 43.72% 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 \$3,479,659. The decrease in total net assets for the year, after transfers to the General Fund of \$354,397, was \$31,436. This was due to the payment to the Guadalupe Blanco River Authority for the City's share of the clearwell which was reported as a special item on the financial statements. Net assets of the Port Commission and Beach Operating Funds increased during the 2008 fiscal year. Increases in these funds were \$257,798 and \$69,724 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

Total revenues earned were \$612,857 greater than budgeted expectations, with sales tax revenues making up \$214,957 or 35% of the positive variance. Other positive variances included fines and forfeitures, franchise taxes, and investment earnings.

Total expenditures were under budget by \$270,920. Actual expenditures exceeded final amended budget appropriations in the general government, capital outlay, and transfers out functions. The negative variance in the general government function was due to higher payments for health care claims than what was budgeted and a payment of \$114,027 to the Wal-Mart Corporation under an existing note agreement which was not budgeted. The cost of remodeling the city hall was also higher than anticipated by \$2,000. In addition, the City had to pay for special legal services that were higher than anticipated in the legal budget. Conservative budgetary practices showed positive budget variance as it relates to parks and recreation, public works (including streets), and public safety.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

The City's investment in capital assets as of September 30, 2008, amounts to \$38,947,146 (net of accumulated depreciation). This investment in capital assets includes land, buildings, improvements, vehicles, machinery and equipment, and infrastructure.

City of Port Lavaca, Texas						
Capital Assets (Net of Depreciation)						
	Governmental Activities		Business-type Activities		Total	
	2008	2007	2008	2007	2008	2007
Non-Depreciable Assets						
Land	\$ 934	\$ 934	\$ 1,501	\$ 1,501	\$ 2,435	\$ 2,435
Construction in progress	243	442	5	1,584	248	2,026
Other Capital Assets						
Machinery and equipment	2,151	1,934	925	643	3,076	2,577
Buildings and structures	4,932	4,923	4,324	4,324	9,256	9,247
Infrastructure	24,375	23,324	33,983	28,989	58,358	52,313
Accumulated depreciation on other capital assets	(14,486)	(13,945)	(19,940)	(19,317)	(34,426)	(33,262)
Total	\$ 18,149	\$ 17,612	\$ 20,798	\$ 17,724	\$ 38,947	\$ 35,336

Additional information on the City's capital assets can be found in Note 6 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 \$14.4 million. The following table details the nature of this debt.

City of Port Lavaca, Texas						
Long-term Debt						
	Governmental Activities		Business-type Activities		Total	
	2008	2007	2008	2007	2008	2007
Revenue bonds	\$ -	\$ -	\$ 5,595	\$ 5,725	\$ 5,595	\$ 5,725
Certificates of obligation	3,910	4,090	4,035	440	7,945	4,530
Notes	-	114	-	-	-	114
Capital leases	424	302	288	21	712	323
Compensated absences	114	113	19	16	133	129
Total	\$ 4,448	\$ 4,619	\$ 9,937	\$ 6,202	\$ 14,385	\$ 10,821

Additional information on the City's long-term debt can be found in Note 10 in the notes to financial statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

There are signs of economic distress for the future. Sales tax revenues increased from \$2,328,103 in 2007 to \$2,439,957 (4.8%); however sales are trending down for the 2008-2009 fiscal year. This trend is also seen in many Texas cities.

The City has two 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.

Red Fish Retreat subdivision has completed Phase I of five phases and has currently sold 15 out of the proposed 280 lots.

The City adjusted water and sewer rates in October 2008 to ensure debt service coverage related to utility infrastructure repairs and replacements.

Weather continues to be a factor for the Public Utility Fund. Dry conditions have increased demand of water, therefore increased revenues of both water and sewer sales are reflected in the financial statements. Dry conditions are still increasing water sales in the current 2008-2009 fiscal year.

The City is also moving forward with construction of the Bay Front Boat Ramp and of floating docks - both funded by a federal grant. Both projects are in the design stage.

The Beach is proceeding with Phase II of the fishing pier expansion through Federal and local match funding. In addition, a Trails grant has been approved and in the bid stage.

Future plans include continuation of the street rebuild or infrastructure replacement. The City has completed 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 complete which replaced sewer lines in the Alamo Heights subdivision. Currently, the City is in the bid stage for Leon Street improvements.

The City was awarded and is in the bid stage for a Texas Community Development Program (TCDP) block grant of \$250,000 with a City match of \$50,000 to continue water line replacement in low income areas. The City has already applied for the 2009-2010 TCDP.

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 issued bonds in 2008 to construct 900 ft of public dock bulkhead. The City (Port Commission) is working with Equalizer Inc. (fertilizer company) to expand their operations. Equalizer will use the bulkhead, railroad, and trucks to move their product.

REQUESTS FOR INFORMATION

The financial report is designed to provide a general overview of the City's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the 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, 2008

	Governmental Activities	Business-type Activities	Total
ASSETS			
Current assets			
Cash and cash equivalents	\$ 5,633,825	\$ 3,699,606	\$ 9,333,431
Investments	1,421,694	1,488,291	2,909,985
Receivables (net)	792,234	692,482	1,484,716
Due from other governments	387,233	12,935	400,168
Internal balances	707,333	(707,333)	-
Prepaid expenses	25,929	13,667	39,596
Inventory	-	83,153	83,153
Total current assets	8,968,248	5,282,801	14,251,049
Noncurrent assets			
Capital assets			
Land and other assets not being depreciated	1,177,212	1,506,052	2,683,264
Assets being depreciated (net)	16,972,048	19,291,834	36,263,882
Bond issue costs (net)	51,179	318,517	369,696
Total noncurrent assets	18,200,439	21,116,403	39,316,842
Total assets	27,168,687	26,399,204	53,567,891
LIABILITIES			
Current liabilities			
Accounts payable	349,648	198,355	548,003
Cash overdraft	33,652	-	33,652
Payroll related liabilities	103,425	28,043	131,468
Accrued interest payable	35,072	87,862	122,934
Other payables	32,665	4,712	37,377
Due to other governments	45,123	3,421	48,544
Accrued compensated absences	36,344	6,877	43,221
Unearned revenue	46,250	17,732	63,982
Customer deposits	36,175	276,635	312,810
Current portion of noncurrent liabilities			
Capital leases	91,468	50,500	141,968
Bonds and certificates	195,000	375,000	570,000
Total current liabilities	1,004,822	1,049,137	2,053,959
Noncurrent liabilities			
Accrued compensated absences	77,245	11,938	89,183
Capital leases	332,486	237,874	570,360
Bonds and certificates (net of unamortized deferred amounts)	3,715,000	9,082,313	12,797,313
Total noncurrent liabilities	4,124,731	9,332,125	13,456,856
Total liabilities	5,129,553	10,381,262	15,510,815
NET ASSETS			
Invested in capital assets, net of related debt	13,815,306	11,052,199	24,867,505
Restricted for:			
Debt service	182,368	-	182,368
Facilities maintenance	61,397	12,681	74,078
Other purposes	605,120	-	605,120
Unrestricted	7,374,943	4,953,062	12,328,005
Total net assets	\$ 22,039,134	\$ 16,017,942	\$ 38,057,076

The accompanying notes are an integral part of this statement.

CITY OF PORT LAVACA, TEXAS
STATEMENT OF ACTIVITIES
For the year ended September 30, 2008

Function/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Governmental activities				
General government	\$ 1,499,965	\$ 358,548	\$ 24,940	\$ -
Public safety	2,490,358	10,922	192,637	-
Public works	1,445,279	-	52,207	407,223
Parks and recreation	529,359	42,950	-	-
Interest on long-term debt	167,594	-	-	-
Total governmental activities	<u>6,132,555</u>	<u>412,420</u>	<u>269,784</u>	<u>407,223</u>
Business-type activities				
Public utilities	3,913,016	4,999,699	-	-
Port commission	328,525	396,776	2,000	153,218
Beach operations	150,828	216,331	-	-
Total business-type activities	<u>4,392,369</u>	<u>5,612,806</u>	<u>2,000</u>	<u>153,218</u>
Total government	<u>\$ 10,524,924</u>	<u>\$ 6,025,226</u>	<u>\$ 271,784</u>	<u>\$ 560,441</u>

General revenues:

Taxes:

Property taxes, levied for general purposes

Property taxes, levied for debt service

Sales taxes

Franchise taxes

Other taxes

Unrestricted Investment earnings

Miscellaneous

Special item - GBRA clearwell

Transfers

Total general revenues, special item, and transfers

Change in net assets

Net assets - beginning

Net assets - ending

The accompanying notes are an integral part of this statement.

