

CITY OF PORT LAVACA, TEXAS
COMPREHENSIVE ANNUAL FINANCIAL REPORT
For the fiscal year ended September 30, 2010

Scotty Jones
Director of Finance

Bob Turner
City Manager

Issued By:
Finance Department

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INTRODUCTORY SECTION



CITY OF PORT LAVACA

202 N. Virginia, Port Lavaca, Texas 77979-0105, www.portlavaca.org
Main Number: 361-552-9793 Main Facsimile: 361-552-6062

City Council/Mayor
Ext. 221

City Manager
Ext. 222 April 6, 2011

City Secretary
Ext. 224 Honorable Mayor and City Council
City of Port Lavaca
Port Lavaca, Texas

Code Enforcement
Ext. 229

Finance
Ext. 234

Inspections/Permits
Ext. 229

Municipal Court
Ext. 226

Personnel
Ext. 224

Utility Billing
Ext. 236

Animal Control
361-552-3788

Bauer Center
361-552-1234

Fire Station
361-552-3241

Parks & Recreation
Ext. 223

Police
361-552-3788

Purchasing
361-552-1529

Streets
361-552-3347

Utilities Operation
361-552-9256

Harbor Master
361-552-2615

The Comprehensive Annual Financial Report of the City of Port Lavaca, Texas, hereinafter referred to as the "City", for the fiscal year ended September 30, 2010, is hereby submitted. It is published to provide to the City Council, to representatives of financial institutions, and to our citizens and other interested persons, detailed information concerning the financial condition of the City government. Responsibility for both the accuracy of the presented data and the completeness and fairness of the presentation, including all disclosures, rests with the City. We believe the enclosed data to be accurate in all material respects and reported in a manner designed to present fairly the financial position and results of operations of the various funds and account groups of the City. All disclosures necessary to enable the reader to gain the maximum understanding of the City's financial activities have been included.

Generally accepted accounting principles (GAAP) requires that management provide a narrative introduction, overview, and analysis to accompany the basic financial statements in the form of management's discussion and analysis (MD&A). This letter of transmittal is designed to complement and should be read in conjunction with the MD&A. The City's MD&A can be found immediately following the independent auditor's report.

CITY PROFILE

The City has a home-rule Council-Manager form of government. The elected body is made up of a Mayor, who is elected at large, and six Council Members elected by district. The Mayor is elected for a two year term while Council Members are all elected for staggered three-year terms. The City Manager is appointed by the City Council and is responsible for implementation of City Council policy and all day-to-day operations of the City.

The City Council appoints many residents, who have volunteered their expertise, experience, and time to serve on various boards and commissions. These standing boards and commissions serve the City in an advisory capacity.

A full range of municipal services is provided by the City including public safety (police, fire protection, and animal control); water and wastewater services; public improvements; repair and maintenance of infrastructure; planning; and general administrative services. This report includes all funds of the City government.

The City supplies water for its citizens by purchasing treated water from the Guadalupe-Blanco River Authority (GBRA) under a long-term contract ending in the year 2016. Collection and disposal of solid waste has been privatized through a recently awarded contract through Allied Waste, Inc.

ECONOMIC CONDITION AND OUTLOOK

The City of Port Lavaca is currently home to about 12,200 residents and is located within Calhoun County, Texas. The City is the central hub between Houston, Corpus Christi and San Antonio. As the county seat of Calhoun County, the City's economic base is a combination of manufacturing, oil and gas, agribusiness, seafood production, construction, transportation, and the visitor leisure industry. Several major facilities are located in the City of Port Lavaca, including operations to transport liquid fertilizer. Calhoun County, a natural seaport on Matagorda Bay, serves as an attraction for commerce, industry and recreation. The Calhoun County area is a major industrial hub on the Texas Gulf Coast; serving as a well developed regional network of interconnecting transportation systems. Industrial sites are served by the Gulf Intracoastal Waterway and branch channels including the Victoria Barge Canal. Calhoun County is located in the middle of the world's largest concentration of petrochemical plants - an area which stretches along the Texas Coast from Corpus Christi to Port Arthur. Access to feedstock's and raw materials is excellent with well developed industrial support infrastructure. The strong County industry has helped Port Lavaca maintain a stable revenue growth especially during this time of economic uncertainty.

