

CITY OF PORT LAVACA, TEXAS

ANNUAL FINANCIAL REPORT

For the fiscal year ended September 30, 2009

CITY OF PORT LAVACA, TEXAS
ANNUAL FINANCIAL REPORT
For the year ended September 30, 2009

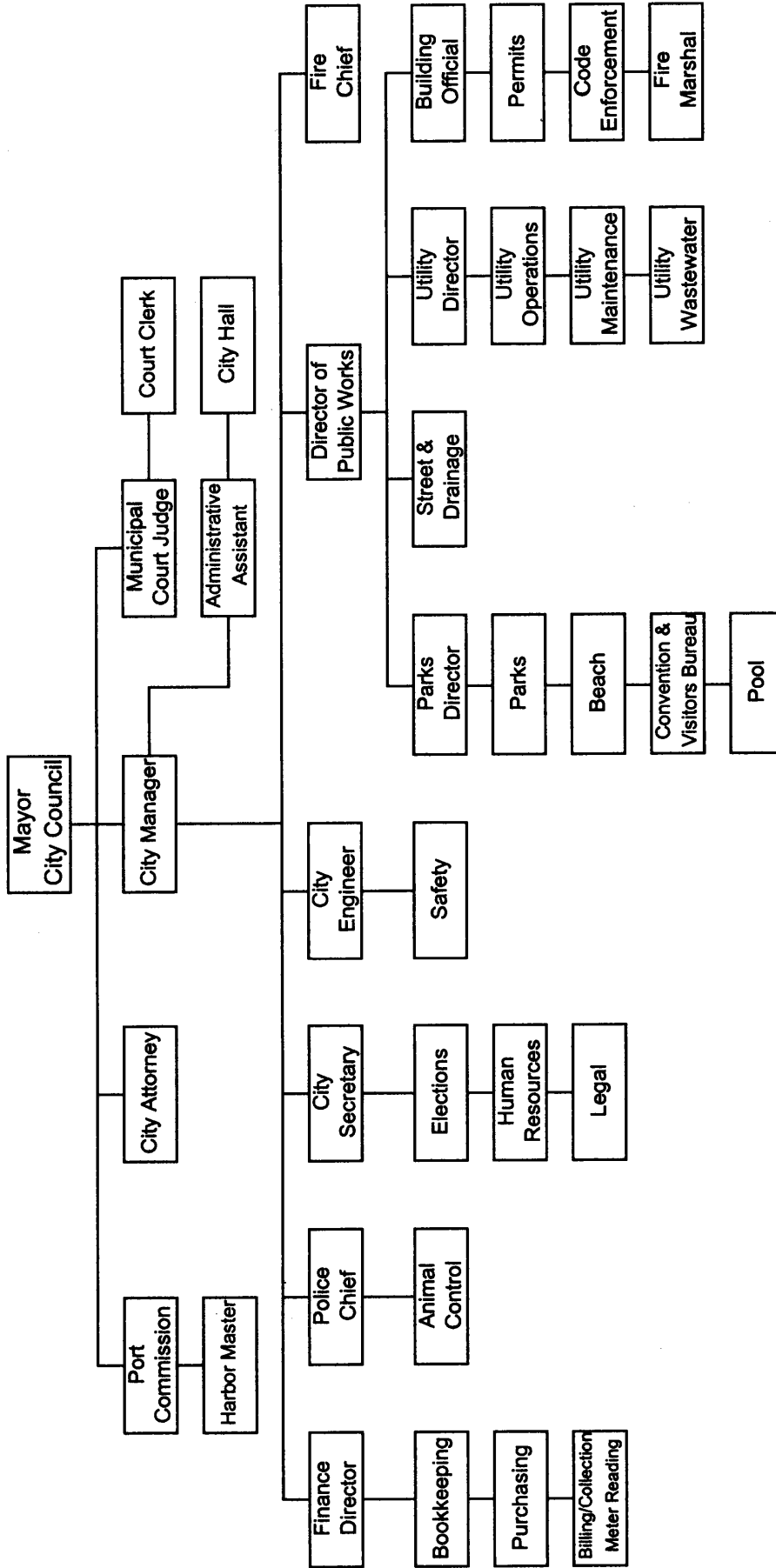
TABLE OF CONTENTS

	Page
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	46
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances - Nonmajor Governmental Funds	50
General Fund Budgetary Schedules	
Schedule of Revenues and Other Financing Sources - Final Budget and Actual	54
Schedule of Expenditures and Other Financing Uses - Final Budget and Actual	56
OVERALL COMPLIANCE AND INTERNAL CONTROL 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>	60

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. CIAL, 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, 2009, 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, 2009, 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 April 9, 2010, 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 are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining and individual fund financial statements and schedules have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. 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 & Wherry LLP

April 9, 2010

CITY OF PORT LAVACA, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the year ended September 30, 2009

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, 2009.

FINANCIAL HIGHLIGHTS

Government-wide

- The assets of the City exceeded its liabilities at the close of the most recent fiscal year by \$40,269,079 (net assets). Of this amount, \$12,037,080 (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 \$2,212,003 over the prior year.

Governmental Activities

- Net assets grew from \$22,039,134 in 2008 to \$23,058,182 (an increase of 4.62%) as of September 30, 2009.

Business-type Activities

- Net assets grew from \$16,017,942 in 2008 to \$17,210,897 (an increase of 7.45%) as of September 30, 2009.

Governmental Funds

- As of September 30, 2009, the City's governmental funds reported an ending fund balance of \$6,791,949 a decrease of \$971,950 (12.52%) in comparison with the prior year.
- At the end of the fiscal year, unreserved, undesignated fund balance for the General Fund was \$2,534,443 or 40.77% of total General Fund expenditures.
- The designated portion of the General Fund's fund balance totaled \$3,857,978. These monies were designated to pay health insurance claims, 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 - 45

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 26-45 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 46-59 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 \$40,269,079 as of September 30, 2009.

The largest portion of the City's net assets (67.35%) reflects its investment in capital assets (e.g. land, buildings, vehicles, machinery and equipment, and infrastructure); less any related debt used to acquire those assets that is still outstanding. The City uses these capital assets to provide services to the individuals we serve; consequently, these assets are not available for future spending. The second largest portion of the City's net assets (29.89%) represents unrestricted financial resources available for future operations. Additionally, a portion of the City's net assets (2.76%) 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	
	2009	2008	2009	2008	2009	2008
Current and other assets	\$ 8,014,681	\$ 9,019,427	\$ 6,641,399	\$ 5,601,318	\$ 14,656,080	\$ 14,620,745
Capital assets, net	19,834,735	18,149,260	20,657,753	20,797,886	40,492,488	38,947,146
Total assets	27,849,416	27,168,687	27,299,152	26,399,204	55,148,568	53,567,891
Current and other liabilities	948,311	1,004,822	1,224,584	1,049,137	2,172,895	2,053,959
Noncurrent liabilities	3,842,923	4,124,731	8,863,671	9,332,125	12,706,594	13,456,856
Total liabilities	4,791,234	5,129,553	10,088,255	10,381,262	14,879,489	15,510,815
Net Assets:						
Invested in capital assets, net of debt	15,787,249	13,815,306	11,334,652	11,052,199	27,121,901	24,867,505
Restricted	876,554	848,885	233,544	12,681	1,110,098	861,566
Unrestricted	6,394,379	7,374,943	5,642,701	4,953,062	12,037,080	12,328,005
Total net assets	\$ 23,058,182	\$ 22,039,134	\$ 17,210,897	\$ 16,017,942	\$ 40,269,079	\$ 38,057,076

GOVERNMENT-WIDE FINANCIAL ANALYSIS - (Continued)

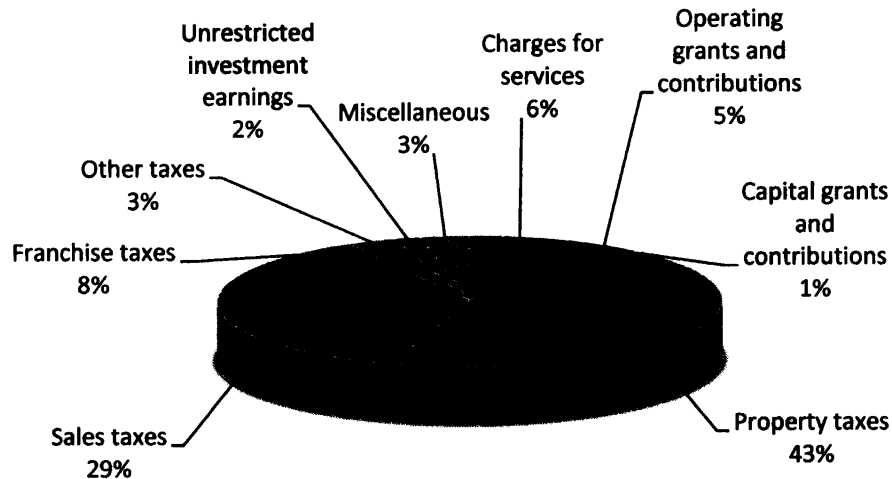
Net assets of the City increased by \$2,212,003. Key elements of the increase are due primarily because of increased revenues in governmental activities such as taxes and fines along with business-type activities for charges of services.