Net (Expense) Revenue and
Changes in Net Assets

Governmental Activities	Business- type Activities	Total
\$ (1,116,477)	\$ -	\$ (1,116,477)
(2,286,799)	-	(2,286,799)
(985,849)	-	(985,849)
(486,409)	-	(486,409)
(167,594)	-	(167,594)
<u>(5,043,128)</u>	<u>-</u>	<u>(5,043,128)</u>
-	1,086,683	1,086,683
-	223,469	223,469
-	65,503	65,503
-	<u>1,375,655</u>	<u>1,375,655</u>
<u>(5,043,128)</u>	<u>1,375,655</u>	<u>(3,667,473)</u>
2,553,426	-	2,553,426
341,561	-	341,561
2,439,957	-	2,439,957
623,987	-	623,987
277,757	-	277,757
258,739	176,704	435,443
338,701	-	338,701
-	(891,876)	(891,876)
364,397	<u>(364,397)</u>	<u>-</u>
<u>7,198,525</u>	<u>(1,079,569)</u>	<u>6,118,956</u>
2,155,397	296,086	2,451,483
<u>19,883,737</u>	<u>15,721,856</u>	<u>35,605,593</u>
<u>\$ 22,039,134</u>	<u>\$ 16,017,942</u>	<u>\$ 38,057,076</u>

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

September 30, 2008

	General	Other Governmental Funds	Total Governmental Funds
ASSETS			
Current assets			
Cash and cash equivalents	\$ 4,476,956	\$ 1,156,869	\$ 5,633,825
Investments	1,421,694	-	1,421,694
Receivables (net)	669,638	122,596	792,234
Due from other governments	387,233	-	387,233
Due from other funds	345,282	371,170	716,452
Prepaid items	25,929	-	25,929
Total assets	<u>\$ 7,326,732</u>	<u>\$ 1,650,635</u>	<u>\$ 8,977,367</u>
LIABILITIES AND FUND BALANCES			
Liabilities			
Accounts payable	\$ 195,495	\$ 154,153	\$ 349,648
Cash overdraft	33,652	-	33,652
Payroll related payables	103,425	-	103,425
Other payables	32,665	-	32,665
Due to other governments	45,123	-	45,123
Due to other funds	-	9,119	9,119
Customer and other deposits	36,175	-	36,175
Deferred revenue	560,671	42,990	603,661
Total liabilities	<u>1,007,206</u>	<u>206,262</u>	<u>1,213,468</u>
Fund balances			
Reserved for:			
Prepaid items	25,929	-	25,929
Unreserved, designated for:			
Operating reserves	2,908,981	-	2,908,981
Health insurance claims	500,000	-	500,000
Capital asset replacement	340,946	-	340,946
Unreserved, undesignated reported in:			
General fund	2,543,671	-	2,543,671
Special revenue funds	-	711,057	711,057
Debt service funds	-	159,271	159,271
Capital projects funds	-	574,045	574,045
Total fund balances	<u>6,319,526</u>	<u>1,444,373</u>	<u>7,763,899</u>
Total liabilities and fund balances	<u>\$ 7,326,732</u>	<u>\$ 1,650,635</u>	<u>\$ 8,977,367</u>

The accompanying notes are an integral part of this statement.

CITY OF PORT LAVACA, TEXAS**RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES TO NET ASSETS
OF GOVERNMENTAL ACTIVITIES**

September 30, 2008

Total governmental fund balances		\$ 7,763,899
<i>Amounts reported for governmental activities in the statement of net assets are different because:</i>		
Property taxes receivable will be collected this year, but are not available soon enough to pay for the current period's expenditures, and therefore are deferred in the funds.		470,535
Because the focus of governmental funds is on short-term financing, some assets will not be available to pay for current-period expenditures. Those assets (for example, receivables) are offset by deferred revenues in the governmental funds and thus are not included in fund balance.		86,876
Capital assets used in governmental activities are reported as expenditures in governmental funds when purchased or constructed. The cost of these assets is \$32,635,701 and the accumulated depreciation is \$14,486,441.		18,149,260
Other noncurrent assets (for example, bond issue costs) used in governmental activities are not financial resources and therefore are not reported in governmental funds. The cost of these assets is \$60,833 and the accumulated amortization is \$9,654.		51,179
Long-term liabilities are not due and payable in the current period and therefore are not reported as liabilities in the funds. Long-term liabilities at year-end consist of:		
Bonds and certificates payable	\$ (3,910,000)	
Capital leases payable	(423,954)	
Accrued interest on the bonds	(35,072)	
Compensated absences	<u>(113,589)</u>	<u>(4,482,615)</u>
Net assets of governmental activities		<u>\$ 22,039,134</u>

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, 2008

	General	Other Governmental Funds	Total Governmental Funds
REVENUES			
Taxes			
Ad valorem	\$ 2,611,670	\$ 345,625	\$ 2,957,295
Sales	2,439,957	-	2,439,957
Other	633,928	267,816	901,744
Fines, fees, and forfeitures	388,972	13,578	402,550
Intergovernmental	178,732	83,652	262,384
Licenses and permits	98,076	-	98,076
Investment	228,485	30,254	258,739
Rental	36,535	-	36,535
Charges for services	11,080	-	11,080
Miscellaneous	122,420	145,300	267,720
Total revenues	<u>6,749,855</u>	<u>886,225</u>	<u>7,636,080</u>
EXPENDITURES			
Current			
General government	1,511,720	76,638	1,588,358
Public safety	2,547,116	18,830	2,565,946
Public works	1,301,846	-	1,301,846
Parks and recreation	447,281	-	447,281
Capital outlay	10,000	444,855	454,855
Debt service			
Principal retirement	-	180,000	180,000
Interest and fiscal charges	-	161,865	161,865
Total expenditures	<u>5,817,963</u>	<u>882,188</u>	<u>6,700,151</u>
Excess (deficiency) of revenues over expenditures	931,892	4,037	935,929
OTHER FINANCING SOURCES (USES)			
Transfers in	250,000	803,450	1,053,450
Transfers out	(639,053)	(50,000)	(689,053)
Proceeds from capital leases	257,054	-	257,054
Sale of capital assets	9,439	-	9,439
Total other financing sources	<u>(122,560)</u>	<u>753,450</u>	<u>630,890</u>
Net change in fund balances	809,332	757,487	1,566,819
Fund balances at beginning of year, as restated	<u>5,510,194</u>	<u>686,886</u>	<u>6,197,080</u>
Fund balances at end of year	<u>\$ 6,319,526</u>	<u>\$ 1,444,373</u>	<u>\$ 7,763,899</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, 2008*

Total net change in fund balances - governmental funds	\$ 1,566,819
---	---------------------

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

The net effect of various miscellaneous transactions involving capital assets (i.e., sales, trade-ins, and donations) is to increase net assets.	392,342
--	---------

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 2007/2008 capital outlays is to increase net assets.	766,922
--	---------

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.	(621,947)
---	-----------

Proceeds of long-term debt during the year are recognized as other financing sources in the governmental funds but increases the liabilities in the statement of net assets. In the current year, this amount consists of:

Capital lease proceeds	(257,054)
------------------------	-----------

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. In the current year, these amounts consist of:

Certificate and note principal retirement	\$ 294,027	
Capital lease principal retirement	<u>135,192</u>	429,219

Because some property taxes will not be collected for several months after the City's fiscal year ends, they are not considered "available" revenues and are deferred in the governmental funds. Similarly, other revenues are not currently available at year-end and are not reported as revenue in the governmental funds.

Property taxes	(108,045)	
Other revenues	<u>(6,261)</u>	(114,306)

Some items reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds. These activities consist of:

Increase in compensated absences	(869)	
Increase in accrued interest	(3,834)	
Decrease in bond issue costs	<u>(1,895)</u>	<u>(6,598)</u>

Change in net assets of governmental activities	\$ <u>2,155,397</u>
--	----------------------------

The accompanying notes are an integral part of this statement.

CITY OF PORT LAVACA, TEXAS**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE****BUDGET AND ACTUAL****GENERAL FUND***For the year ended September 30, 2008*

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Taxes	\$ 5,250,408	\$ 5,305,908	\$ 5,685,555	\$ 379,647
Fines and forfeitures	299,000	305,000	388,972	83,972
Intergovernmental	138,400	175,900	178,732	2,832
Licenses and permits	59,000	62,000	98,076	36,076
Investment	100,000	197,000	228,485	31,485
Rental	41,000	41,000	36,535	(4,465)
Charges for services	4,500	10,500	11,080	580
Miscellaneous	20,000	39,690	122,420	82,730
Total revenues	<u>5,912,308</u>	<u>6,136,998</u>	<u>6,749,855</u>	<u>612,857</u>
EXPENDITURES				
Current				
General government	1,383,614	1,479,314	1,511,720	(32,406)
Public safety	2,546,839	2,627,829	2,547,116	80,713
Public works	1,706,949	1,431,334	1,301,846	129,488
Parks and recreation	544,406	550,406	447,281	103,125
Capital outlay	-	-	10,000	(10,000)
Total expenditures	<u>6,181,808</u>	<u>6,088,883</u>	<u>5,817,963</u>	<u>270,920</u>
Excess (deficiency) of revenues over expenditures	(269,500)	48,115	931,892	883,777
OTHER FINANCING SOURCES (USES)				
Transfers in	252,000	250,000	250,000	-
Transfers out	(93,500)	(483,500)	(639,053)	(155,553)
Proceeds from capital leases	183,000	257,385	257,054	(331)
Sale of capital assets	5,000	5,000	9,439	4,439
Net other financing sources	<u>346,500</u>	<u>28,885</u>	<u>(122,560)</u>	<u>(151,445)</u>
Net change in fund balance	77,000	77,000	809,332	732,332
Fund balance at beginning of year, as restated	<u>5,510,194</u>	<u>5,510,194</u>	<u>5,510,194</u>	<u>-</u>
Fund balance at end of year	<u>\$ 5,587,194</u>	<u>\$ 5,587,194</u>	<u>\$ 6,319,526</u>	<u>\$ 732,332</u>

The accompanying notes are an integral part of this statement.