Sales tax revenues increased from \$2,170,959 in 2009 to \$2,295,492 in 2010 (6% increase); as many other Texas cities are still declining. Knowing that sales tax revenues continue to be volatile with trends over prior year being inconsistent, the City continues to budget sales tax conservatively until further signs of economic recovery are indicated. Property values for the City increased by 4.5% with 1.1% being new property.

The diversity in the tax base can be seen in the fact that the top ten taxpayers account for only 2.7% of the total assessed value.

The City's financial condition is very strong with fund balance reserves at levels that allow for capital projects to be addressed without borrowing money. The City recently funded a two million dollar street project with excess reserves rather than the issuance of debt. The City Council has continued the policy that reserve levels should be maintained at a minimum of 4 months of operating expenditures in the General Fund as to provide for operating liquidity and contingency funding for non-specific, unscheduled expenditures such as natural disasters or major unexpected expenditures. In addition to this reserve, the City designates an additional portion of the General Fund Reserve to provide contingency funding for the employee health care expenses not covered by the catastrophic stop loss policy held by the City. The City maintains a minimum of a 90 day working capital position along with a budget that is built to cover depreciation expense in each of the City's enterprise funds. This budgeting practice aids in the building of reserves to fund capital projects while reducing debt.

MAJOR INITIATIVES

In the 2009-2010 fiscal year, the City's major goal was to complete the two million dollar Lynnhaven Street Project and to continue replacing aging infrastructure. The City completed waterline replacement in the Bonorden Subdivision and started another waterline replacement along Center Street. The City completed another 100 ft of the Pier Rebuild Project and completed a hike and bike trail at the Lighthouse Beach Park through grants and local funds. The City will continue expansion of this pier and other park improvements.

Over the next five years, the City will invest in drainage, streets, parks, and wastewater projects throughout its capital improvements program. Listed below are goals and short and long term objectives:

Replace/Maintain Infrastructure

- Street improvement projects- build reserve to fund a major project every 2-3 years
- Continue with seal coat program

MAJOR INITIATIVES - (Continued)

- Lift station upgrades- (Continued)

Replace/Maintain Infrastructure

- Replacement of water/sewer lines through grants and local dollars

Enhance City Parks

- Improve Wilson Park and Bay Front Park for enhanced recreational activities
- Add additional RV hookups at Light House Beach
- Continue to extend Lighthouse Beach Pier through local grants
- Demolish abandoned pier at Light House Beach Park

Environment Improvement

- Continue to budget for demolition of abandoned/dilapidated structures and weed lot compliance
- Beautify parks
- Improve the housing stock through various incentive programs
- Enforce building codes

FINANCIAL INFORMATION

The financial statements have been prepared in accordance with GAAP as prescribed by the Governmental Accounting Standards Board.

Internal accounting controls are established by management to provide reasonable, but not absolute, assurance regarding the safeguarding of assets against loss from unauthorized use or disposition. As well, they are designed to provide reasonable assurance as to the reliability of financial records for preparing financial statements and are employed to help maintain accountability for assets. The concept of reasonable assurance recognizes that the cost of controls should not exceed the benefits expected to be derived and the valuation of costs and benefits requires estimates and judgments by management.

In addition, the City maintains budgetary controls. The objective of these budgetary controls is to ensure compliance with legal provisions embodied in the annual appropriated budget approved by City Council. Activities of the General Fund, Debt Service Fund, Public Utility Fund, Beach Operating Fund, Port Commission Fund, and Hotel/Motel Fund are included in the annual budgets. The only funds with appropriated budgets are the General Fund and the Debt Service Fund.

CASH MANAGEMENT

The City currently has a depository contract with First National Bank. This contract is in effect through January 31, 2013. Under this agreement the City is not charged for bank services and deposits earn interest based on the 91 day U.S. Treasury Bill Discount Rate Plus One (01) Basis Point (BP) on all deposit accounts at the rate on the first day of the month. The City also invests reserve balances in local government investment pools and various other investments approved in the investment policy, which is in compliance with the Texas Public Funds Investment Act.