City of Port Lavaca, Texas						
Changes in Net Assets						
	Governmental Activities		Business-type Activities		Total	
	2009	2008	2009	2008	2009	2008
REVENUES						
Program revenues:						
Charges for services	\$ 484,632	\$ 412,420	\$ 5,966,101	\$ 5,612,806	\$ 6,450,733	\$ 6,025,226
Operating grants and contributions	378,324	269,784	2,000	2,000	380,324	271,784
Capital grants and contributions	51,589	407,223	236,338	153,218	287,927	560,441
General revenues:						
Property taxes	3,214,039	2,894,987	-	-	3,214,039	2,894,987
Sales taxes	2,170,959	2,439,957	-	-	2,170,959	2,439,957
Franchise taxes	613,509	623,987	-	-	613,509	623,987
Other taxes	235,571	277,757	-	-	235,571	277,757
Unrestricted investment earnings	123,127	258,739	75,060	176,704	198,187	435,443
Miscellaneous	235,375	338,701	18,000	-	253,375	338,701
Total revenues	7,507,125	7,923,555	6,297,499	5,944,728	13,804,624	13,868,283
EXPENSES						
General government	1,847,859	1,499,965	-	-	1,847,859	1,499,965
Public safety	2,598,507	2,490,358	-	-	2,598,507	2,490,358
Public works	1,615,002	1,445,279	-	-	1,615,002	1,445,279
Parks and recreation	547,013	529,359	-	-	547,013	529,359
Interest on long-term debt	154,696	167,594	-	-	154,696	167,594
Public utilities	-	-	4,288,109	3,913,016	4,288,109	3,913,016
Port commission	-	-	379,371	328,525	379,371	328,525
Beach operations	-	-	162,064	150,828	162,064	150,828
Total expenses	6,763,077	6,132,555	4,829,544	4,392,369	11,592,621	10,524,924
Change in net assets before special item and transfers	744,048	1,791,000	1,467,955	1,552,359	2,212,003	3,343,359
Special item - GBRA clearwell	-	-	-	(891,876)	-	(891,876)
Transfers	275,000	364,397	(275,000)	(364,397)	-	-
Change in net assets	1,019,048	2,155,397	1,192,955	296,086	2,212,003	2,451,483
Net assets at beginning of year	22,039,134	19,883,737	16,017,942	15,721,856	38,057,076	35,605,593
Net assets at end of year	\$ 23,058,182	\$ 22,039,134	\$ 17,210,897	\$ 16,017,942	\$ 40,269,079	\$ 38,057,076

GOVERNMENT-WIDE FINANCIAL ANALYSIS - (Continued)

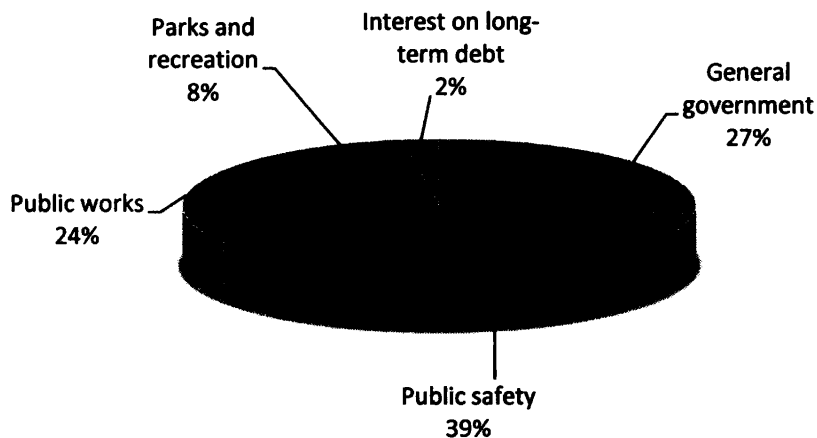
Graphic presentations of selected data from the summary tables follow to assist in the analysis of the City's activities.

Governmental Revenues



For the fiscal year ended September 30, 2009, revenues from governmental activities totaled \$7.5 million.

Governmental Functional Expenses



For the fiscal year ended September 30, 2009, expenses for governmental activities totaled \$6.8 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, 2009, the City's governmental funds, which consist of a general fund, two debt service funds, three capital projects funds, and nine special revenue funds, reported an ending fund balance of \$6,791,949, which is a decrease of \$971,950 from last year's total of \$7,763,899.

The General Fund is the chief operating fund of the City. Its fund balance increased by \$109,973 during the fiscal year due to increased revenue from taxes. 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 40.77% 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 \$4,273,848. The increase in total net assets for the year, after transfers to the General Fund of \$265,000 was \$891,166. This was due to the City budgeting depreciation expense for replacement of future infrastructure needs. Net assets of the Port Commission and Beach Operating Funds increased during the 2009 fiscal year. Increases in these funds were \$61,623 and \$240,166 respectively.

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

GENERAL FUND BUDGETARY HIGHLIGHTS

Actual total revenues earned were \$169,131 greater than budgeted expectations, with fines and forfeiture revenues making up \$109,781 or 64.91% of the positive variance. Other positive variances included ad valorem taxes, franchise taxes, and licenses/permits.

Total expenditures were under budget by \$249,842. General government expenditures were \$116,616 less than the final amended budget which included an \$118,080 positive variance in the non-departmental contingency line item. Actual expenditures exceeded final amended budget appropriations in three departments under the general government. The City had to pay for special legal services that were higher than anticipated in the legal budget. Municipal court had increased expenditures in personnel costs related to overtime. In addition, the City paid higher than anticipated attorney fees related to property tax collection. Conservative budgetary practices showed positive budget variance as it relates to parks and recreation, public works (including streets), public safety and the majority of general government departments.

Differences between the General Fund's original budget and final amended budget were a net increase of \$146,200 to revenues and a net decrease of \$249,260 to expenditures. Included in the decrease to budgeted expenditures was a decrease of \$635,000 in public works infrastructure capital expenditures. These monies instead were transferred to various capital project funds during the fiscal year.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

The City's investment in capital assets as of September 30, 2009, amounts to \$40,492,488 (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	
	2009	2008	2009	2008	2009	2008
Non-Depreciable Assets						
Land	\$ 934,397	\$ 934,397	\$ 1,501,012	\$ 1,501,012	\$ 2,435,409	\$ 2,435,409
Construction in progress	656,056	242,815	587,326	5,040	1,243,382	247,855
Other Capital Assets						
Machinery and equipment	2,602,666	2,151,135	737,998	925,544	3,340,664	3,076,679
Buildings and structures	4,932,546	4,932,546	4,323,856	4,323,856	9,256,402	9,256,402
Infrastructure	25,849,740	24,374,808	33,982,726	33,982,726	59,832,466	58,357,534
Accumulated depreciation on other capital assets	(15,140,670)	(14,486,441)	(20,475,165)	(19,940,292)	(35,615,835)	(34,426,733)
Total	\$19,834,735	\$18,149,260	\$20,657,753	\$20,797,886	\$40,492,488	\$38,947,146

Major capital asset events during the current fiscal year included various infrastructure projects and the purchase of vehicles and equipment for governmental activities. 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, and capital lease obligations outstanding of \$13.7 million. The following table details the nature of this debt.

City of Port Lavaca, Texas						
Long-term Debt						
	Governmental Activities		Business-type Activities		Total	
	2009	2008	2009	2008	2009	2008
Revenue bonds	\$ -	\$ -	\$ 5,315,000	\$ 5,595,000	\$ 5,315,000	\$ 5,595,000
Certificates of obligation	3,715,000	3,910,000	3,940,000	4,035,000	7,655,000	7,945,000
Capital leases	332,486	423,954	237,874	288,374	570,360	712,328
Compensated absences	99,458	113,589	21,955	18,815	121,413	132,404
Total	\$ 4,146,944	\$ 4,447,543	\$ 9,514,829	\$ 9,937,189	\$ 13,661,773	\$ 14,384,732

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 continued signs of economic distress for the future. Sales tax revenues decreased from \$2,439,957 in 2009 to \$2,170,959 (11%). Currently, sales are estimated to remain close to those same levels. 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. Island Estates is currently in the design stage.

Future plans include continuation of the street rebuild or infrastructure replacement. Currently, the City is working on a \$2 million street project in Lynn Haven subdivision.

The City adjusted water and sewer rates in October 2008 to ensure debt service coverage related to utility infrastructure repairs and replacements. In addition, the City budgets depreciation to help cover future costs of infrastructure or emergency line repairs.

Weather continues to be a factor for the Public Utility Fund. Extreme wet conditions during the fall could reflect less demand for water, but is too early to tell. Current water and sewer sales are on budget target.

The Beach Operations is proceeding with the next stage of the fishing pier expansion through federal and local match funding. In addition, a Trails grant is in the final construction phase.

The City continues to replace antiquated water lines throughout the City with the awarded funding through the Texas Community Development Program. Plans are to replace water lines and valves to increase water pressure, provide cleaner water, decrease water loss percentage, and reduce outages due to very old infrastructure.

The City issued bonds in 2008 to construct 900 ft of public dock bulkhead. The City (Port Commission) is working with Equalizer, Inc., a fertilizer company, to expand their operations. Equalizer, Inc. 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, 2009

	Governmental Activities	Business-type Activities	Total
ASSETS			
Current assets			
Cash and cash equivalents	\$ 4,177,594	\$ 3,265,787	\$ 7,443,381
Investments	2,753,241	1,833,643	4,586,884
Receivables (net)	808,989	684,479	1,493,468
Due from other governments	455,405	196,170	651,575
Internal balances	(266,367)	266,367	-
Prepaid expenses	37,078	8,641	45,719
Inventory	-	81,506	81,506
Total current assets	<u>7,965,940</u>	<u>6,336,593</u>	<u>14,302,533</u>
Noncurrent assets			
Capital assets			
Land and other assets not being depreciated	1,590,453	2,088,338	3,678,791
Assets being depreciated (net)	18,244,282	18,569,415	36,813,697
Bond issue costs (net)	48,741	304,806	353,547
Total noncurrent assets	<u>19,883,476</u>	<u>20,962,559</u>	<u>40,846,035</u>
Total assets	<u>27,849,416</u>	<u>27,299,152</u>	<u>55,148,568</u>
LIABILITIES			
Current liabilities			
Accounts payable	258,353	346,338	604,691
Payroll related liabilities	118,466	31,868	150,334
Accrued interest payable	31,866	46,383	78,249
Other payables	59,868	12,672	72,540
Due to other governments	80,672	4,070	84,742
Accrued compensated absences	32,875	7,467	40,342
Unearned revenue	60,000	18,948	78,948
Customer deposits	35,065	282,920	317,985
Current portion of noncurrent liabilities			
Capital leases	71,146	43,918	115,064
Bonds and certificates	200,000	430,000	630,000
Total current liabilities	<u>948,311</u>	<u>1,224,584</u>	<u>2,172,895</u>
Noncurrent liabilities			
Accrued compensated absences	66,583	14,488	81,071
Capital leases	261,340	193,957	455,297
Bonds and certificates (net of unamortized deferred amounts)	3,515,000	8,655,226	12,170,226
Total noncurrent liabilities	<u>3,842,923</u>	<u>8,863,671</u>	<u>12,706,594</u>
Total liabilities	<u>4,791,234</u>	<u>10,088,255</u>	<u>14,879,489</u>
NET ASSETS			
Invested in capital assets, net of related debt	15,787,249	11,334,652	27,121,901
Restricted for:			
Debt service	184,862	-	184,862
Facilities maintenance	61,864	12,775	74,639
Capital projects	-	220,769	220,769
Other purposes	629,828	-	629,828
Unrestricted	6,394,379	5,642,701	12,037,080
Total net assets	<u>\$ 23,058,182</u>	<u>\$ 17,210,897</u>	<u>\$ 40,269,079</u>

The accompanying notes are an integral part of this statement.