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

September 30, 2008

	Business-type Activities - Enterprise Funds			
	Public Utility	Port Commission	Beach Operating	Total
ASSETS				
Current assets				
Cash and cash equivalents	\$ 2,201,295	\$ 1,038,289	\$ 460,022	\$ 3,699,606
Investments	1,327,108	161,183	-	1,488,291
Receivables (net)	690,437	2,006	39	692,482
Due from other governments	-	11,185	1,750	12,935
Prepaid expenses	10,185	2,593	889	13,667
Inventory	83,153	-	-	83,153
Total current assets	4,312,178	1,215,256	462,700	5,990,134
Noncurrent assets				
Capital assets				
Land and other assets not being depreciated	123,565	1,106,924	275,563	1,506,052
Assets being depreciated (net)	14,072,423	3,955,188	1,264,223	19,291,834
Bond issue costs (net)	280,875	37,642	-	318,517
Net noncurrent assets	14,476,863	5,099,754	1,539,786	21,116,403
Total assets	18,789,041	6,315,010	2,002,486	27,106,537
LIABILITIES				
Current liabilities				
Accounts payable	193,861	2,746	1,748	198,355
Payroll related liabilities	27,359	684	-	28,043
Accrued interest payable	39,721	48,141	-	87,862
Other payables	4,712	-	-	4,712
Due to other governments	3,421	-	-	3,421
Due to other funds	545,824	161,509	-	707,333
Accrued compensated absences	6,877	-	-	6,877
Deferred revenue	3,046	14,686	-	17,732
Customer deposits	276,635	-	-	276,635
Current portion of noncurrent liabilities				
Capital leases	50,500	-	-	50,500
Bonds and certificates	355,000	20,000	-	375,000
Total current liabilities	1,506,956	247,766	1,748	1,756,470
Long-term liabilities, net of current portion				
Accrued compensated absences	11,938	-	-	11,938
Capital leases	237,874	-	-	237,874
Bonds and certificates (net of unamortized deferred amounts)	7,402,313	1,680,000	-	9,082,313
Total long-term liabilities	7,652,125	1,680,000	-	9,332,125
Total liabilities	9,159,081	1,927,766	1,748	11,088,595
NET ASSETS				
Invested in capital assets, net of related debt	6,150,301	3,362,112	1,539,786	11,052,199
Restricted for:				
Facilities maintenance	-	-	12,681	12,681
Unrestricted net assets	3,479,659	1,025,132	448,271	4,953,062
Total net assets	\$ 9,629,960	\$ 4,387,244	\$ 2,000,738	\$ 16,017,942

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, 2008*

	Business-type Activities - Enterprise Funds			
	Public Utility	Port Commission	Beach Operating	Total
OPERATING REVENUES				
Charges for services				
Water sales	\$ 2,295,045	\$ -	\$ -	\$ 2,295,045
Sewer services	1,810,791	-	-	1,810,791
Waste collection	689,780	-	-	689,780
Tap and service fees	56,544	-	-	56,544
Gate fees	-	-	35,858	35,858
Leases and rentals	-	364,843	177,773	542,616
Port tariffs	-	30,180	-	30,180
Penalties	93,901	806	-	94,707
Miscellaneous	53,638	947	2,700	57,285
Total operating revenues	<u>4,999,699</u>	<u>396,776</u>	<u>216,331</u>	<u>5,612,806</u>
OPERATING EXPENSES				
Personnel services	642,661	33,364	-	676,025
Materials and supplies	105,588	1,752	857	108,197
Services	1,051,715	77,305	61,033	1,190,053
Water purchases	1,137,885	-	-	1,137,885
Maintenance and repairs	230,493	16,612	7,737	254,842
Bad debts	15,497	-	-	15,497
Depreciation and amortization	430,847	151,351	81,201	663,399
Miscellaneous	3,040	-	-	3,040
Total operating expenses	<u>3,617,726</u>	<u>280,384</u>	<u>150,828</u>	<u>4,048,938</u>
Operating income	1,381,973	116,392	65,503	1,563,868
NONOPERATING REVENUES (EXPENSES)				
Noncapital grants and contributions	-	2,000	-	2,000
Investment income	128,154	38,329	10,221	176,704
Interest expense	(295,290)	(48,141)	-	(343,431)
Net nonoperating revenues	<u>(167,136)</u>	<u>(7,812)</u>	<u>10,221</u>	<u>(164,727)</u>
Income before capital contributions and transfers	1,214,837	108,580	75,724	1,399,141
Capital grants and contributions	-	153,218	-	153,218
Special item - GBRA clearwell	(891,876)	-	-	(891,876)
Transfers out	<u>(354,397)</u>	<u>(4,000)</u>	<u>(6,000)</u>	<u>(364,397)</u>
Change in net assets	(31,436)	257,798	69,724	296,086
Net assets at beginning of year	<u>9,661,396</u>	<u>4,129,446</u>	<u>1,931,014</u>	<u>15,721,856</u>
Net assets at end of year	<u>\$ 9,629,960</u>	<u>\$ 4,387,244</u>	<u>\$ 2,000,738</u>	<u>\$ 16,017,942</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, 2008

	Business-type Activities - Enterprise Funds			
	Public Utility	Port Commission	Beach Operating	Total
CASH FLOWS FROM OPERATING ACTIVITIES:				
Cash received from customers	\$ 4,827,356	\$ 418,239	\$ 215,654	\$ 5,461,249
Cash payments to suppliers for goods and services	(3,217,736)	(134,877)	(76,135)	(3,428,748)
Cash payments to employees for services	(635,808)	(32,680)	-	(668,488)
Net cash provided (used) by operating activities	<u>973,812</u>	<u>250,682</u>	<u>139,519</u>	<u>1,364,013</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:				
Customer deposits received (net)	23,276	-	-	23,276
Receipts from noncapital grants and contributions	-	2,000	-	2,000
Cash paid to GBRA	(891,876)	-	-	(891,876)
Cash paid to other funds	(354,397)	(4,000)	(6,000)	(364,397)
Cash received from other funds	<u>547,376</u>	<u>161,509</u>	<u>-</u>	<u>708,885</u>
Net cash provided (used) by noncapital financing activities	<u>(675,621)</u>	<u>159,509</u>	<u>(6,000)</u>	<u>(522,112)</u>
CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES:				
Acquisition of capital assets	(1,828,606)	(1,897,218)	-	(3,725,824)
Receipts from capital grants and contributions	-	165,267	25,000	190,267
Issuance costs paid	(101,170)	(37,642)	-	(138,812)
Proceeds from issuance of capital debt	4,930,510	1,700,000	-	6,630,510
Principal paid on capital debt	(406,345)	-	-	(406,345)
Payment to escrow agent	(2,560,267)	-	-	(2,560,267)
Interest paid on capital debt	<u>(291,523)</u>	<u>-</u>	<u>-</u>	<u>(291,523)</u>
Net cash used by capital financing activities	<u>(257,401)</u>	<u>(69,593)</u>	<u>25,000</u>	<u>(301,994)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:				
Investment purchases	(1,325,000)	(161,183)	-	(1,486,183)
Investment maturities	200,000	-	-	200,000
Investment income	<u>126,666</u>	<u>38,329</u>	<u>10,221</u>	<u>175,216</u>
Net cash provided (used) by investing activities	<u>(998,334)</u>	<u>(122,854)</u>	<u>10,221</u>	<u>(1,110,967)</u>
Net increase (decrease) in cash and cash equivalents	(957,544)	217,744	168,740	(571,060)
Cash and cash equivalents at beginning of year	<u>3,158,839</u>	<u>820,545</u>	<u>291,282</u>	<u>4,270,666</u>
Cash and cash equivalents at end of year	<u>\$ 2,201,295</u>	<u>\$ 1,038,289</u>	<u>\$ 460,022</u>	<u>\$ 3,699,606</u>

(continued)

CITY OF PORT LAVACA, TEXAS
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
For the year ended September 30, 2008

	Business-type Activities - Enterprise Funds			
	Public Utility	Port Commission	Beach Operating	Total
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:				
Operating income	\$ 1,381,973	\$ 116,392	\$ 65,503	\$ 1,563,868
Adjustments to reconcile operating income to net cash provided by operating activities:				
Depreciation and amortization	430,847	151,351	81,201	663,399
Bad debts	15,497	-	-	15,497
Change in assets and liabilities:				
(Increase) decrease in accounts receivable	(170,401)	8,303	-	(162,098)
(Increase) decrease in prepaid expense	(5,908)	(392)	(430)	(6,730)
(Increase) decrease in inventory	11,065	-	-	11,065
Increase (decrease) in accounts and other payables	(694,138)	(38,816)	(6,755)	(739,709)
Increase (decrease) in payroll related liabilities	3,657	684	-	4,341
Increase (decrease) in due to other governments	(34)	-	-	(34)
Increase (decrease) in compensated absences	3,196	-	-	3,196
Increase (decrease) in deferred revenue	(1,942)	13,160	-	11,218
Net cash provided (used) by operating activities	<u>\$ 973,812</u>	<u>\$ 250,682</u>	<u>\$ 139,519</u>	<u>\$ 1,364,013</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, 2008

	Fireman's Relief and Retirement Fund	Police Seized - Nonforfeiture Fund
ASSETS		
Cash and cash equivalents	\$ 471	\$ 18,720
Total assets	<u>471</u>	<u>\$ 18,720</u>
LIABILITIES		
Due to others	-	\$ 18,720
Total liabilities	<u>-</u>	<u>\$ 18,720</u>
NET ASSETS		
Restricted for payment of pension benefits	471	
Total net assets	<u>\$ 471</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, 2008*

	Fireman's Relief and Retirement Fund
	<hr/>
ADDITIONS	
Employer contributions	\$ 4,254
DEDUCTIONS	
Benefits	<hr/> 3,550
Change in net assets	704
Net assets at beginning of year	<hr/> (233)
Net assets at end of year	<hr/> \$ 471

The accompanying notes are an integral part of this statement.

INDEX

<u>Note</u>		<u>Page</u>
1	Summary of Significant Accounting Policies.....	27
2	Stewardship, Compliance, and Accountability	32
3	Deposits and Investments	32
4	Receivables	34
5	Due from Other Governments	34
6	Capital Assets	35
7	Interfund Receivables, Payables, and Transfers	36
8	Lease Obligations	37
9	Lessor Agreements.....	38
10	Long-Term Debt.....	38
11	Refunding Bonds	40
12	Designations of Proprietary Fund Net Assets.....	41
13	Risk Management.....	41
14	Contingencies and Commitments.....	42
15	Pension Plans	43
16	Deferred Compensation Plan	46
17	Fund Balance Restatement	46
18	Special Item	46

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, 2008.

B. Government-wide and Fund Financial Statements

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

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

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

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

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

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

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

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

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

The City reports the following major governmental fund:

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

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

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

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

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

Additionally, the City reports the following fund types:

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

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

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

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 ("FDIC") 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% of outstanding property taxes at September 30, 2008.

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 \$0 of interest expense.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)**H. Capital Assets - (Continued)**

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

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

I. Compensated Absences

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

J. Long-Term Obligations

In the government-wide financial statements and in enterprise funds in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets. Bond premiums, discounts, losses on refundings, as well as issuance costs are deferred and amortized over the life of the bonds using the straight-line method. Bonds payable are reported net of the applicable deferred amounts.