Honorable Mayor and City Council
City of Port Lavaca
Port Lavaca, Texas

RISK MANAGEMENT

The City has risk exposure in various areas including general liability, worker's compensation, automobile liability, and property damage. To reduce its risk exposure in these areas, the City purchases commercial insurance policies from the Texas Municipal League Intergovernmental Risk Pool. The City participates in Texas Municipal League safety training and has routine safety meetings in designated departments.

The City has initiated a safety program which is recognized as a significant part of our risk management program. The safety program consists of (a) a safety manual, (b) a safety incentive program, and (c) a safety committee. The related policies carry various deductibles and aggregate maximum loss totals. This manual is currently being reviewed and will be updated as appropriate.

The City offers a managed care health plan for employees and their dependents. The City self-insures up to \$45,000 and our stop-loss coverage initiates for claims beyond \$45,000 per person. The Texas Municipal League administers the City's health insurance plan.

INDEPENDENT AUDIT

This report is prepared in compliance with the legal requirements set forth by Article 3.10 of the Charter of the City of Port Lavaca, Texas, as amended. In addition to fulfilling this legal requirement, this report serves to fully disclose financial data on an annual basis to management, the elected City Council and Mayor, the public, investors, and other interested persons. The firm of Harrison, Waldrop & Uherek, L.L.P., Certified Public Accountants, was engaged by the City to satisfy this requirement.

CERTIFICATE OF ACHIEVEMENT FOR EXCELLENCE IN FINANCIAL REPORTING

This is the first year the City has submitted to the Government Finance Officers Association of the United States and Canada (GFOA) for consideration of the Certificate of Achievement for Excellence in Financial Reporting since 1999. The City hopes to achieve this highest form of recognition for excellence in state and local government financial reporting.

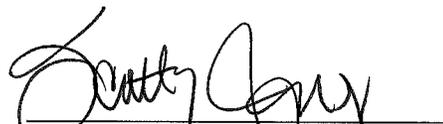
A Certificate of Achievement is valid for a period of one year only. The City believes this comprehensive annual financial report will meet the Certificate of Achievement Program's requirements, and is submitting it to the GFOA to determine its eligibility.

ACKNOWLEDGMENTS

The preparation of this report is a joint effort of the City's Finance Department and the City's independent auditor, Harrison, Waldrop, & Uherek, L.L.P. We would also like to thank the Mayor and Members of City Council for their interest and support in planning and conducting the financial operations of the City in a progressive and responsible manner.