CITY OF PORT LAVACA, TEXAS
STATEMENT OF ACTIVITIES
For the year ended September 30, 2009

Function/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Governmental activities				
General government	\$ 1,847,859	\$ 390,567	\$ 5,000	\$ -
Public safety	2,598,507	56,195	373,324	-
Public works	1,615,002	-	-	51,589
Parks and recreation	547,013	37,870	-	-
Interest on long-term debt	154,696	-	-	-
Total governmental activities	6,763,077	484,632	378,324	51,589
Business-type activities				
Public utilities	4,288,109	5,284,944	-	94,406
Port commission	379,371	419,939	2,000	-
Beach operations	162,064	261,218	-	141,932
Total business-type activities	4,829,544	5,966,101	2,000	236,338
Total government	\$ 11,592,621	\$ 6,450,733	\$ 380,324	\$ 287,927

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

Transfers

Total general revenues and transfers

Change in net assets

Net assets - beginning

Net assets - ending

The accompanying notes are an integral part of this statement.

**Net (Expense) Revenue and
Changes in Net Assets**

<u>Governmental Activities</u>	<u>Business- type Activities</u>	<u>Total</u>
\$ (1,452,292)	\$ -	\$ (1,452,292)
(2,168,988)	-	(2,168,988)
(1,563,413)	-	(1,563,413)
(509,143)	-	(509,143)
(154,696)	-	(154,696)
<u>(5,848,532)</u>	<u>-</u>	<u>(5,848,532)</u>
-	1,091,241	1,091,241
-	42,568	42,568
-	241,086	241,086
<u>-</u>	<u>1,374,895</u>	<u>1,374,895</u>
<u>(5,848,532)</u>	<u>1,374,895</u>	<u>(4,473,637)</u>
2,865,347	-	2,865,347
348,692	-	348,692
2,170,959	-	2,170,959
613,509	-	613,509
235,571	-	235,571
123,127	75,060	198,187
235,375	18,000	253,375
275,000	(275,000)	-
<u>6,867,580</u>	<u>(181,940)</u>	<u>6,685,640</u>
1,019,048	1,192,955	2,212,003
<u>22,039,134</u>	<u>16,017,942</u>	<u>38,057,076</u>
<u>\$ 23,058,182</u>	<u>\$ 17,210,897</u>	<u>\$ 40,269,079</u>

CITY OF PORT LAVACA, TEXAS
BALANCE SHEET
GOVERNMENTAL FUNDS
September 30, 2009

	<u>General</u>	<u>Street Construction</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
ASSETS				
Current assets				
Cash and cash equivalents	\$ 3,318,229	\$ -	\$ 859,365	\$ 4,177,594
Investments	2,753,241	-	-	2,753,241
Receivables (net)	704,592	-	104,397	808,989
Due from other governments	410,762	-	44,643	455,405
Due from other funds	244,002	-	-	244,002
Prepaid items	37,078	-	-	37,078
Total assets	<u>\$ 7,467,904</u>	<u>\$ -</u>	<u>\$ 1,008,405</u>	<u>\$ 8,476,309</u>
LIABILITIES AND FUND BALANCES				
Liabilities				
Accounts payable	\$ 167,240	\$ 22,375	\$ 68,738	\$ 258,353
Payroll related payables	118,466	-	-	118,466
Other payables	59,868	-	-	59,868
Due to other governments	80,672	-	-	80,672
Due to other funds	-	62,968	447,401	510,369
Customer and other deposits	35,065	-	-	35,065
Deferred revenue	577,094	-	44,473	621,567
Total liabilities	<u>1,038,405</u>	<u>85,343</u>	<u>560,612</u>	<u>1,684,360</u>
Fund balances				
Reserved for:				
Prepaid items	37,078	-	-	37,078
Unreserved, designated for:				
Operating reserves	3,107,978	-	-	3,107,978
Health insurance claims	500,000	-	-	500,000
Capital asset replacement	250,000	-	-	250,000
Unreserved, undesignated reported in:				
General fund	2,534,443	-	-	2,534,443
Special revenue funds	-	-	707,885	707,885
Debt service funds	-	-	159,657	159,657
Capital projects funds	-	(85,343)	(419,749)	(505,092)
Total fund balances	<u>6,429,499</u>	<u>(85,343)</u>	<u>447,793</u>	<u>6,791,949</u>
Total liabilities and fund balances	<u>\$ 7,467,904</u>	<u>\$ -</u>	<u>\$ 1,008,405</u>	<u>\$ 8,476,309</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, 2009*

Total governmental fund balances	\$ 6,791,949
<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.	502,452
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.	59,115
Capital assets used in governmental activities are reported as expenditures in governmental funds when purchased or constructed. The cost of these assets is \$34,975,405 and the accumulated depreciation is \$15,140,670.	19,834,735
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 \$12,092.	48,741
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:	
Certificates payable	\$ (3,715,000)
Capital leases payable	(332,486)
Accrued interest payable	(31,866)
Compensated absences	<u>(99,458)</u>
	<u>(4,178,810)</u>
Net assets of governmental activities	\$ <u>23,058,182</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, 2009*

	<u>General</u>	<u>Street Construction</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
REVENUES				
Taxes				
Ad valorem	\$ 2,829,131	\$ -	\$ 349,564	\$ 3,178,695
Sales	2,170,959	-	-	2,170,959
Other	623,026	-	226,054	849,080
Fines, fees, and forfeitures	485,781	-	15,564	501,345
Intergovernmental	274,203	-	155,710	429,913
Licenses and permits	96,535	-	-	96,535
Investment	115,535	313	7,279	123,127
Rental	37,390	-	-	37,390
Charges for services	5,332	-	-	5,332
Miscellaneous	96,453	-	-	96,453
Total revenues	<u>6,734,345</u>	<u>313</u>	<u>754,171</u>	<u>7,488,829</u>
EXPENDITURES				
Current				
General government	1,657,551	-	189,120	1,846,671
Public safety	2,695,753	-	46,886	2,742,639
Public works	1,422,306	-	-	1,422,306
Parks and recreation	440,345	-	-	440,345
Capital outlay	-	1,019,724	927,770	1,947,494
Debt service				
Principal retirement	-	-	195,000	195,000
Interest and fiscal charges	-	-	155,465	155,465
Total expenditures	<u>6,215,955</u>	<u>1,019,724</u>	<u>1,514,241</u>	<u>8,749,920</u>
Excess (deficiency) of revenues over expenditures	518,390	(1,019,411)	(760,070)	(1,261,091)
OTHER FINANCING SOURCES (USES)				
Transfers in	261,000	627,624	130,934	1,019,558
Transfers out	(683,558)	-	(61,000)	(744,558)
Sale of capital assets	14,141	-	-	14,141
Total other financing sources	<u>(408,417)</u>	<u>627,624</u>	<u>69,934</u>	<u>289,141</u>
Net change in fund balances	109,973	(391,787)	(690,136)	(971,950)
Fund balances at beginning of year	<u>6,319,526</u>	<u>306,444</u>	<u>1,137,929</u>	<u>7,763,899</u>
Fund balances at end of year	<u>\$ 6,429,499</u>	<u>\$ (85,343)</u>	<u>\$ 447,793</u>	<u>\$ 6,791,949</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, 2009*

Total net change in fund balances - governmental funds	\$	(971,950)
---	-----------	------------------

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

Current year capital outlays are expenditures in the fund financial statements, but they should be shown as increases in capital assets in the government-wide financial statements. The net effect of removing the 2008/2009 capital outlays is to increase net assets.

2,366,597

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.

(681,122)

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 principal retirement	\$	195,000	
Capital lease principal retirement		<u>91,468</u>	286,468

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	31,915	
Other revenues	<u>(27,760)</u>	4,155

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:

Decrease in compensated absences	14,131	
Decrease in accrued interest	3,206	
Decrease in bond issue costs	<u>(2,437)</u>	<u>14,900</u>

Change in net assets of governmental activities	\$	<u>1,019,048</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, 2009*

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with</u>
	<u>Original</u>	<u>Final</u>	<u>Amounts</u>	<u>Final Budget</u>
				<u>Positive</u>
				<u>(Negative)</u>
REVENUES				
Taxes	\$ 5,679,514	\$ 5,614,514	\$ 5,623,116	\$ 8,602
Fines and forfeitures	312,000	376,000	485,781	109,781
Intergovernmental	224,400	276,275	274,203	(2,072)
Licenses and permits	57,600	81,925	96,535	14,610
Investment	80,000	120,000	115,535	(4,465)
Rental	41,000	41,000	37,390	(3,610)
Charges for services	4,500	4,500	5,332	832
Miscellaneous	20,000	51,000	96,453	45,453
Total revenues	<u>6,419,014</u>	<u>6,565,214</u>	<u>6,734,345</u>	<u>169,131</u>
EXPENDITURES				
Current				
General government	1,674,167	1,774,167	1,657,551	116,616
Public safety	2,647,572	2,753,354	2,695,753	57,601
Public works	1,950,568	1,460,526	1,422,306	38,220
Parks and recreation	435,707	470,707	440,345	30,362
Total expenditures	<u>6,708,014</u>	<u>6,458,754</u>	<u>6,215,955</u>	<u>242,799</u>
Excess (deficiency) of revenues over expenditures	(289,000)	106,460	518,390	411,930
OTHER FINANCING SOURCES (USES)				
Transfers in	261,000	288,000	261,000	(27,000)
Transfers out	(5,500)	(641,293)	(683,558)	(42,265)
Sale of capital assets	5,000	14,000	14,141	141
Net other financing sources	<u>260,500</u>	<u>(339,293)</u>	<u>(408,417)</u>	<u>(69,124)</u>
Net change in fund balance	(28,500)	(232,833)	109,973	342,806
Fund balance at beginning of year	<u>6,319,526</u>	<u>6,319,526</u>	<u>6,319,526</u>	<u>-</u>
Fund balance at end of year	<u>\$ 6,291,026</u>	<u>\$ 6,086,693</u>	<u>\$ 6,429,499</u>	<u>\$ 342,806</u>

The accompanying notes are an integral part of this statement.