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

K. Fund Equity

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

L. Use of Estimates

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

NOTE 2: STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY**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>
Human resources	\$ 3,500	\$ 3,550	\$ 50
Legal	60,400	61,961	1,561
Tax	80,665	85,402	4,737
City hall	119,400	121,708	2,308
Nondepartmental	601,418	689,264	87,846
Engineering	-	980	980
Swimming pool	21,200	21,602	402
Capital outlay	-	10,000	10,000
Transfers out	483,500	639,053	155,553

These over expenditures were funded by available fund balance in the General Fund.

NOTE 3: DEPOSITS AND INVESTMENTS

As of September 30, 2008, 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	\$ 6,826,935	31
TexSTAR Pool	1,810,151	35
U.S. Government Securities	<u>2,909,985</u>	1,132
	<u>\$ 11,547,071</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.

NOTE 3: DEPOSITS AND INVESTMENTS - (Continued)

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 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, 2008, \$1,004,310 of the City's bank balance of \$1,104,310 was exposed to custodial credit risk because it was uninsured by the FDIC and collateralized with securities held by the pledging institution's trust department or agent, but not in the City's name.

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, 2008, and for the year then ended, the City was not exposed to any custodial credit risk.

NOTE 4: 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:

	<u>General</u>	<u>Public Utility</u>	<u>Port Commission</u>	<u>Beach Operations</u>	<u>Nonmajor Funds</u>	<u>Total</u>
Receivables:						
Ad valorem taxes	\$ 558,025	\$ -	\$ -	\$ -	\$ 45,253	\$ 603,278
Franchise taxes	138,882	-	-	-	-	138,882
Municipal court fines	109,409	-	-	-	-	109,409
Charges for services	100,683	783,653	-	-	-	884,336
Occupancy taxes	-	-	-	-	79,269	79,269
Miscellaneous	<u>16,334</u>	<u>18,964</u>	<u>2,006</u>	<u>39</u>	<u>337</u>	<u>37,680</u>
Gross receivables	923,333	802,617	2,006	39	124,859	1,852,854
Less: Allowance for uncollectibles	<u>(253,695)</u>	<u>(112,180)</u>	<u>-</u>	<u>-</u>	<u>(2,263)</u>	<u>(368,138)</u>
Net total receivables	<u>\$ 669,638</u>	<u>\$ 690,437</u>	<u>\$ 2,006</u>	<u>\$ 39</u>	<u>\$ 122,596</u>	<u>\$1,484,716</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, 2008, was \$0.75 per \$100 of assessed valuation. Property taxes attach as an enforceable lien on property as of January 1st. Taxes are levied on October 1st and payable by the following January 31st, 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:

	<u>Unavailable</u>	<u>Unearned</u>	<u>Total</u>
General Fund			
Ad valorem taxes	\$ 427,545	\$ -	\$ 427,545
Charges for services	20,137	46,250	66,387
Municipal court fines	66,739	-	66,739
Nonmajor Funds			
Ad valorem taxes	<u>42,990</u>	<u>-</u>	<u>42,990</u>
	<u>\$ 557,411</u>	<u>\$ 46,250</u>	<u>\$ 603,661</u>

NOTE 5: 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, 2008:

	<u>General Fund</u>	<u>Port Commission</u>	<u>Beach Operating</u>	<u>Total</u>
Sales taxes	\$ 387,233	\$ -	\$ -	\$ 387,233
Grant reimbursements	-	11,185	1,750	12,935
	<u>\$ 387,233</u>	<u>\$ 11,185</u>	<u>\$ 1,750</u>	<u>\$ 400,168</u>

NOTE 6: CAPITAL ASSETS

The capital asset activity of the City was as follows for the year ended September 30, 2008:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deletions/ Transfers</u>	<u>Ending Balance</u>
Governmental activities				
Capital assets, not being depreciated:				
Land	\$ 934,397	\$ -	\$ -	\$ 934,397
Construction in progress	441,604	242,815	(441,604)	242,815
Total capital assets not being depreciated	<u>1,376,001</u>	<u>242,815</u>	<u>(441,604)</u>	<u>1,177,212</u>
Capital assets, being depreciated:				
Machinery and equipment	1,934,391	312,067	(95,323)	2,151,135
Buildings and structures	4,922,546	10,000	-	4,932,546
Infrastructure	23,323,941	1,050,867	-	24,374,808
Total capital assets being depreciated	<u>30,180,878</u>	<u>1,372,934</u>	<u>(95,323)</u>	<u>31,458,489</u>
Less accumulated depreciation for:				
Machinery and equipment	(1,014,385)	(169,032)	80,442	(1,102,975)
Buildings and structures	(2,121,438)	(134,857)	-	(2,256,295)
Infrastructure	(10,809,113)	(318,058)	-	(11,127,171)
Total accumulated depreciation	<u>(13,944,936)</u>	<u>(621,947)</u>	<u>80,442</u>	<u>(14,486,441)</u>
Total capital assets being depreciated, net	<u>16,235,942</u>	<u>750,987</u>	<u>(14,881)</u>	<u>16,972,048</u>
Governmental activities capital assets, net	<u>\$ 17,611,943</u>	<u>\$ 993,802</u>	<u>\$ (456,485)</u>	<u>\$ 18,149,260</u>
Business-type activities				
Capital assets, not being depreciated:				
Land	\$ 1,501,012	\$ -	\$ -	\$ 1,501,012
Construction in progress	1,584,387	3,290	(1,582,637)	5,040
Total capital assets not being depreciated	<u>3,085,399</u>	<u>3,290</u>	<u>(1,582,637)</u>	<u>1,506,052</u>
Capital assets, being depreciated:				
Machinery and equipment	643,280	311,643	(29,379)	925,544
Buildings and structures	4,323,856	-	-	4,323,856
Infrastructure	28,989,197	4,993,529	-	33,982,726
Total capital assets being depreciated	<u>33,956,333</u>	<u>5,305,172</u>	<u>(29,379)</u>	<u>39,232,126</u>
Less accumulated depreciation for:				
Machinery and equipment	(555,723)	(39,103)	-	(594,826)
Buildings and structures	(1,974,901)	(134,182)	-	(2,109,083)
Infrastructure	(16,786,410)	(479,352)	29,379	(17,236,383)
Total accumulated depreciation	<u>(19,317,034)</u>	<u>(652,637)</u>	<u>29,379</u>	<u>(19,940,292)</u>
Total capital assets being depreciated, net	<u>14,639,299</u>	<u>4,652,535</u>	<u>-</u>	<u>19,291,834</u>
Business-type activities capital assets, net	<u>\$ 17,724,698</u>	<u>\$ 4,655,825</u>	<u>\$ (1,582,637)</u>	<u>\$ 20,797,886</u>

NOTE 6: CAPITAL ASSETS - (Continued)

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

Governmental activities:

General government	\$ 30,832
Public safety	110,326
Public works	366,565
Parks and recreation	114,224
Total depreciation expense - governmental activities	<u>\$ 621,947</u>

Business-type activities:

Public Utility	\$ 420,085
Port Commission	151,351
Beach Operations	81,201
Total depreciation expense - business-type activities	<u>\$ 652,637</u>

NOTE 7: INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS

A. Interfund Receivables and Payables

At times during the fiscal year the various funds of the City were involved in transactions that created interfund receivable and payable balances. These transactions related to such things as the purchase of goods by one fund on behalf of another and the receipt of revenue in one fund that belongs to or is designated for another fund. Interfund receivable and payable balances as of September 30, 2008, were as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General Fund	Nonmajor Debt Service	\$ 9,119
	Public Utility	174,654
	Port Commission	161,509
Nonmajor Capital Projects	Public Utility	371,170
		<u>\$ 716,452</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 Street Construction Fund, a nonmajor capital projects fund. During the current fiscal year, transfers between funds consisted of the following:

	<u>Transfers In</u>		
	<u>General</u>	<u>Nonmajor</u>	<u>Total</u>
Transfers out:			
General	\$ -	\$ 639,053	\$ 639,053
Public Utility	190,000	164,397	354,397
Port Commission	4,000	-	4,000
Beach Operating	6,000	-	6,000
Nonmajor	50,000	-	50,000
	<u>\$ 250,000</u>	<u>\$ 803,450</u>	<u>\$ 1,053,450</u>

NOTE 8: LEASE OBLIGATIONS**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 Activities</u>	<u>Business-type Activities</u>
Machinery and equipment		
Vehicles	\$ 84,720	\$ 271,660
Other equipment	477,504	100,589
	<u>562,224</u>	<u>372,249</u>
Less: Accumulated depreciation	<u>(85,936)</u>	<u>(37,687)</u>
	<u>\$ 476,288</u>	<u>\$ 334,562</u>

The future minimum lease obligations and the net present value of these minimum lease payments as of September 30, 2008, were as follows:

<u>Year Ending September 30</u>	<u>Governmental Activities</u>	<u>Business-type Activities</u>
2009	\$ 111,011	\$ 62,033
2010	86,634	53,433
2011	86,634	53,433
2012	86,634	53,433
2013	30,778	53,433
2014-2016	<u>92,335</u>	<u>53,433</u>
Total minimum lease payments	494,026	329,198
Less: Amount representing interest	<u>(70,062)</u>	<u>(40,824)</u>
Present value of minimum lease payments	<u>\$ 423,964</u>	<u>\$ 288,374</u>

NOTE 9: 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, 2008:

<u>Year Ending</u> <u>September 30</u>	
2009	\$ 202,298
2010	105,293
2011	96,378
2012	83,095
2013	<u>20,835</u>
	507,899
Thereafter	<u>24,036</u>
	<u>\$ 531,935</u>

NOTE 10: LONG-TERM DEBT**A. Changes in Long-Term Liabilities**

Long-term liability activity for the year ended September 30, 2008, was as follows:

	<u>Beginning</u> <u>Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending</u> <u>Balance</u>	<u>Due Within</u> <u>One Year</u>
Governmental activities					
Certificates payable	\$4,090,000	\$ -	\$ 180,000	\$3,910,000	\$ 195,000
Notes payable	114,027	-	114,027	-	-
Capital leases	302,092	257,054	135,192	423,954	91,468
Compensated absences	<u>112,720</u>	<u>115,978</u>	<u>115,109</u>	<u>113,589</u>	<u>36,344</u>
Total governmental activity					
long-term liabilities	<u>\$4,618,839</u>	<u>\$ 373,032</u>	<u>\$ 544,328</u>	<u>\$4,447,543</u>	<u>\$ 322,812</u>
Business-type activities					
Bonds and certificates payable:					
Revenue bonds	\$5,725,000	\$2,680,000	\$2,810,000	\$5,595,000	\$ 300,000
Certificates	440,000	3,645,000	50,000	4,035,000	75,000
Less deferred amounts:					
Loss on refunding	-	(142,127)	(1,972)	(144,099)	-
Issuance discounts	<u>(31,121)</u>	<u>(32,990)</u>	<u>(31,579)</u>	<u>(95,690)</u>	<u>-</u>
Net bonds and certificates	6,133,879	6,149,883	2,826,449	9,390,211	375,000
Capital leases	21,219	333,500	66,345	288,374	50,500
Compensated absences	<u>15,619</u>	<u>20,442</u>	<u>17,246</u>	<u>18,815</u>	<u>6,877</u>
Total business-type activity					
long-term liabilities	<u>\$6,170,717</u>	<u>\$6,503,825</u>	<u>\$2,910,040</u>	<u>\$9,697,400</u>	<u>\$ 432,377</u>

Compensated absences are generally liquidated by the General Fund for the governmental activities.

NOTE 10: LONG-TERM DEBT - (Continued)**B. Certificates of Obligations and Governmental Notes**

The City issues general obligation debt to provide funds for the acquisition and construction of major capital facilities and are direct obligations and pledge the full faith and credit of the City.

Certificates of obligations at September 30, 2008, 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%.

\$ 2,965,000

\$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%.

945,000

Total Certificates of Obligations

\$ 3,910,000

Annual debt service requirements to maturity for the City's certificates of obligations are as follows:

Year Ending September 30	Governmental Activities		
	Principal	Interest	Total
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	220,000	125,395	345,395
2014-2018	1,250,000	488,377	1,738,377
2019-2023	1,545,000	194,445	1,739,445
2024	80,000	1,800	81,800
	<u>\$ 3,910,000</u>	<u>\$ 1,387,406</u>	<u>\$ 5,297,406</u>

The City entered into a note agreement with Wal-Mart in August 2004. The original amount of this note was \$400,286. 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 was payable only from "excess" sales tax proceeds as defined in the note agreement and was paid in full at 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, 2008:

\$4,950,000 Series 1996 Utility System Revenue Bonds due in annual installments ranging from \$240,000 to \$360,000 through February 15, 2018; interest rates varying between 4.05% and 4.45%.

\$ 2,965,000

\$1,535,000 Series 2004 Certificates of Obligation, issued through the Texas Water Development Board, due in annual installments ranging from \$55,000 to \$125,000 through February 15, 2024; interest rates varying between 2.00% and 3.55%.

1,410,000

NOTE 10: LONG-TERM DEBT - (Continued)**C. Revenue Bonds and Certificates - (Continued)**

\$2,680,000 Series 2007 General Obligation Refunding Bonds due in annual installments ranging from \$40,000 to \$555,000 through February 15, 2022; interest rates varying between 4.00% and 4.50%. \$ 2,630,000

\$925,000 Series 2007 Combination Tax and Revenue Certificates of Obligation due in annual installments ranging from \$130,000 to \$925,000 through February 15, 2022; interest rate of 4.00%. 925,000

\$1,700,000 Series 2008 Combination Tax and Surplus Harbor System Revenue Certificates of Obligation due in annual installments ranging from \$20,000 to \$125,000 through February 15, 2028; interest rate of 3.93%. 1,700,000

Total Revenue Bonds and Certificates \$ 9,630,000

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
2009	\$ 375,000	\$ 413,971	\$ 788,971
2010	430,000	358,757	788,757
2011	455,000	341,601	796,601
2012	470,000	323,452	793,452
2013	490,000	304,384	794,384
2014-2018	3,115,000	1,183,472	4,298,472
2019-2023	3,595,000	441,916	4,036,916
2024-2028	700,000	60,678	760,678
	<u>\$ 9,630,000</u>	<u>\$ 3,428,231</u>	<u>\$ 13,058,231</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, 2008.

As of September 30, 2008, the \$9,630,000 balance on the revenue bonds and certificates is detailed as follows according to the purpose of their issuance: \$4,040,000 or 41.95% water system improvements, \$3,890,000 or 40.40% wastewater system improvements, and \$1,700,000 or 17.65% harbor system improvements.

NOTE 11: REFUNDING BONDS

In October 2007, the City issued \$2,680,000 General Obligation Refunding Bonds with interest varying between 4.00% and of 4.50% to advance refund \$2,525,000 of the City's Utility System Revenue and Refunding Bonds, Series 1996, which were still outstanding in the amount of \$2,525,000 with interest rates ranging from 5.10% to 5.75% and to provide funding for costs of issuance. As a result, the Series 1996 bonds are considered defeased and the liability has been removed from the business-type activities column of the statement of net assets. The net proceeds available for refunding bonds in the amount of \$2,560,267 was deposited in an irrevocable trust with an escrow agent to provide for all future debt service on the refunded issue. The refunding of the Series 1996 bonds resulted in an economic gain of \$253,663 and an increase in cash flow of \$310,386.

NOTE 12: DESIGNATIONS OF PROPRIETARY FUND NET ASSETS

Management has designated for operating reserves \$1,422,471 of the Public Utility Fund's \$3,479,659 unrestricted net assets. The designated amount represents approximately 120 days of operating expenses. The Public Utility Fund had \$2,057,188 of unrestricted, undesignated net assets as of September 30, 2008.

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, 2008, 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 \$117,107.

Paid health-related claims totaled \$418,549 during the current fiscal year. The insurance carrier estimated that \$32,904 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.

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

	Beginning Payable	Claims Incurred	Claims Paid		Ending Payable
			City	Insurer	
1995-1996	\$ 3,229	\$ 368,333	\$ 232,798	\$ 112,273	\$ 26,491
1996-1997	26,491	434,437	240,925	121,566	98,437
1997-1998	98,437	478,912	379,963	68,368	129,018
1998-1999	129,018	385,185	402,132	72,460	39,611
1999-2000	39,611	431,974	337,659	80,659	53,267
2000-2001	53,267	407,333	295,172	104,406	61,022
2001-2002	61,022	361,143	249,000	98,797	74,368
2002-2003	74,368	514,900	453,662	24,214	111,392
2003-2004	111,392	765,907	526,946	189,497	160,856
2004-2005	160,856	479,688	336,367	229,462	74,715
2005-2006	74,715	315,422	301,499	43,361	45,277
2006-2007	45,277	283,700	258,380	46,439	24,158
2007-2008	24,158	440,878	382,544	54,055	28,437

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

The City was not involved in any litigation as of September 30, 2008, 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, 2008, 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. Construction Commitments

As of September 30, 2008, 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	\$ 195,315	\$ 404,685	City funds
Bayfront park - boat ramp	47,500	452,500	City/grant funds
	<u>242,815</u>	<u>857,185</u>	
Enterprise projects:			
Nautical landing expansion	3,290	876,779	City/grant funds
Pier reconstruction	1,750	498,250	City/grant funds
	<u>5,040</u>	<u>1,375,029</u>	
	<u>\$ 247,855</u>	<u>\$ 2,232,214</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 state-wide Texas Municipal Retirement System ("TMRS"), one of 827 administered by TMRS, an agent multiple-employer public employee retirement system.

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. Members can retire at ages 60 and above with 5 or more years of service or with 25 years of service regardless of age. A member is vested after 5 years. 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.

Contributions

The contribution rate for the employees is 5%, and the City matching percent is currently 1.5 to 1, both as adopted by the governing body of the City. 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 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 retirement becomes effective. The prior service contribution rate amortizes the unfunded actuarial liability over the remainder of the plan's 25-year amortization period. The unit credit actuarial cost method is used for determining the City's 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 is the basis for the rate and the calendar year when the rate goes into effect (i.e., December 31, 2007, valuation is effective for rates beginning January 2009).

NOTE 15: PENSION PLANS - (Continued)

A. Texas Municipal Retirement System - (Continued)

Annual Pension Cost

For the employer's fiscal year ending September 30, 2008, the annual pension cost for the TMRS plan for its employees was \$186,714, and the actual contributions were \$186,714. The net pension obligation at the beginning and end of the fiscal year was zero.

Actuarial Valuation Information

Following is a tabular summary of actuarial valuation information for the 12/31/07 and 12/31/06 valuation dates:

	Actuarial Valuation Information	
	12/31/07	12/31/06
Actuarial cost method	projected unit credit	unit credit
Amortization method	level percent of payroll	level percent of payroll
Amortization period in years	30 - closed	25 - open
Asset valuation method	amortized cost	amortized cost
Investment return	7.00%	7.00%
Projected salary increases	varies by age and service	none
Inflation	3.00%	3.50%
Cost of living adjustment	2.10% (3.00% CPI)	none
Payroll growth assumption	3.00%	4.00%
Withdrawal rates for male/female	high/mid-high	high/mid

Trend Information

Contributions Required and Contributions Made			
Year Ended September 30	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
2008	\$ 186,714	100%	\$ -
2007	146,234	100%	-
2006	145,259	100%	-

Schedule of Funding Progress						
Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded AAL (UAAL)	Funded Ratio	Annual Covered Payroll	UAAL as a Percentage of Covered Payroll
	(a)	(b)	(b-a)	(a/b)	(c)	((b-a)/c)
12/31/2007	\$ 3,983,301	\$ 5,491,801	\$ 1,508,500	72.5%	\$2,838,192	53.2%
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%

NOTE 15: PENSION PLANS - (Continued)

A. Texas Municipal Retirement System - (Continued)

Trend Information - (Continued)

The City is one of 827 municipalities having the benefit plan administered by TMRS. Each of the 827 municipalities has an annual, individual actuarial valuation performed. All assumptions for the December 31, 2007, valuations are contained in the 2007 TMRS Comprehensive Annual Financial Report, a copy of which may be obtained by writing to P.O. Box 149153, Austin, Texas 78714-9153.