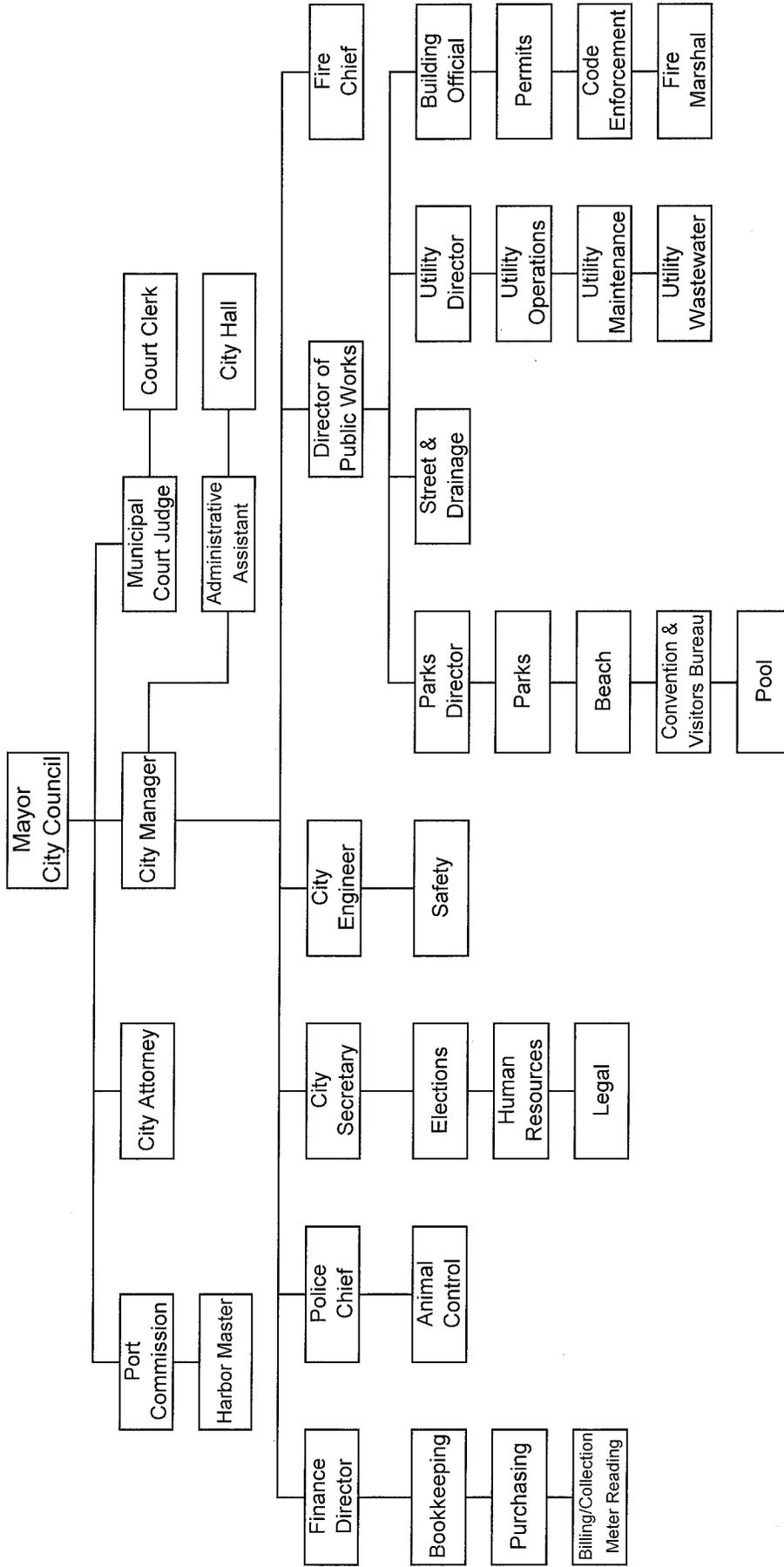
Respectfully,


Bob Turner, City Manager


Scotty Jones, Director of Finance

CITY OF PORT LAVACA, TEXAS

Organizational Chart



CITY OF PORT LAVACA, TEXAS
DIRECTORY OF PRINCIPAL OFFICIALS
September 30, 2010

City Officials

Jack Whitlow
Raymond Perez
Floyd Felder
Lee Rivera
Gregory Falcon
Jim Ward
Ken Barr

Elective Position

Mayor
Mayor Pro-Tem
Council Member
Council Member
Council Member
Council Member
Council Member

Key Staff

Bob Turner
Ty Zeller
Scotty Jones
Mandy Grant

Appointive Position

City Manager
City Attorney
Director of Finance
City Secretary

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. CIHAL, CPA
ERIC L. KUCERA, CPA
CLAYTON P. VAN PELT, CPA
ROBERT W. SCHAAR, CPA
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INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of City of Port Lavaca, Texas (the "City"), as of and for the year ended September 30, 2010, 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our 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, 2010, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 29, 2011, 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 read in conjunction with this report in considering the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 3 through 11 and 47 through 48 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context.

The Honorable Mayor
and Members of the City Council

We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's financial statements as a whole. The introductory section, combining and individual major and nonmajor fund financial statements and schedules, and statistical section are presented for purposes of additional analysis and are not a required part of the financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the financial statements. The combining and individual major and nonmajor fund financial statements and schedules are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole. The introductory and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.