CITY OF PORT LAVACA, TEXAS
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
September 30, 2009

Business-type Activities - Enterprise Funds

	Public Utility	Port Commission	Beach Operating	Total
ASSETS				
Current assets				
Cash and cash equivalents	\$ 2,374,978	\$ 598,429	\$ 292,380	\$ 3,265,787
Investments	1,009,029	622,640	201,974	1,833,643
Receivables (net)	645,711	26,108	12,660	684,479
Due from other governments	83,006	-	113,164	196,170
Due from other funds	522,939	-	-	522,939
Prepaid expenses	3,258	2,989	2,394	8,641
Inventory	81,506	-	-	81,506
Total current assets	4,720,427	1,250,166	622,572	6,593,165
Noncurrent assets				
Capital assets				
Land and other assets not being depreciated	268,228	1,118,758	701,352	2,088,338
Assets being depreciated (net)	13,622,151	3,763,460	1,183,804	18,569,415
Bond issue costs (net)	267,607	37,199	-	304,806
Net noncurrent assets	14,157,986	4,919,417	1,885,156	20,962,559
Total assets	18,878,413	6,169,583	2,507,728	27,555,724
LIABILITIES				
Current liabilities				
Accounts payable	318,201	18,579	9,558	346,338
Payroll related liabilities	30,574	600	694	31,868
Accrued interest payable	38,039	8,344	-	46,383
Other payables	12,672	-	-	12,672
Due to other governments	4,070	-	-	4,070
Due to other funds	-	-	256,572	256,572
Accrued compensated absences	7,467	-	-	7,467
Deferred revenue	5,755	13,193	-	18,948
Customer deposits	282,920	-	-	282,920
Current portion of noncurrent liabilities				
Capital leases	43,918	-	-	43,918
Bonds and certificates	370,000	60,000	-	430,000
Total current liabilities	1,113,616	100,716	266,824	1,481,156
Long-term liabilities, net of current portion				
Accrued compensated absences	14,488	-	-	14,488
Capital leases	193,957	-	-	193,957
Bonds and certificates (net of unamortized deferred amounts)	7,035,226	1,620,000	-	8,655,226
Total long-term liabilities	7,243,671	1,620,000	-	8,863,671
Total liabilities	8,357,287	1,720,716	266,824	10,344,827
NET ASSETS				
Invested in capital assets, net of related debt	6,247,278	3,202,218	1,885,156	11,334,652
Restricted for:				
Facilities maintenance	-	-	12,775	12,775
Unrestricted net assets	4,273,848	1,246,649	342,973	5,863,470
Total net assets	\$ 10,521,126	\$ 4,448,867	\$ 2,240,904	\$ 17,210,897

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, 2009***Business-type Activities - Enterprise Funds**

	<u>Public Utility</u>	<u>Port Commission</u>	<u>Beach Operating</u>	<u>Total</u>
OPERATING REVENUES				
Charges for services				
Water sales	\$ 2,439,539	\$ -	\$ -	\$ 2,439,539
Sewer services	1,875,703	-	-	1,875,703
Waste collection	721,574	-	-	721,574
Tap and service fees	89,052	-	-	89,052
Gate fees	-	-	40,857	40,857
Leases and rentals	-	417,402	217,054	634,456
Port tariffs	-	-	-	-
Penalties	98,984	767	-	99,751
Miscellaneous	60,092	1,770	3,307	65,169
Total operating revenues	<u>5,284,944</u>	<u>419,939</u>	<u>261,218</u>	<u>5,966,101</u>
OPERATING EXPENSES				
Personnel services	748,468	31,520	5,685	785,673
Materials and supplies	69,293	1,697	1,424	72,414
Services	1,181,093	59,556	70,551	1,311,200
Water purchases	1,085,263	-	-	1,085,263
Maintenance and repairs	383,481	27,906	3,876	415,263
Depreciation and amortization	487,075	192,171	80,419	759,665
Miscellaneous	11,034	-	109	11,143
Total operating expenses	<u>3,965,707</u>	<u>312,850</u>	<u>162,064</u>	<u>4,440,621</u>
Operating income	1,319,237	107,089	99,154	1,525,480
NONOPERATING REVENUES (EXPENSES)				
Noncapital grants and contributions	-	2,000	-	2,000
Gain (loss) of disposition of capital assets	18,000	-	-	18,000
Investment income	46,925	23,055	5,080	75,060
Interest expense	(322,402)	(66,521)	-	(388,923)
Net nonoperating revenues	<u>(257,477)</u>	<u>(41,466)</u>	<u>5,080</u>	<u>(293,863)</u>
Income before capital contributions and transfers	1,061,760	65,623	104,234	1,231,617
Capital grants and contributions	94,406	-	141,932	236,338
Transfers out	<u>(265,000)</u>	<u>(4,000)</u>	<u>(6,000)</u>	<u>(275,000)</u>
Change in net assets	891,166	61,623	240,166	1,192,955
Net assets at beginning of year	<u>9,629,960</u>	<u>4,387,244</u>	<u>2,000,738</u>	<u>16,017,942</u>
Net assets at end of year	<u>\$ 10,521,126</u>	<u>\$ 4,448,867</u>	<u>\$ 2,240,904</u>	<u>\$ 17,210,897</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, 2009

	Business-type Activities - Enterprise Funds			
	Public Utility	Port Commission	Beach Operating	Total
CASH FLOWS FROM OPERATING ACTIVITIES:				
Cash received from customers	\$ 5,315,249	\$ 394,182	\$ 248,597	\$ 5,958,028
Cash payments to suppliers for goods and services	(2,588,641)	(73,722)	(69,655)	(2,732,018)
Cash payments to employees for services	(740,561)	(31,604)	(4,991)	(777,156)
Net cash provided (used) by operating activities	1,986,047	288,856	173,951	2,448,854
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:				
Customer deposits received (net)	6,285	-	-	6,285
Receipts from noncapital grants and contributions	-	2,000	-	2,000
Borrowings from (to) other funds	(1,070,315)	(161,509)	256,572	(975,252)
Transfers to other funds	(265,000)	(4,000)	(6,000)	(275,000)
Net cash provided (used) by noncapital financing activities	(1,329,030)	(163,509)	250,572	(1,241,967)
CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES:				
Acquisition of capital assets	(168,199)	(11,834)	(425,789)	(605,822)
Receipts from capital grants and contributions	11,400	11,185	30,518	53,103
Proceeds from sale of capital assets	18,000	-	-	18,000
Principal paid on capital debt	(405,500)	(20,000)	-	(425,500)
Interest paid on capital debt	(321,169)	(106,318)	-	(427,487)
Net cash used by capital financing activities	(865,468)	(126,967)	(395,271)	(1,387,706)
CASH FLOWS FROM INVESTING ACTIVITIES:				
Investment purchases	(1,000,000)	(500,000)	(200,000)	(1,700,000)
Investment maturities	1,325,000	-	-	1,325,000
Investment income	57,134	61,760	3,106	122,000
Net cash provided (used) by investing activities	382,134	(438,240)	(196,894)	(253,000)
Net increase (decrease) in cash and cash equivalents	173,683	(439,860)	(167,642)	(433,819)
Cash and cash equivalents at beginning of year	2,201,295	1,038,289	460,022	3,699,606
Cash and cash equivalents at end of year	\$ 2,374,978	\$ 598,429	\$ 292,380	\$ 3,265,787

(continued)

CITY OF PORT LAVACA, TEXAS
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
For the year ended September 30, 2009

	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	\$ 1,319,237	\$ 107,089	\$ 99,154	\$ 1,525,480
Adjustments to reconcile operating income to net cash provided by operating activities:				
Depreciation and amortization	487,075	192,171	80,419	759,665
Change in assets and liabilities:				
(Increase) decrease in accounts receivable	27,596	(24,264)	(12,621)	(9,289)
(Increase) decrease in prepaid expense	6,927	(396)	(1,505)	5,026
(Increase) decrease in inventory	1,647	-	-	1,647
Increase (decrease) in accounts and other payables	132,300	15,833	7,810	155,943
Increase (decrease) in payroll related liabilities	4,767	(84)	694	5,377
Increase (decrease) in due to other governments	649	-	-	649
Increase (decrease) in compensated absences	3,140	-	-	3,140
Increase (decrease) in deferred revenue	2,709	(1,493)	-	1,216
Net cash provided (used) by operating activities	\$ 1,986,047	\$ 288,856	\$ 173,951	\$ 2,448,854

The accompanying notes are an integral part of this statement.

CITY OF PORT LAVACA, TEXAS
STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
September 30, 2009

	Fireman's Relief and Retirement Fund	Police Seized Nonforfeiture Fund
ASSETS		
Cash and cash equivalents	\$ 267	\$ 18,823
Total assets	<u>267</u>	<u>\$ 18,823</u>
LIABILITIES		
Due to others	-	\$ 18,823
Total liabilities	<u>-</u>	<u>\$ 18,823</u>
NET ASSETS		
Restricted for payment of pension benefits	267	
Total net assets	<u>\$ 267</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, 2009*

	Fireman's Relief and Retirement Fund
	<hr/>
ADDITIONS	
Employer contributions	\$ 3,196
DEDUCTIONS	
Benefits	<hr/> 3,400
Change in net assets	(204)
Net assets at beginning of year	<hr/> 471
Net assets at end of year	<hr/>\$ 267

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	33
5	Due from Other Governments	34
6	Capital Assets	35
7	Interfund Receivables, Payables, and Transfers	36
8	Lease Obligations	37
9	Lessor Agreements.....	37
10	Long-Term Debt.....	38
11	Designations of Proprietary Fund Net Assets	40
12	Risk Management.....	40
13	Contingencies and Commitments.....	41
14	Employees' Retirement Plan	42
15	Supplemental Death Benefit Plan	44
16	Volunteer Firefighters' Pension Benefit Plan	44
17	Deferred Compensation Plan	45

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Reporting Entity

In evaluating how to define the government, for financial reporting purposes, the City's management has considered all potential component units. The decision to include a potential component unit in the reporting entity was made by applying the criteria set forth in the Governmental Accounting Standards Board (GASB) Statement No. 14, *The Financial Reporting Entity*, and as amended by GASB Statement No. 39, *Determining Whether Certain Organizations are Component Units*. Under these guidelines, the reporting entity consists of the primary government (all funds of the City), organizations for which the primary government is financially accountable and any other organization for which the nature and significance of their relationship with the primary government is such that exclusion could cause the City's financial statements to be misleading or incomplete. Entities other than the primary government that are included in the primary government's financial statements are called component units. No legally separate organizations met the necessary criteria for inclusion as component units for the year ended September 30, 2009.