Since its inception, TMRS has used the Unit Credit actuarial funding method. This method accounts for liability accrued as of the valuation date, but does not project the potential future liability of provisions adopted by a city. Two-thirds of the cities participating in TMRS have adopted the Updated Service Credit and Annuity Increases provisions on an annually repeating basis. For the December 31, 2007 valuation, the TMRS Board determined that the Projected Unit Credit funding method should be used, which facilitates advance funding for future updated service credits and annuity increases that are adopted on an annually repeating basis. In addition, the Board also adopted a change in the amortization period from a 25-year "open" to a 30-year "closed" period. TMRS Board of Trustee rules provide that, whenever a change in actuarial assumptions or methods results in a contribution rate increase in an amount greater than 0.5%, the amortization period will be increased to 30 years, unless a city requests that the period remain at 25 years. For cities with repeating features, these changes would likely result initially in higher required contributions and lower funded ratios; however, the funded ratio should show steady improvement over time. To assist in this transition to higher rates, the Board also approved an eight-year phase-in period, which will allow cities the opportunity to increase their contributions gradually (approximately 12.5% each year) to their full rate (or their required contribution rate).

If the changes in actuarial funding method and assumptions had not been adopted for the 2007 valuation, the City's unfunded actuarial accrued liability would have been \$970,440 and the funded ratio would have been 80.4%.

In addition, TMRS is currently working on its legislative package for 2009. There is a possibility that the investment rate of return ("IRR") assumption of 7% would need to be lowered if desired legislation for the 2009 session is unsuccessful. Maintaining a 7% IRR assumption is contingent in part on the continued diversification of the TMRS portfolio, from an almost exclusive bond portfolio to a portfolio that includes equities as well. If state legislation needed to facilitate the continued diversification is not enacted, TMRS may have to revisit the continued diversification of the portfolio and consider reducing the assumed IRR. A reduction in the IRR would result in increased actuarial accrued liabilities, thus causing further increases in city contribution rates, following the December 31, 2009, actuarial valuation.

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, 2008, there were 12 individuals receiving benefits under the plan. Benefit payments for the year totaled \$3,550.

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, 2008.

NOTE 16: DEFERRED COMPENSATION PLAN

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

The assets of this plan, which totaled \$84,479 as of September 30, 2008, 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 RESTATEMENT

An adjustment was made in the current year to the previously reported General Fund fund balance. The General Fund fund balance was increased by \$243,300 to include the September 30, 2007, fund balance of the 2006/2007 Projects Fund, a nonmajor special revenue fund as reported at September 30, 2007.

NOTE 18: SPECIAL ITEM

During fiscal year 2008, the City made a lump-sum payment in the amount of \$891,876 to the GBRA of its proportional share of the costs related to the construction of a new clearwell that was to be constructed at the Port Lavaca Water Treatment Plant. This payment was made in lieu of entering into long-term debt financing with GBRA. The payment was reported separate from ordinary and usual activities due to its significance to the financial statements, was controlled by management, and since it would not be expected to recur in the foreseeable future.

Combining and Individual Fund Statements and Schedules

CITY OF PORT LAVACA, TEXAS
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
September 30, 2008

	Special Revenue			
	Hotel Occupancy Tax	Police Forfeitures	Building Security	TXDOT Palm Trees
ASSETS				
Current assets				
Cash and cash equivalents	\$ 480,876	\$ 20,616	\$ 3,928	\$ 25,056
Receivables (net)	79,269	-	-	-
Due from other funds	-	-	-	-
Total assets	<u>\$ 560,145</u>	<u>\$ 20,616</u>	<u>\$ 3,928</u>	<u>\$ 25,056</u>
LIABILITIES AND FUND BALANCE				
Liabilities				
Accounts payable	\$ 1,790	\$ 1,241	\$ -	\$ -
Due to other funds	-	-	-	-
Deferred revenue	-	-	-	-
Total liabilities	<u>1,790</u>	<u>1,241</u>	<u>-</u>	<u>-</u>
Fund balance				
Unreserved, undesignated	558,355	19,375	3,928	25,056
Total fund balance	<u>558,355</u>	<u>19,375</u>	<u>3,928</u>	<u>25,056</u>
Total liabilities and fund balance	<u>\$ 560,145</u>	<u>\$ 20,616</u>	<u>\$ 3,928</u>	<u>\$ 25,056</u>

Special Revenue

<u>Bullet Proof Vest Grant</u>	<u>Court Technology Fund</u>	<u>Bayfront Peninsula Pier</u>	<u>Homeland Security Grants</u>	<u>Solid Waste Project</u>	<u>Total</u>
\$ 3	\$ 42,837	\$ 61,397	\$ 106	\$ -	\$ 634,819
-	-	-	-	-	79,269
-	-	-	-	-	-
<u>\$ 3</u>	<u>\$ 42,837</u>	<u>\$ 61,397</u>	<u>\$ 106</u>	<u>\$ -</u>	<u>\$ 714,088</u>
\$ -	\$ -	\$ -	\$ -	\$ -	\$ 3,031
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	3,031
3	42,837	61,397	106	-	711,057
3	42,837	61,397	106	-	711,057
<u>\$ 3</u>	<u>\$ 42,837</u>	<u>\$ 61,397</u>	<u>\$ 106</u>	<u>\$ -</u>	<u>\$ 714,088</u>

(continued)

CITY OF PORT LAVACA, TEXAS
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
September 30, 2008

	Debt Service		
	2003	2005	
	Certificates	Certificates	
	of	of	
	Obligation	Obligation	Total
ASSETS			
Current assets			
Cash and cash equivalents	\$ 139,852	\$ 28,201	\$ 168,053
Receivables (net)	37,666	5,661	43,327
Due from other funds	-	-	-
Total assets	<u>\$ 177,518</u>	<u>\$ 33,862</u>	<u>\$ 211,380</u>
LIABILITIES AND FUND BALANCE			
Liabilities			
Accounts payable	\$ -	\$ -	\$ -
Due to other funds	9,119	-	9,119
Deferred revenue	37,405	5,585	42,990
Total liabilities	<u>46,524</u>	<u>5,585</u>	<u>52,109</u>
Fund balance			
Unreserved, undesignated	130,994	28,277	159,271
Total fund balance	<u>130,994</u>	<u>28,277</u>	<u>159,271</u>
Total liabilities and fund balance	<u>\$ 177,518</u>	<u>\$ 33,862</u>	<u>\$ 211,380</u>

Capital Projects					Total Nonmajor Governmental Funds
TPW Boat Ramp Grant	Texas Capital Fund	La Salle Landing	Street Construction	Total	
\$ 121,625	\$ -	\$ 145,976	\$ 86,396	\$ 353,997	\$ 1,156,869
-	-	-	-	-	122,596
-	-	-	371,170	371,170	371,170
<u>\$ 121,625</u>	<u>\$ -</u>	<u>\$ 145,976</u>	<u>\$ 457,566</u>	<u>\$ 725,167</u>	<u>\$ 1,650,635</u>
\$ -	\$ -	\$ -	\$ 151,122	\$ 151,122	\$ 154,153
-	-	-	-	-	9,119
-	-	-	-	-	42,990
-	-	-	151,122	151,122	206,262
121,625	-	145,976	306,444	574,045	1,444,373
<u>121,625</u>	<u>-</u>	<u>145,976</u>	<u>306,444</u>	<u>574,045</u>	<u>1,444,373</u>
<u>\$ 121,625</u>	<u>\$ -</u>	<u>\$ 145,976</u>	<u>\$ 457,566</u>	<u>\$ 725,167</u>	<u>\$ 1,650,635</u>

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

For the year ended September 30, 2008

	Special Revenue			
	Hotel Occupancy Tax	Police Forfeitures	Building Security	TXDOT Palm Trees
REVENUES				
Taxes	\$ 267,816	\$ -	\$ -	\$ -
Fines, fees, and forfeitures	-	2,345	3,912	-
Intergovernmental	-	-	-	24,940
Investment	14,402	992	16	116
Miscellaneous	-	-	-	-
Total revenues	<u>282,218</u>	<u>3,337</u>	<u>3,928</u>	<u>25,056</u>
EXPENDITURES				
Current				
General government	64,775	-	-	-
Public safety	-	11,373	-	-
Capital outlay	-	-	-	-
Debt service				
Principal retirement	-	-	-	-
Interest and fiscal charges	-	-	-	-
Total expenditures	<u>64,775</u>	<u>11,373</u>	<u>-</u>	<u>-</u>
Excess (deficiency) of revenues over expenditures	217,443	(8,036)	3,928	25,056
OTHER FINANCING SOURCES (USES)				
Transfers in	-	-	-	-
Transfers out	(50,000)	-	-	-
Total other financing sources (uses)	<u>(50,000)</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net change in fund balances	167,443	(8,036)	3,928	25,056
Fund balances at beginning of year	<u>390,912</u>	<u>27,411</u>	<u>-</u>	<u>-</u>
Fund balances at end of year	<u>\$ 558,355</u>	<u>\$ 19,375</u>	<u>\$ 3,928</u>	<u>\$ 25,056</u>

Special Revenue

Bullet Proof Vest Grant	Court Technology Fund	Bayfront Peninsula Pier	Homeland Security Grants	Solid Waste Project	Total
\$ -	\$ -	\$ -	\$ -	\$ -	\$ 267,816
-	7,321	-	-	-	13,578
952	-	-	5,553	-	31,445
-	1,224	1,812	2	55	18,619
-	-	-	-	-	-
952	8,545	1,812	5,555	55	331,458
-	6,951	-	-	4,912	76,638
1,904	-	-	5,553	-	18,830
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
1,904	6,951	-	5,553	4,912	95,468
(952)	1,594	1,812	2	(4,857)	235,990
952	-	-	-	-	952
-	-	-	-	-	(50,000)
952	-	-	-	-	(49,048)
-	1,594	1,812	2	(4,857)	186,942
3	41,243	59,585	104	4,857	524,115
\$ 3	\$ 42,837	\$ 61,397	\$ 106	\$ -	\$ 711,057

(continued)

CITY OF PORT LAVACA, TEXAS**COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES****NONMAJOR GOVERNMENTAL FUNDS***For the year ended September 30, 2008*

	Debt Service		
	2003	2005	
	Certificates	Certificates	
	of	of	
	Obligation	Obligation	Total
REVENUES			
Taxes	\$ 270,417	\$ 75,208	\$ 345,625
Fines, fees, and forfeitures	-	-	-
Intergovernmental	-	-	-
Investment	5,649	902	6,551
Miscellaneous	-	-	-
Total revenues	<u>276,066</u>	<u>76,110</u>	<u>352,176</u>
EXPENDITURES			
Current			
General government	-	-	-
Public safety	-	-	-
Capital outlay	-	-	-
Debt service			
Principal retirement	145,000	35,000	180,000
Interest and fiscal charges	<u>120,040</u>	<u>41,825</u>	<u>161,865</u>
Total expenditures	<u>265,040</u>	<u>76,825</u>	<u>341,865</u>
Excess (deficiency) of revenues over expenditures	11,026	(715)	10,311
OTHER FINANCING SOURCES (USES)			
Transfers in	-	-	-
Transfers out	-	-	-
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>-</u>
Net change in fund balances	11,026	(715)	10,311
Fund balances at beginning of year	<u>119,968</u>	<u>28,992</u>	<u>148,960</u>
Fund balances at end of year	<u>\$ 130,994</u>	<u>\$ 28,277</u>	<u>\$ 159,271</u>

Capital Projects

TPW Boat Ramp Grant	Texas Capital Fund	La Salle Landing	Street Construction	Total	Total Nonmajor Governmental Funds
\$ -	\$ -	\$ -	\$ -	\$ -	\$ 613,441
-	-	-	-	-	13,578
-	52,207	-	-	52,207	83,652
1,316	-	676	3,092	5,084	30,254
-	-	145,300	-	145,300	145,300
<u>1,316</u>	<u>52,207</u>	<u>145,976</u>	<u>3,092</u>	<u>202,591</u>	<u>886,225</u>
-	-	-	-	-	76,638
-	-	-	-	-	18,830
47,500	3,898	-	393,457	444,855	444,855
-	-	-	-	-	180,000
-	-	-	-	-	161,865
<u>47,500</u>	<u>3,898</u>	<u>-</u>	<u>393,457</u>	<u>444,855</u>	<u>882,188</u>
(46,184)	48,309	145,976	(390,365)	(242,264)	4,037
92,000	13,689	-	696,809	802,498	803,450
-	-	-	-	-	(50,000)
<u>92,000</u>	<u>13,689</u>	<u>-</u>	<u>696,809</u>	<u>802,498</u>	<u>753,450</u>
45,816	61,998	145,976	306,444	560,234	757,487
<u>75,809</u>	<u>(61,998)</u>	<u>-</u>	<u>-</u>	<u>13,811</u>	<u>686,886</u>
<u>\$ 121,625</u>	<u>\$ -</u>	<u>\$ 145,976</u>	<u>\$ 306,444</u>	<u>\$ 574,045</u>	<u>\$ 1,444,373</u>

CITY OF PORT LAVACA, TEXAS**GENERAL FUND****SCHEDULE OF REVENUES AND OTHER FINANCING SOURCES****FINAL BUDGET AND ACTUAL***For the year ended September 30, 2008**With comparative totals for the year ended September 30, 2007*

	2008			2007
	Final Budget	Actual	Variance Positive (Negative)	Actual
REVENUES				
Taxes				
Ad valorem	\$ 2,532,908	\$ 2,611,670	\$ 78,762	\$ 2,457,826
Sales	2,225,000	2,439,957	214,957	2,328,103
Franchise	541,000	623,987	82,987	598,044
Beverage	7,000	9,941	2,941	6,835
Total taxes	5,305,908	5,685,555	379,647	5,390,808
Fines and forfeitures				
Municipal court	220,000	251,163	31,163	242,836
Tax penalties and fees	85,000	137,809	52,809	101,941
Total fines and forfeitures	305,000	388,972	83,972	344,777
Intergovernmental				
County reimbursements	172,500	172,500	-	135,000
Grants and allocations	3,400	6,232	2,832	2,633
Total intergovernmental	175,900	178,732	2,832	137,633
Licenses and permits				
Licenses				
Building/electrical	8,000	8,210	210	11,390
Animal	1,500	2,690	1,190	2,093
Alcoholic beverage	1,000	2,465	1,465	1,049
Permits				
Building	25,000	40,577	15,577	34,672
Electrical	6,000	10,148	4,148	9,877
Plumbing	5,000	7,265	2,265	5,368
Mechanical	2,000	3,753	1,753	3,532
Miscellaneous	13,500	22,968	9,468	26,290
Total licenses and permits	62,000	98,076	36,076	94,271
Investment	197,000	228,485	31,485	276,286
Rental	41,000	36,535	(4,465)	47,582
Charges for services				
Swimming pool fees	1,000	-	(1,000)	1,347
Police service fees	3,500	4,515	1,015	3,773
Fire service fees	-	150	150	-
Other	6,000	6,415	415	-
Total charges for services	10,500	11,080	580	5,120

CITY OF PORT LAVACA, TEXAS**GENERAL FUND****SCHEDULE OF REVENUES AND OTHER FINANCING SOURCES****FINAL BUDGET AND ACTUAL***For the year ended September 30, 2008**With comparative totals for the year ended September 30, 2007*

	<u>2008</u>			<u>2007</u>
	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>	<u>Actual</u>
REVENUES - (Continued)				
Miscellaneous				
Reimbursements and refunds	\$ 19,690	\$ 38,247	\$ 18,557	\$ 28,864
Other	<u>20,000</u>	<u>84,173</u>	<u>64,173</u>	<u>14,185</u>
Total miscellaneous	<u>39,690</u>	<u>122,420</u>	<u>82,730</u>	<u>43,049</u>
 Total revenues	<u>6,136,998</u>	<u>6,749,855</u>	<u>612,857</u>	<u>6,339,526</u>
 OTHER FINANCING SOURCES				
Transfers in	250,000	250,000	-	277,449
Proceeds from capital leases	257,385	257,054	(331)	295,392
Sale of capital assets	<u>5,000</u>	<u>9,439</u>	<u>4,439</u>	<u>19,762</u>
Total other financing sources	<u>512,385</u>	<u>516,493</u>	<u>4,108</u>	<u>592,603</u>
 Total revenues and other financing sources	<u>\$ 6,649,383</u>	<u>\$ 7,266,348</u>	<u>\$ 616,965</u>	<u>\$ 6,932,129</u>

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

For the year ended September 30, 2008

With comparative totals for the year ended September 30, 2007

	2008			2007
	Final Budget	Actual	Variance Positive (Negative)	Actual
EXPENDITURES				
Current				
General government				
City council				
Personnel services	\$ 29,258	\$ 20,719	\$ 8,539	\$ 7,784
Materials and supplies	860	1,298	(438)	615
Services	2,100	1,287	813	1,673
Total city council	32,218	23,304	8,914	10,072
City manager				
Personnel services	148,160	144,984	3,176	128,642
Materials and supplies	4,350	4,285	65	2,090
Services	5,600	5,776	(176)	4,446
Maintenance	1,000	604	396	298
Debt service	7,295	7,294	1	7,294
Capital outlay	-	-	-	21,000
Total city manager	166,405	162,943	3,462	163,770
City secretary				
Personnel services	102,702	99,143	3,559	57,935
Materials and supplies	1,675	1,068	607	1,657
Services	3,000	1,229	1,771	743
Maintenance	750	897	(147)	-
Total city secretary	108,127	102,337	5,790	60,335
Human resources				
Materials and supplies	1,000	583	417	708
Services	2,500	2,967	(467)	1,276
Total human resources	3,500	3,550	(50)	1,984
Elections				
Materials and supplies	300	264	36	23,686
Services	19,000	8,990	10,010	5,642
Total elections	19,300	9,254	10,046	29,328
Legal				
Services	60,400	61,961	(1,561)	79,910
Total legal	60,400	61,961	(1,561)	79,910
Municipal court				
Personnel services	44,504	43,582	922	40,935
Materials and supplies	1,500	1,322	178	4,707
Services	21,210	18,213	2,997	17,654
Maintenance	5,200	-	5,200	5,200
Sundry	-	4	(4)	(4)
Total municipal court	72,414	63,121	9,293	68,492

(continued)