B. Government-wide and Fund Financial Statements

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

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

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

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

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

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)**C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation - (Continued)**

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

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

The City reports the following major governmental funds:

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

The Street Construction Fund is a capital project fund which accounts for the funding of street improvements by the use of debt proceeds or by funds from other governmental funds.

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 firefighters.

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

Activities 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, 2009.

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**A. Budgetary Compliance**

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>
Legal	\$ 105,400	\$ 114,773	\$ 9,373
Municipal court	72,159	74,320	2,161
Tax	79,815	88,332	8,517
Parks	242,958	245,716	2,758
Transfers out	637,293	683,558	46,265

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

B. Deficit Fund Equity

As of September 30, 2009, the Street Construction Fund, a major capital projects fund, had a deficit fund equity balance in the amount of \$85,343. The Boat Ramp Fund, a nonmajor capital projects fund, also had a deficit fund equity balance in the amount of \$419,749 as of September 30, 2009. Steps will be taken to eliminate these deficits in the upcoming fiscal year by either fund transfers or grant reimbursements.

NOTE 3: DEPOSITS AND INVESTMENTS

As of September 30, 2009, 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	\$ 6,001,213	53
TexSTAR Pool	871,701	46
Certificates of Deposits	2,733,347	151
U.S. Government Securities	1,853,538	337
	<u>\$ 11,459,799</u>	

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

A. Interest Rate Risk

In accordance with the City's investment policy, the City manages its exposure to declines in fair values by limiting the weighted average maturity of its investment portfolio for investments to less than one year from the time of purchase. The maximum weighted average maturity for the investment pools, according to their investment policies, is 60 days.

NOTE 3: DEPOSITS AND INVESTMENTS - (Continued)**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

In the case of deposits, this is the risk that in the event of a bank failure, the City's deposits may not be returned to it. The City's investment policy requires 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. During the fiscal year and at year-end, all deposits held in the depository bank were fully collateralized and therefore the City was not exposed to custodial credit risk.

E. Custodial Credit Risk - Investments

For an investment, this is the risk that, in the event of the failure of the counterparty, the City will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The City's investment policy requires that securities be held in the name of the City or held on behalf of the City and that all securities are purchased using the delivery versus payment method. As of September 30, 2009, 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 Operating</u>	<u>Nonmajor Funds</u>	<u>Total</u>
Receivables:						
Ad valorem taxes	\$ 586,812	\$ -	\$ -	\$ -	\$ 46,813	\$ 633,625
Franchise taxes	87,017	-	-	-	-	87,017
Municipal court fines	104,670	-	-	-	-	104,670
Charges for services	96,701	643,392	19,189	-	-	759,282
Occupancy taxes	-	-	-	-	59,924	59,924
Miscellaneous	<u>100,481</u>	<u>2,319</u>	<u>6,919</u>	<u>12,660</u>	<u>-</u>	<u>122,379</u>
Gross receivables	975,681	645,711	26,108	12,660	106,737	1,766,897
Less: Allowance for uncollectibles	<u>(271,089)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(2,340)</u>	<u>(273,429)</u>
Net total receivables	<u>\$ 704,592</u>	<u>\$ 645,711</u>	<u>\$ 26,108</u>	<u>\$ 12,660</u>	<u>\$ 104,397</u>	<u>\$ 1,493,468</u>

NOTE 4: RECEIVABLES - (Continued)

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, 2009, 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	\$ 457,979	\$ -	\$ 457,979
Charges for services	19,340	60,000	79,340
Municipal court fines	39,775	-	39,775
Nonmajor Funds			
Ad valorem taxes	44,473	-	44,473
	<u>\$ 561,567</u>	<u>\$ 60,000</u>	<u>\$ 621,567</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, 2009:

	<u>General Fund</u>	<u>Port Commission</u>	<u>Beach Operating</u>	<u>Nonmajor Funds</u>	<u>Total</u>
Sales taxes	\$ 398,374	\$ -	\$ -	\$ -	\$ 398,374
Property taxes collected not yet remitted	12,388	-	-	1,070	13,458
Grant reimbursements	-	83,006	113,164	43,573	239,743
	<u>\$ 410,762</u>	<u>\$ 83,006</u>	<u>\$ 113,164</u>	<u>\$ 44,643</u>	<u>\$ 651,575</u>

NOTE 6: CAPITAL ASSETS

The capital asset activity of the City was as follows for the year ended September 30, 2009:

	<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	242,815	656,056	(242,815)	656,056
Total capital assets not being depreciated	<u>1,177,212</u>	<u>656,056</u>	<u>(242,815)</u>	<u>1,590,453</u>
Capital assets, being depreciated:				
Machinery and equipment	2,151,135	478,424	(26,893)	2,602,666
Buildings and structures	4,932,546	-	-	4,932,546
Infrastructure	24,374,808	1,474,932	-	25,849,740
Total capital assets being depreciated	<u>31,458,489</u>	<u>1,953,356</u>	<u>(26,893)</u>	<u>33,384,952</u>
Less accumulated depreciation for:				
Machinery and equipment	(1,102,975)	(202,643)	26,893	(1,278,725)
Buildings and structures	(2,256,295)	(134,899)	-	(2,391,194)
Infrastructure	(11,127,171)	(343,580)	-	(11,470,751)
Total accumulated depreciation	<u>(14,486,441)</u>	<u>(681,122)</u>	<u>26,893</u>	<u>(15,140,670)</u>
Total capital assets being depreciated, net	<u>16,972,048</u>	<u>1,272,234</u>	<u>-</u>	<u>18,244,282</u>
Governmental activities capital assets, net	<u>\$ 18,149,260</u>	<u>\$ 1,928,290</u>	<u>\$ (242,815)</u>	<u>\$ 19,834,735</u>
Business-type activities				
Capital assets, not being depreciated:				
Land	\$ 1,501,012	\$ -	\$ -	\$ 1,501,012
Construction in progress	5,040	582,286	-	587,326
Total capital assets not being depreciated	<u>1,506,052</u>	<u>582,286</u>	<u>-</u>	<u>2,088,338</u>
Capital assets, being depreciated:				
Machinery and equipment	925,544	23,535	(211,081)	737,998
Buildings and structures	4,323,856	-	-	4,323,856
Infrastructure	33,982,726	-	-	33,982,726
Total capital assets being depreciated	<u>39,232,126</u>	<u>23,535</u>	<u>(211,081)</u>	<u>39,044,580</u>
Less accumulated depreciation for:				
Machinery and equipment	(565,447)	(47,135)	211,081	(401,501)
Buildings and structures	(2,109,083)	(141,132)	-	(2,250,215)
Infrastructure	(17,265,762)	(557,687)	-	(17,823,449)
Total accumulated depreciation	<u>(19,940,292)</u>	<u>(745,954)</u>	<u>211,081</u>	<u>(20,475,165)</u>
Total capital assets being depreciated, net	<u>19,291,834</u>	<u>(722,419)</u>	<u>-</u>	<u>18,569,415</u>
Business-type activities capital assets, net	<u>\$ 20,797,886</u>	<u>\$ (140,133)</u>	<u>\$ -</u>	<u>\$ 20,657,753</u>

NOTE 6: CAPITAL ASSETS - (Continued)

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

Governmental activities:

General government	\$ 30,312
Public safety	137,894
Public works	396,237
Parks and recreation	116,679
Total depreciation expense - governmental activities	<u>\$ 681,122</u>

Business-type activities:

Public Utility	\$ 473,806
Port Commission	191,729
Beach Operations	80,419
Total depreciation expense - business-type activities	<u>\$ 745,954</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, 2009, were as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General Fund	Street Construction	\$ 62,968
	Nonmajor Special Revenue	44,874
	Nonmajor Debt Service	8,662
	Nonmajor Capital Projects	127,498
Public Utility Fund	Beach Operating	256,572
	Nonmajor Capital Projects	266,367
		<u>\$ 766,941</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 major capital projects fund. During the current fiscal year, transfers between funds consisted of the following:

	<u>Transfers In</u>			
	<u>General</u>	<u>Street Construction</u>	<u>Nonmajor</u>	<u>Total</u>
Transfers out:				
General	\$ -	\$ 552,624	\$ 130,934	\$ 683,558
Public Utility	190,000	75,000	-	265,000
Port Commission	4,000	-	-	4,000
Beach Operating	6,000	-	-	6,000
Nonmajor	61,000	-	-	61,000
	<u>\$ 261,000</u>	<u>\$ 627,624</u>	<u>\$ 130,934</u>	<u>\$ 1,019,558</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:

	Governmental Activities	Business-type Activities
Machinery and equipment		
Vehicles	\$ -	\$ 232,332
Other equipment	477,504	100,589
	<u>477,504</u>	<u>332,921</u>
Less: Accumulated depreciation	(105,271)	(52,134)
	<u>\$ 372,233</u>	<u>\$ 280,787</u>

The future minimum lease obligations and the net present value of these minimum lease payments as of September 30, 2009, were as follows:

Year Ending September 30	Governmental Activities	Business-type Activities
2010	\$ 86,633	\$ 53,433
2011	86,633	53,433
2012	86,633	53,433
2013	30,778	53,433
2014	30,778	53,433
2015-2016	<u>61,556</u>	<u>-</u>
Total minimum lease payments	383,011	267,165
Less: Amount representing interest	<u>(50,525)</u>	<u>(29,291)</u>
Present value of minimum lease payments	<u>\$ 332,486</u>	<u>\$ 237,874</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, 2009:

Year Ending September 30	
2010	\$ 280,742
2011	176,919
2012	163,666
2013	101,405
2014	<u>65,508</u>
	788,240
Thereafter	<u>24,036</u>
	<u>\$ 812,276</u>

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

Long-term liability activity for the year ended September 30, 2009, was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Governmental activities					
Certificates payable	\$ 3,910,000	\$ -	\$ 195,000	\$ 3,715,000	\$ 200,000
Capital leases	423,954	-	91,468	332,486	71,146
Compensated absences	113,589	109,644	123,775	99,458	32,875
Total governmental activity					
long-term liabilities	<u>\$ 4,447,543</u>	<u>\$ 109,644</u>	<u>\$ 410,243</u>	<u>\$ 4,146,944</u>	<u>\$ 304,021</u>
Business-type activities					
Bonds and certificates payable:					
Revenue bonds	\$ 5,595,000	\$ -	\$ 280,000	\$ 5,315,000	\$ 290,000
Certificates	4,035,000	-	95,000	3,940,000	140,000
Less deferred amounts:					
Loss on refunding	(140,155)	-	2,365	(137,790)	-
Issuance discounts	(32,532)	-	549	(31,983)	-
Net bonds and certificates	9,457,313	-	377,914	9,085,227	430,000
Capital leases	288,374	-	50,500	237,874	43,918
Compensated absences	18,815	23,200	20,060	21,955	7,467
Total business-type activity					
long-term liabilities	<u>\$ 9,764,502</u>	<u>\$ 23,200</u>	<u>\$ 448,474</u>	<u>\$ 9,345,056</u>	<u>\$ 481,385</u>

During the year ended September 30, 2008, the City defeased certain revenue and refunding bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the City's financial statements. At September 30, 2009, \$2,460,000 of bonds outstanding was considered defeased.

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

B. Certificates of Obligations

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, 2009, 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%.	\$ 2,815,000
\$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%.	<u>900,000</u>
Total Certificates of Obligations	<u>\$ 3,715,000</u>

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

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

<u>September 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
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	230,000	116,939	346,939
2015-2019	1,305,000	436,636	1,741,636
2020-2024	1,340,000	131,048	1,471,048
	<u>\$ 3,715,000</u>	<u>\$ 1,232,542</u>	<u>\$ 4,947,542</u>

C. Revenue Bonds and Certificates

Revenue bonds and certificates payable were comprised of the following individual issues at September 30, 2009:

\$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%.	\$ 2,725,000
\$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%.	1,355,000
\$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%.	2,590,000
\$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%.	905,000
\$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%.	<u>1,680,000</u>
Total Revenue Bonds and Certificates	<u>\$ 9,255,000</u>

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

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

Year Ending September 30	Business-type Activities		
	Principal	Interest	Total
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	510,000	284,269	794,269
2015-2019	3,400,000	1,050,688	4,450,688
2020-2024	3,030,000	313,184	3,343,184
2025-2028	470,000	37,925	507,925
	<u>\$ 9,255,000</u>	<u>\$ 3,014,260</u>	<u>\$ 12,269,260</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, 2009.

As of September 30, 2009, the \$9,255,000 balance on the revenue bonds and certificates is detailed as follows according to the purpose of their issuance: \$3,945,000 or 42.63% water system improvements, \$3,630,000 or 39.22% wastewater system improvements, and \$1,680,000 or 18.15% harbor system improvements.

NOTE 11: DESIGNATIONS OF PROPRIETARY FUND NET ASSETS

Management has designated for operating reserves \$1,517,703 of the Public Utility Fund's \$4,273,848 unrestricted net assets. Management has also designated \$127,790 of the Port Commission Fund's \$1,246,649 unrestricted net assets for operating reserves. The designated amounts represent approximately 120 days of operating expenses, including interest expense and transfers to other funds. The Public Utility Fund and the Port Commission Fund had \$2,756,145 and \$1,118,859, respectively, of unrestricted, undesignated net assets as of September 30, 2009.

NOTE 12: 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, 2009, 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 \$120,146.

NOTE 12: RISK MANAGEMENT - (Continued)

Paid health-related claims totaled \$659,428 during the current fiscal year. The insurance carrier estimated that \$64,920 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
2008-2009	28,437	659,428	351,927	270,800	65,138

NOTE 13: CONTINGENCIES AND COMMITMENTS**A. Litigation**

The City was not involved in any litigation as of September 30, 2009, 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, 2009, 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.

NOTE 13: CONTINGENCIES AND COMMITMENTS - (Continued)**D. Construction Commitments**

As of September 30, 2009, 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 activities:			
Infrastructure-Hotel	\$ 51,589	\$ 173,311	City/grant funds
Street improvements	604,467	2,059,445	City funds
	<u>656,056</u>	<u>2,232,756</u>	
Business-type activities:			
Nautical landings-boat docks	15,125	864,944	City/grant funds
Waterline replacement	144,662	105,338	City/grant funds
Light House Beach-trails	85,264	14,737	City/grant funds
Pier reconstruction	342,275	157,725	City/grant funds
	<u>587,326</u>	<u>1,142,744</u>	
	<u>\$ 1,243,382</u>	<u>\$ 3,375,500</u>	

NOTE 14: EMPLOYEES' RETIREMENT PLAN**Plan Description**

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

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

	<u>Plan Year 2008</u>	<u>Plan Year 2009</u>
Employee deposit rate	5.0%	5.0%
Matching ratio (city to employee)	1.5 to 1	1.5 to 1
Years required for vesting	5	5
Service retirement eligibility (expressed as age/years of service)	60/5, 0/25	60/5, 0/25
Updated service credit	100% repeating transfers	100% repeating transfers
Annuity increase (to retirees)	70% of CPI repeating	70% of CPI repeating

NOTE 14: EMPLOYEES' RETIREMENT PLAN - (Continued)**Contributions**

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

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

Contributions Required and Contributions Made			
Year Ended September 30	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
2009	\$ 239,707	100%	\$ -
2008	186,714	100%	-
2007	146,234	100%	-

The required contribution rates for fiscal year 2009 were determined as part of the December 31, 2006 and 2007 actuarial valuations. Additional information as of the latest actuarial valuation, December 31, 2008, also follows:

	Actuarial Valuation Information		
	12/31/08	12/31/07	12/31/06
Actuarial cost method	projected unit credit	projected unit credit	unit credit
Amortization method	level percent of payroll	level percent of payroll	level percent of payroll
Amortization period in years	29 - closed	30 - closed	25 - open
Asset valuation method	amortized cost	amortized cost	amortized cost
Investment return	7.50%	7.00%	7.00%
Projected salary increases	varies by age and service	varies by age and service	varies by age and service
Inflation	3.00%	3.00%	3.00%
Cost of living adjustments	2.1%	2.1%	N/A

NOTE 14: EMPLOYEES' RETIREMENT PLAN - (Continued)**Contributions - (Continued)**

The schedule of funding progress presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability of benefits.

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)
12/31/2008	\$ 4,197,893	\$ 5,766,845	\$ 1,568,952	72.8%	\$3,071,235	51.1%
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: SUPPLEMENTAL DEATH BENEFIT PLAN

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

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

NOTE 16: 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, 2009, there were 12 individuals receiving benefits under the plan. Benefit payments for the year totaled \$3,400.

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, 2009.

NOTE 17: 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 \$104,072 as of September 30, 2009, 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.

Combining and Individual Fund Statements and Schedules

CITY OF PORT LAVACA, TEXAS
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
September 30, 2009

	<u>Special Revenue</u>			
	<u>Hotel Occupancy Tax</u>	<u>Police Forfeitures</u>	<u>Building Security</u>	<u>TXDOT Palm Trees</u>
ASSETS				
Current assets				
Cash and cash equivalents	\$ 576,063	\$ 15,911	\$ 5,506	\$ 133
Receivables (net)	59,924	-	-	-
Due from other governments	-	-	-	-
Total assets	<u>\$ 635,987</u>	<u>\$ 15,911</u>	<u>\$ 5,506</u>	<u>\$ 133</u>
LIABILITIES AND FUND BALANCE				
Liabilities				
Accounts payable	\$ 4,281	\$ -	\$ -	\$ -
Due to other funds	33,524	-	-	-
Deferred revenue	-	-	-	-
Total liabilities	<u>37,805</u>	<u>-</u>	<u>-</u>	<u>-</u>
Fund balance				
Unreserved, undesignated	<u>598,182</u>	<u>15,911</u>	<u>5,506</u>	<u>133</u>
Total fund balance	<u>598,182</u>	<u>15,911</u>	<u>5,506</u>	<u>133</u>
Total liabilities and fund balance	<u>\$ 635,987</u>	<u>\$ 15,911</u>	<u>\$ 5,506</u>	<u>\$ 133</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	\$ 32,490	\$ 61,864	\$ 146	\$ -	\$ 692,116
-	-	-	-	-	59,924
-	-	-	8,965	5,000	13,965
<u>\$ 3</u>	<u>\$ 32,490</u>	<u>\$ 61,864</u>	<u>\$ 9,111</u>	<u>\$ 5,000</u>	<u>\$ 766,005</u>
\$ -	\$ -	\$ -	\$ 8,965	\$ -	\$ 13,246
-	6,350	-	-	5,000	44,874
-	-	-	-	-	-
-	6,350	-	8,965	5,000	58,120
<u>3</u>	<u>26,140</u>	<u>61,864</u>	<u>146</u>	<u>-</u>	<u>707,885</u>
<u>3</u>	<u>26,140</u>	<u>61,864</u>	<u>146</u>	<u>-</u>	<u>707,885</u>
<u>\$ 3</u>	<u>\$ 32,490</u>	<u>\$ 61,864</u>	<u>\$ 9,111</u>	<u>\$ 5,000</u>	<u>\$ 766,005</u>

(continued)

CITY OF PORT LAVACA, TEXAS
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
September 30, 2009

	Debt Service		
	2003	2005	
	Certificates	Certificates	
	of	of	
	Obligation	Obligation	Total
ASSETS			
Current assets			
Cash and cash equivalents	\$ 141,041	\$ 26,208	\$ 167,249
Receivables (net)	37,589	6,884	44,473
Due from other governments	839	231	1,070
Total assets	<u>\$ 179,469</u>	<u>\$ 33,323</u>	<u>\$ 212,792</u>
 LIABILITIES AND FUND BALANCE			
Liabilities			
Accounts payable	\$ -	\$ -	\$ -
Due to other funds	8,662	-	8,662
Deferred revenue	37,589	6,884	44,473
Total liabilities	<u>46,251</u>	<u>6,884</u>	<u>53,135</u>
Fund balance			
Unreserved, undesignated	133,218	26,439	159,657
Total fund balance	<u>133,218</u>	<u>26,439</u>	<u>159,657</u>
Total liabilities and fund balance	<u>\$ 179,469</u>	<u>\$ 33,323</u>	<u>\$ 212,792</u>