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

For the year ended September 30, 2008

With comparative totals for the year ended September 30, 2007

	2008		Variance	2007
	Final Budget	Actual	Positive (Negative)	Actual
EXPENDITURES - (Continued)				
Current - (Continued)				
General government - (Continued)				
Tax				
Services	\$ 80,665	\$ 85,402	\$ (4,737)	\$ 73,026
Total tax	80,665	85,402	(4,737)	73,026
Purchasing				
Personnel services	33,584	13,703	19,881	31,054
Materials and supplies	2,550	2,511	39	895
Services	4,200	2,321	1,879	2,933
Maintenance	600	-	600	170
Total purchasing	40,934	18,535	22,399	35,052
Finance				
Personnel services	159,884	157,453	2,431	136,309
Materials and supplies	8,200	9,048	(848)	5,467
Services	4,925	2,388	2,537	2,587
Maintenance	1,524	1,452	72	2,631
Total finance	174,533	170,341	4,192	146,994
City hall				
Materials and supplies	7,150	6,215	935	6,325
Services	59,250	59,133	117	64,294
Maintenance	53,000	56,360	(3,360)	14,399
Total city hall	119,400	121,708	(2,308)	85,018
Non-departmental				
Personnel services	356,000	379,469	(23,469)	305,157
Services	132,400	125,311	7,089	108,704
Maintenance	33,233	36,580	(3,347)	42,410
Sundry	79,785	33,877	45,908	47,362
Debt service	-	114,027	(114,027)	286,259
Total non-departmental	601,418	689,264	(87,846)	789,892
Total general government	1,479,314	1,511,720	(32,406)	1,543,873
Public safety				
Police				
Personnel services	1,208,575	1,233,476	(24,901)	1,060,773
Materials and supplies	93,350	91,790	1,560	59,945
Services	82,700	93,142	(10,442)	60,262
Maintenance	45,500	41,252	4,248	32,716
Sundry	2,600	1,961	639	1,907
Debt service	47,821	48,383	(562)	44,646
Capital outlay	140,000	106,488	33,512	24,392
Total police	1,620,546	1,616,492	4,054	1,284,641

(continued)

CITY OF PORT LAVACA, TEXAS

GENERAL FUND

SCHEDULE OF EXPENDITURES AND OTHER FINANCING USES

FINAL BUDGET AND ACTUAL

For the year ended September 30, 2008

With comparative totals for the year ended September 30, 2007

	2008		Variance	2007
	Final Budget	Actual	Positive (Negative)	Actual
EXPENDITURES - (Continued)				
Current - (Continued)				
Public safety - (Continued)				
Fire				
Personnel services	\$ 755,350	\$ 700,464	\$ 54,886	\$ 685,104
Materials and supplies	58,840	49,508	9,332	27,033
Services	37,690	37,235	455	36,363
Maintenance	30,035	29,306	729	21,779
Sundry	4,800	4,254	546	3,700
Debt service	30,778	30,778	-	30,778
Capital outlay	10,000	9,687	313	250,000
Total fire	927,493	861,232	66,261	1,054,757
Animal control				
Personnel services	49,020	44,885	4,135	41,324
Materials and supplies	17,800	9,761	8,039	9,390
Services	10,320	8,440	1,880	8,154
Maintenance	2,600	6,306	(3,706)	1,809
Sundry	50	-	50	-
Total animal control	79,790	69,392	10,398	60,677
Total public safety	2,627,829	2,547,116	80,713	2,400,075
Public works				
Public works				
Personnel services	79,574	76,484	3,090	14,557
Materials and supplies	6,150	6,281	(131)	2,816
Services	3,900	1,075	2,825	396
Maintenance	1,000	549	451	72
Debt service	-	-	-	5,085
Total public works	90,624	84,389	6,235	22,926
Engineering				
Personnel services	-	616	(616)	45,561
Materials and supplies	-	-	-	2,218
Services	-	364	(364)	11,658
Maintenance	-	-	-	445
Total engineering	-	980	(980)	59,882
Code enforcement/inspections				
Personnel services	98,291	98,509	(218)	104,743
Materials and supplies	10,900	10,981	(81)	8,743
Services	32,850	15,737	17,113	8,720
Maintenance	3,860	2,773	1,087	1,007
Debt service	-	-	-	5,871
Total code enforcement/inspections	145,901	128,000	17,901	129,084

(continued)

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

For the year ended September 30, 2008

With comparative totals for the year ended September 30, 2007

	2008		Variance	2007
	Final Budget	Actual	Positive (Negative)	Actual
EXPENDITURES - (Continued)				
Current - (Continued)				
Public works - (Continued)				
Streets				
Personnel services	\$ 318,465	\$ 280,030	\$ 38,435	\$ 226,149
Materials and supplies	43,935	39,797	4,138	42,926
Services	180,000	189,120	(9,120)	169,696
Maintenance	430,824	352,634	78,190	377,219
Debt service	44,200	43,627	573	8,600
Capital outlay	177,385	183,269	(5,884)	108,058
Total streets	1,194,809	1,088,477	106,332	932,648
Total public works	1,431,334	1,301,846	129,488	1,144,540
Parks and recreation				
Parks				
Personnel services	200,484	159,912	40,572	172,946
Materials and supplies	15,950	20,890	(4,940)	20,592
Services	54,600	31,199	23,401	26,557
Maintenance	36,650	19,000	17,650	19,474
Debt service	19,163	18,900	263	27,216
Capital outlay	15,000	12,622	2,378	-
Total parks	341,847	262,523	79,324	266,785
Convention/visitors bureau				
Personnel services	75,359	66,782	8,577	67,110
Materials and supplies	6,750	5,009	1,741	4,822
Services	61,150	56,213	4,937	47,490
Maintenance	44,100	35,152	8,948	26,637
Total convention/visitors bureau	187,359	163,156	24,203	146,059
Swimming pool				
Materials and supplies	8,250	8,124	126	7,402
Services	6,950	8,018	(1,068)	8,290
Maintenance	6,000	5,460	540	7,304
Sundry	-	-	-	124
Total swimming pool	21,200	21,602	(402)	23,120
Total parks and recreation	550,406	447,281	103,125	435,964
Total current	6,088,883	5,807,963	280,920	5,524,452
Capital outlay	-	10,000	(10,000)	-
Total expenditures	6,088,883	5,817,963	270,920	5,524,452
OTHER FINANCING USES				
Transfers out	483,500	639,053	(155,553)	359,930
Total expenditures and other financing uses	\$ 6,572,383	\$ 6,457,016	\$ 115,367	\$ 5,884,382

FEDERAL PROGRAMS SECTION



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

STEPHEN W. VAN MANEN, CPA
HAMILTON H. REDMON, CPA
DENNIS C. CIHAL, CPA
ERIC L. KUCERA, CPA
CLAYTON P. VAN PELT, CPA
ROBERT W. SCHAAR, CPA
MELISSA M. TERRY, CPA

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

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN
AUDIT OF FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

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

We have audited the 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, 2008, which collectively comprise the City's basic financial statements and have issued our report thereon dated February 27, 2009. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the City's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the City's financial statements that is more than inconsequential will not be prevented or detected by the City's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the City's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as described above.

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

Compliance and Other Matters

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

This report is intended solely for the information and use of the Mayor and members of City Council, management, and federal and state awarding agencies, and is not intended to be and should not be used by anyone other than these specified parties.


February 27, 2009



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

STEPHEN W. VAN MANEN, CPA
HAMILTON H. REDMON, CPA
DENNIS C. CHAL, CPA
ERIC L. KUCERA, CPA
CLAYTON P. VAN PELT, CPA
ROBERT W. SCHAAR, CPA
MELISSA M. TERRY, CPA

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

**REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE
TO MAJOR PROGRAMS AND INTERNAL CONTROL OVER
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

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

Compliance

We have audited the compliance of the City of Port Lavaca, Texas (the "City") with the types of compliance requirements described in the *U. S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to its major federal program for the year ended September 30, 2008. The City's major federal program is identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to its major federal program is the responsibility of the City's management. Our responsibility is to express an opinion on the City's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the City's compliance with those requirements.

In our opinion the City complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended September 30, 2008.

Internal Control Over Compliance

The management of the City is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the City's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over compliance.

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

Our consideration of the internal control over compliance was for the limited purpose described in the preceding paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses as defined below. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses as defined below.

A control deficiency in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, which results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

This communication is intended solely for the information and use of the Mayor and members of City Council, management, and federal and state awarding agencies, and is not intended to be and should not be used by anyone other than these specified parties.


February 27, 2009

CITY OF PORT LAVACA, TEXAS**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS***For the year ended September 30, 2008*

<u>Federal Grantor/ Pass-Through Grantor/ Program or Cluster Title</u>	<u>Federal CFDA Number</u>	<u>Identifying Number</u>	<u>Federal Expenditures</u>
Department of Justice			
<i>Passed through Texas Criminal Justice</i>			
Bulletproof Vest Partnership Program	16.607	N/A	\$ <u>952</u>
Department of Homeland Security			
<i>Passed through Golden Crescent Regional Planning Commission</i>			
State Domestic Preparedness	97.074	6SHSP8916	<u>5,553</u>
Department of Housing and Urban Development			
<i>Passed through Texas Department of Agriculture</i>			
Texas Community Development Block Grant	14.228	723282	<u>52,207</u>
Environmental Protection Agency			
<i>Passed through Texas Water Development Board</i>			
Drinking Water State Revolving Funds	66.468	133800	<u>374,978</u>
Department of the Interior			
<i>Passed through Texas Parks and Wildlife Department</i>			
Boating Infrastructure Grant Program	15.605	Y-9-D	<u>153,218</u>
Total Expenditures of Federal Awards			<u>\$ 586,908</u>

See accompanying notes to schedule of expenditures of federal awards.

CITY OF PORT LAVACA, TEXAS

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

September 30, 2008

NOTE 1: BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the City of Port Lavaca, Texas and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of the basic financial statements.

CITY OF PORT LAVACA, TEXAS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the year ended September 30, 2008

Section I - Summary of Auditors' Results

Financial Statements

Type of auditors' report issued: Unqualified

Internal control over financial reporting:

- Material weakness(es) identified? ☐ yes ☒ no
- Significant deficiency(ies) identified that are not considered to be material weakness(es)? ☐ yes ☒ none reported

Noncompliance material to financial statements noted?

☐ yes ☒ no

Federal Awards

Internal control over major programs:

- Material weakness(es) identified? ☐ yes ☒ no
- Significant deficiency(ies) identified that are not considered to be material weakness(es)? ☐ yes ☒ none reported

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

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of Circular A-133?

☐ yes ☒ no

Identification of major program:

CFDA Number(s)

Name of Federal Program or Cluster

66.468

Drinking Water State Revolving Funds

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

Auditee qualified as low-risk auditee?

☐ yes ☒ no

Section II - Financial Statement Findings

None noted

Section III - Federal Award Findings and Questioned Costs

None noted