Capital Projects				Total Nonmajor Governmental Funds
Boat Ramp	Texas Capital Fund	La Salle Landing	Total	
\$ -	\$ -	\$ -	\$ -	\$ 859,365
-	-	-	-	104,397
-	29,608	-	29,608	44,643
<u>\$ -</u>	<u>\$ 29,608</u>	<u>\$ -</u>	<u>\$ 29,608</u>	<u>\$ 1,008,405</u>
\$ 26,580	\$ 28,912	\$ -	\$ 55,492	\$ 68,738
393,169	696	-	393,865	447,401
-	-	-	-	44,473
<u>419,749</u>	<u>29,608</u>	<u>-</u>	<u>449,357</u>	<u>560,612</u>
(419,749)	-	-	(419,749)	447,793
(419,749)	-	-	(419,749)	447,793
<u>\$ -</u>	<u>\$ 29,608</u>	<u>\$ -</u>	<u>\$ 29,608</u>	<u>\$ 1,008,405</u>

(concluded)

CITY OF PORT LAVACA, TEXAS**COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES****NONMAJOR GOVERNMENTAL FUNDS***For the year ended September 30, 2009*

	Special Revenue			
	Hotel Occupancy Tax	Police Forfeitures	Building Security	TXDOT Palm Trees
REVENUES				
Taxes	\$ 226,054	\$ -	\$ -	\$ -
Fines, fees, and forfeitures	-	1,850	5,726	-
Intergovernmental	-	-	-	-
Investment	4,825	65	7	17
Total revenues	<u>230,879</u>	<u>1,915</u>	<u>5,733</u>	<u>17</u>
EXPENDITURES				
Current				
General government	130,052	-	4,155	24,940
Public safety	-	5,379	-	-
Capital outlay	-	-	-	-
Debt service				
Principal retirement	-	-	-	-
Interest and fiscal charges	-	-	-	-
Total expenditures	<u>130,052</u>	<u>5,379</u>	<u>4,155</u>	<u>24,940</u>
Excess (deficiency) of revenues over expenditures	100,827	(3,464)	1,578	(24,923)
OTHER FINANCING SOURCES (USES)				
Transfers in	-	-	-	-
Transfers out	(61,000)	-	-	-
Total other financing sources (uses)	<u>(61,000)</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net change in fund balances	39,827	(3,464)	1,578	(24,923)
Fund balances at beginning of year	<u>558,355</u>	<u>19,375</u>	<u>3,928</u>	<u>25,056</u>
Fund balances at end of year	<u>\$ 598,182</u>	<u>\$ 15,911</u>	<u>\$ 5,506</u>	<u>\$ 133</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>
\$ -	\$ -	\$ -	\$ -	\$ -	\$ 226,054
-	7,988	-	-	-	15,564
952	-	-	98,169	5,000	104,121
-	288	467	4	-	5,673
<u>952</u>	<u>8,276</u>	<u>467</u>	<u>98,173</u>	<u>5,000</u>	<u>351,412</u>
-	24,973	-	-	5,000	189,120
1,904	-	-	39,603	-	46,886
-	-	-	59,322	-	59,322
-	-	-	-	-	-
<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<u>1,904</u>	<u>24,973</u>	<u>-</u>	<u>98,925</u>	<u>5,000</u>	<u>295,328</u>
(952)	(16,697)	467	(752)	-	56,084
952	-	-	792	-	1,744
-	-	-	-	-	(61,000)
<u>952</u>	<u>-</u>	<u>-</u>	<u>792</u>	<u>-</u>	<u>(59,256)</u>
-	(16,697)	467	40	-	(3,172)
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>711,057</u>
\$ 3	\$ 26,140	\$ 61,864	\$ 146	\$ -	\$ 707,885

(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, 2009*

	Debt Service		
	2003	2005	
	Certificates	Certificates	
	of	of	
	Obligation	Obligation	Total
REVENUES			
Taxes	\$ 266,232	\$ 83,332	\$ 349,564
Fines, fees, and forfeitures	-	-	-
Intergovernmental	-	-	-
Investment	1,232	55	1,287
Total revenues	<u>267,464</u>	<u>83,387</u>	<u>350,851</u>
EXPENDITURES			
Current			
General government	-	-	-
Public safety	-	-	-
Capital outlay	-	-	-
Debt service			
Principal retirement	150,000	45,000	195,000
Interest and fiscal charges	115,240	40,225	155,465
Total expenditures	<u>265,240</u>	<u>85,225</u>	<u>350,465</u>
Excess (deficiency) of revenues over expenditures	2,224	(1,838)	386
OTHER FINANCING SOURCES (USES)			
Transfers in	-	-	-
Transfers out	-	-	-
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>-</u>
Net change in fund balances	2,224	(1,838)	386
Fund balances at beginning of year	<u>130,994</u>	<u>28,277</u>	<u>159,271</u>
Fund balances at end of year	<u>\$ 133,218</u>	<u>\$ 26,439</u>	<u>\$ 159,657</u>

Capital Projects

<u>Boat Ramp</u>	<u>Texas Capital Fund</u>	<u>La Salle Landing</u>	<u>Total</u>	<u>Total Nonmajor Governmental Funds</u>
\$ -	\$ -	\$ -	\$ -	\$ 575,618
-	-	-	-	15,564
-	51,589	-	51,589	155,710
144	-	175	319	7,279
<u>144</u>	<u>51,589</u>	<u>175</u>	<u>51,908</u>	<u>754,171</u>
-	-	-	-	189,120
-	-	-	-	46,886
541,518	51,589	275,341	868,448	927,770
-	-	-	-	195,000
-	-	-	-	155,465
<u>541,518</u>	<u>51,589</u>	<u>275,341</u>	<u>868,448</u>	<u>1,514,241</u>
(541,374)	-	(275,166)	(816,540)	(760,070)
-	-	129,190	129,190	130,934
-	-	-	-	(61,000)
<u>-</u>	<u>-</u>	<u>129,190</u>	<u>129,190</u>	<u>69,934</u>
(541,374)	-	(145,976)	(687,350)	(690,136)
121,625	-	145,976	267,601	1,137,929
<u>\$ (419,749)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (419,749)</u>	<u>\$ 447,793</u>

(concluded)

CITY OF PORT LAVACA, TEXAS**GENERAL FUND****SCHEDULE OF REVENUES AND OTHER FINANCING SOURCES****FINAL BUDGET AND ACTUAL***For the year ended September 30, 2009**With comparative totals for the year ended September 30, 2008*

	2009			2008
	Final Budget	Actual	Variance Positive (Negative)	Actual
REVENUES				
Taxes				
Ad valorem	\$ 2,801,514	\$ 2,829,131	\$ 27,617	\$ 2,611,670
Sales	2,220,000	2,170,959	(49,041)	2,439,957
Franchise	586,000	613,509	27,509	623,987
Beverage	7,000	9,517	2,517	9,941
Total taxes	<u>5,614,514</u>	<u>5,623,116</u>	<u>8,602</u>	<u>5,685,555</u>
Fines and forfeitures				
Municipal court	265,000	308,079	43,079	251,163
Tax penalties and fees	111,000	128,209	17,209	137,809
Miscellaneous	-	49,493	49,493	-
Total fines and forfeitures	<u>376,000</u>	<u>485,781</u>	<u>109,781</u>	<u>388,972</u>
Intergovernmental				
County reimbursements	272,875	271,625	(1,250)	172,500
Grants and allocations	3,400	2,578	(822)	6,232
Total intergovernmental	<u>276,275</u>	<u>274,203</u>	<u>(2,072)</u>	<u>178,732</u>
Licenses and permits				
Licenses				
Building/electrical	7,500	9,300	1,800	8,210
Animal	1,500	2,430	930	2,690
Alcoholic beverage	4,500	5,158	658	2,465
Permits				
Building	27,000	30,717	3,717	40,577
Electrical	6,000	9,830	3,830	10,148
Plumbing	8,000	8,628	628	7,265
Mechanical	2,000	3,657	1,657	3,753
Miscellaneous	25,425	26,815	1,390	22,968
Total licenses and permits	<u>81,925</u>	<u>96,535</u>	<u>14,610</u>	<u>98,076</u>
Investment	<u>120,000</u>	<u>115,535</u>	<u>(4,465)</u>	<u>228,485</u>
Rental	<u>41,000</u>	<u>37,390</u>	<u>(3,610)</u>	<u>36,535</u>
Charges for services				
Swimming pool fees	1,000	-	(1,000)	-
Police service fees	3,500	3,663	163	4,515
Fire service fees	-	1,189	1,189	150
Other	-	480	480	6,415
Total charges for services	<u>4,500</u>	<u>5,332</u>	<u>832</u>	<u>11,080</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, 2009**With comparative totals for the year ended September 30, 2008*

	<u>2009</u>			<u>2008</u>
	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>	<u>Actual</u>
REVENUES - (Continued)				
Miscellaneous				
Reimbursements and refunds	\$ 35,000	\$ 76,344	\$ 41,344	\$ 38,247
Other	16,000	20,109	4,109	84,173
Total miscellaneous	<u>51,000</u>	<u>96,453</u>	<u>45,453</u>	<u>122,420</u>
 Total revenues	 <u>6,565,214</u>	 <u>6,734,345</u>	 <u>169,131</u>	 <u>6,749,855</u>
OTHER FINANCING SOURCES				
Transfers in	288,000	261,000	(27,000)	250,000
Proceeds from capital leases	-	-	-	257,054
Sale of capital assets	14,000	14,141	141	9,439
Total other financing sources	<u>302,000</u>	<u>275,141</u>	<u>(26,859)</u>	<u>516,493</u>
 Total revenues and other financing sources	 <u>\$ 6,867,214</u>	 <u>\$ 7,009,486</u>	 <u>\$ 142,272</u>	 <u>\$ 7,266,348</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, 2009

With comparative totals for the year ended September 30, 2008

	2009			2008
	Final Budget	Actual	Variance Positive (Negative)	Actual
EXPENDITURES				
Current				
General government				
City council				
Personnel services	\$ 27,177	\$ 23,286	\$ 3,891	\$ 20,719
Materials and supplies	750	1,455	(705)	1,298
Services	1,600	1,472	128	1,287
Total city council	29,527	26,213	3,314	23,304
City manager				
Personnel services	155,682	153,764	1,918	144,984
Materials and supplies	2,550	2,082	468	4,285
Services	5,450	4,558	892	5,776
Maintenance	1,000	1,077	(77)	604
Debt service	7,294	7,286	8	7,294
Total city manager	171,976	168,767	3,209	162,943
City secretary				
Personnel services	107,522	106,334	1,188	99,143
Materials and supplies	1,875	1,171	704	1,068
Services	3,100	822	2,278	1,229
Maintenance	500	-	500	897
Total city secretary	112,997	108,327	4,670	102,337
Human resources				
Materials and supplies	1,000	545	455	583
Services	4,000	2,799	1,201	2,967
Capital outlay	25,978	15,253	10,725	-
Total human resources	30,978	18,597	12,381	3,550
Elections				
Materials and supplies	400	-	400	264
Services	11,250	6,359	4,891	8,990
Total elections	11,650	6,359	5,291	9,254
Legal				
Services	105,400	114,773	(9,373)	61,961
Total legal	105,400	114,773	(9,373)	61,961
Municipal court				
Personnel services	47,309	52,519	(5,210)	43,582
Materials and supplies	1,550	786	764	1,322
Services	23,300	20,997	2,303	18,213
Sundry	-	18	(18)	4
Total municipal court	72,159	74,320	(2,161)	63,121

CITY OF PORT LAVACA, TEXAS**GENERAL FUND****SCHEDULE OF EXPENDITURES AND OTHER FINANCING USES****FINAL BUDGET AND ACTUAL***For the year ended September 30, 2009**With comparative totals for the year ended September 30, 2008*

	2009			2008
	Final Budget	Actual	Variance Positive (Negative)	Actual
EXPENDITURES - (Continued)				
Current - (Continued)				
General government - (Continued)				
Tax				
Services	\$ 79,815	\$ 88,332	\$ (8,517)	\$ 85,402
Total tax	<u>79,815</u>	<u>88,332</u>	<u>(8,517)</u>	<u>85,402</u>
Purchasing				
Personnel services	-	-	-	13,703
Materials and supplies	-	-	-	2,511
Services	-	-	-	2,321
Total purchasing	<u>-</u>	<u>-</u>	<u>-</u>	<u>18,535</u>
Finance				
Personnel services	166,852	164,640	2,212	157,453
Materials and supplies	4,800	4,563	237	9,048
Services	6,100	6,329	(229)	2,388
Maintenance	1,400	1,380	20	1,452
Total finance	<u>179,152</u>	<u>176,912</u>	<u>2,240</u>	<u>170,341</u>
City hall				
Personnel services	3,000	2,824	176	-
Materials and supplies	7,200	6,874	326	6,215
Services	59,250	63,037	(3,787)	59,133
Maintenance	23,500	12,025	11,475	56,360
Total city hall	<u>92,950</u>	<u>84,760</u>	<u>8,190</u>	<u>121,708</u>
Non-departmental				
Personnel services	535,000	555,484	(20,484)	379,469
Services	160,650	165,685	(5,035)	125,311
Maintenance	38,733	49,806	(11,073)	36,580
Sundry	153,180	19,215	133,965	33,877
Debt service	-	-	-	114,027
Total non-departmental	<u>887,563</u>	<u>790,190</u>	<u>97,373</u>	<u>689,264</u>
Total general government	<u>1,774,167</u>	<u>1,657,550</u>	<u>116,617</u>	<u>1,511,720</u>
Public safety				
Police				
Personnel services	1,251,626	1,249,326	2,300	1,233,476
Materials and supplies	66,225	60,390	5,835	91,790
Services	95,200	88,066	7,134	93,142
Maintenance	77,500	85,104	(7,604)	41,252
Sundry	31,901	30,526	1,375	1,961
Debt service	65,000	65,701	(701)	48,383
Capital outlay	-	-	-	106,488
Total police	<u>1,587,452</u>	<u>1,579,113</u>	<u>8,339</u>	<u>1,616,492</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, 2009

With comparative totals for the year ended September 30, 2008

	2009			2008
	Final Budget	Actual	Variance Positive (Negative)	Actual
EXPENDITURES - (Continued)				
Current - (Continued)				
Public safety - (Continued)				
Fire				
Personnel services	\$ 786,871	\$ 769,584	\$ 17,287	\$ 700,464
Materials and supplies	48,347	29,638	18,709	49,508
Services	41,700	41,763	(63)	37,235
Maintenance	25,890	23,840	2,050	29,306
Sundry	35,578	33,975	1,603	4,254
Debt service	-	-	-	30,778
Capital outlay	123,750	118,952	4,798	9,687
Total fire	1,062,136	1,017,752	44,384	861,232
Animal control				
Personnel services	55,221	50,827	4,394	44,885
Materials and supplies	14,295	8,564	5,731	9,761
Services	10,200	9,302	898	8,440
Maintenance	2,550	4,521	(1,971)	6,306
Capital outlay	25,500	25,674	(174)	-
Total animal control	107,766	98,888	8,878	69,392
Total public safety	2,757,354	2,695,753	61,601	2,547,116
Public works				
Public works				
Personnel services	111,151	110,512	639	76,484
Materials and supplies	7,400	5,857	1,543	6,281
Services	2,930	3,775	(845)	1,075
Maintenance	500	395	105	549
Total public works	121,981	120,539	1,442	84,389
Engineering				
Personnel services	-	-	-	616
Services	-	-	-	364
Total engineering	-	-	-	980
Code enforcement/inspections				
Personnel services	113,673	119,532	(5,859)	98,509
Materials and supplies	10,500	5,252	5,248	10,981
Services	13,850	8,669	5,181	15,737
Maintenance	3,610	2,228	1,382	2,773
Capital outlay	13,000	13,385	(385)	-
Total code enforcement/inspections	154,633	149,066	5,567	128,000

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

For the year ended September 30, 2009

With comparative totals for the year ended September 30, 2008

	2009			2008
	Final Budget	Actual	Variance Positive (Negative)	Actual
EXPENDITURES - (Continued)				
Current - (Continued)				
Public works - (Continued)				
Streets				
Personnel services	\$ 341,341	\$ 299,426	\$ 41,915	\$ 280,030
Materials and supplies	34,235	37,678	(3,443)	39,797
Services	183,550	187,325	(3,775)	189,120
Maintenance	416,200	416,730	(530)	352,634
Debt service	43,628	43,543	85	43,627
Capital outlay	164,958	164,958	-	183,269
Total streets	<u>1,183,912</u>	<u>1,149,660</u>	<u>34,252</u>	<u>1,088,477</u>
Total public works	<u>1,460,526</u>	<u>1,419,265</u>	<u>41,261</u>	<u>1,301,846</u>
Parks and recreation				
Parks				
Personnel services	151,733	147,411	4,322	159,912
Materials and supplies	17,225	17,027	198	20,890
Services	27,200	45,496	(18,296)	31,199
Maintenance	37,800	27,552	10,248	19,000
Debt service	-	-	-	18,900
Capital outlay	9,000	8,230	770	12,622
Total parks	<u>242,958</u>	<u>245,716</u>	<u>(2,758)</u>	<u>262,523</u>
Convention/visitors bureau				
Personnel services	48,699	53,026	(4,327)	66,782
Materials and supplies	5,050	6,596	(1,546)	5,009
Services	48,950	56,431	(7,481)	56,213
Maintenance	81,000	35,852	45,148	35,152
Total convention/visitors bureau	<u>183,699</u>	<u>151,905</u>	<u>31,794</u>	<u>163,156</u>
Swimming pool				
Materials and supplies	12,250	11,298	952	8,124
Services	11,800	16,159	(4,359)	8,018
Maintenance	20,000	15,255	4,745	5,460
Sundry	-	11	(11)	-
Total swimming pool	<u>44,050</u>	<u>42,723</u>	<u>1,327</u>	<u>21,602</u>
Total parks and recreation	<u>470,707</u>	<u>440,344</u>	<u>30,363</u>	<u>447,281</u>
Total current	<u>6,462,754</u>	<u>6,212,912</u>	<u>249,842</u>	<u>5,807,963</u>
Capital outlay	<u>-</u>	<u>-</u>	<u>-</u>	<u>10,000</u>
Total expenditures	<u>6,462,754</u>	<u>6,212,912</u>	<u>249,842</u>	<u>5,817,963</u>
OTHER FINANCING USES				
Transfers out	<u>637,293</u>	<u>683,558</u>	<u>(46,265)</u>	<u>639,053</u>
Total expenditures and other financing uses	<u>\$ 7,100,047</u>	<u>\$ 6,896,470</u>	<u>\$ 203,577</u>	<u>\$ 6,457,016</u>

**OVERALL COMPLIANCE AND INTERNAL
CONTROL 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, 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, 2009, which collectively comprise the City's basic financial statements and have issued our report thereon dated April 9, 2010. 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 (GAAP) in the United States of America 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. We consider the following deficiency to be a significant deficiency in internal control over financial reporting.

In a prior fiscal year, the City applied for and was awarded a grant through the Texas Parks and Wildlife Department (the "TPWD") for the construction of a boat ramp. As with most grants, the intended grant was a reimbursement grant whereby the City would expend the funds and subsequently request reimbursement from the granting agency. However, unlike most grants, this grant would not be executed until engineering, design, and permitting costs were incurred by the City. The City's initial understanding was that the reimbursement from the TPWD would be 75% of the total project expenditures with a maximum reimbursement of \$500,000. Due to the lack of administrative oversight, the contract with TPWD was never formalized and a formal grant contract was never signed. However, the City's management assumed that the grant contract was approved and preceded with the project. Payments for project costs were made in good faith based on engineering and construction contracts that were in place. As a result of there not being a formal grant contract in place, the actual amount of reimbursement is not yet determined. It remains unclear how this occurred since the City has applied and received numerous grants of this nature in the past and has not had any difficulties in complying with the various administrative aspects.

The Honorable Mayor and Members
of the City Council

Management has reviewed the finding described above and concurs with it. Their response to the finding is that they will address the matter in future grants and insure that all administrative issues, including obtaining a signed contract with the granting agency, be completed before incurring any costs on the project.

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 and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we consider the above noted significant deficiency to be a material weakness.

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 of noncompliance that are required to be reported under *Government Auditing Standards*.

The City's response to the material weakness identified in our audit has not been subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

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



April 9, 2010