March 29, 2011

CITY OF PORT LAVACA, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the year ended September 30, 2010

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, 2010.

FINANCIAL HIGHLIGHTS

Government-wide

- The assets of the City exceeded its liabilities at the close of the most recent fiscal year by \$42,329,811 (net assets). Of this amount, \$11,573,564 (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 \$2,083,503 over the prior year.

Governmental Activities

- Net assets grew from \$23,035,411 in 2009 to \$23,900,438 (an increase of 3.76%) as of September 30, 2010.

Business-type Activities

- Net assets grew from \$17,210,897 in 2009 to \$18,429,373 (an increase of 7.08%) as of September 30, 2010.

Governmental Funds

- As of September 30, 2010, the City's governmental funds reported an ending fund balance of \$5,198,916, a decrease of \$1,593,033 (23.45%) in comparison with the prior year.
- At the end of the fiscal year, unreserved, undesignated fund balance for the General Fund was \$1,750,753 or 28.27% of total General Fund expenditures.
- The designated portion of the General Fund's fund balance totaled \$2,813,977. 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 3 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 government.

Pages 15 to 24

Notes to Financial Statements

Provides a summary of significant accounting policies and related disclosures.

Pages 25 - 46

OVERVIEW OF THE FINANCIAL STATEMENTS - (Continued)

Government-wide Financial Statements

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

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

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

The government-wide financial statements present functions and programs of the City that are provided for various funding sources. The government-wide financial statements can be found on pages 12-14 of this report.

Fund Financial Statements

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

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

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

Proprietary funds are used to account for operations (a) that are financed and operated in a manner similar to private business enterprises - where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges, or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes. Proprietary fund financial statements can be found on pages 19-22 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 23-24 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 25-46 of this report.

Other Information

The combining and individual fund statements and schedules provide additional information pertaining to the City's nonmajor governmental funds and the General Fund's budgetary performance. This other information can be found on pages 49-69 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 \$42,329,811 as of September 30, 2010.

The largest portion of the City's net assets (70.68%) 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 (27.34%) represents unrestricted financial resources available for future operations. Additionally, a portion of the City's net assets (1.98%) represents resources that are subject to restrictions on how they may be used.

At the end of the current fiscal year, the City is able to report positive balances in all three categories of net assets for the primary government as a whole.

City of Port Lavaca, Texas

Net Assets

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total</u>	
	<u>2010</u>	<u>2009</u>	<u>2010</u>	<u>2009</u>	<u>2010</u>	<u>2009</u>
Current and other assets	\$ 6,598,785	\$ 8,014,681	\$ 7,563,523	\$ 6,641,399	\$ 14,162,308	\$ 14,656,080
Capital assets, net	22,159,487	19,834,735	20,388,931	20,657,753	42,548,418	40,492,488
Total assets	<u>28,758,272</u>	<u>27,849,416</u>	<u>27,952,454</u>	<u>27,299,152</u>	<u>56,710,726</u>	<u>55,148,568</u>
Current and other liabilities	1,296,259	971,082	1,157,902	1,224,584	2,454,161	2,195,666
Noncurrent liabilities	3,561,575	3,842,923	8,365,179	8,863,671	11,926,754	12,706,594
Total liabilities	<u>4,857,834</u>	<u>4,814,005</u>	<u>9,523,081</u>	<u>10,088,255</u>	<u>14,380,915</u>	<u>14,902,260</u>
Net Assets:						
Invested in capital assets, net of debt	18,383,147	15,787,249	11,536,833	11,334,652	29,919,980	27,121,901
Restricted	784,798	876,554	51,469	233,544	836,267	1,110,098
Unrestricted	4,732,493	6,371,608	6,841,071	5,642,701	11,573,564	12,014,309
Total net assets	<u>\$ 23,900,438</u>	<u>\$ 23,035,411</u>	<u>\$ 18,429,373</u>	<u>\$ 17,210,897</u>	<u>\$ 42,329,811</u>	<u>\$ 40,246,308</u>

GOVERNMENT-WIDE FINANCIAL ANALYSIS - (Continued)

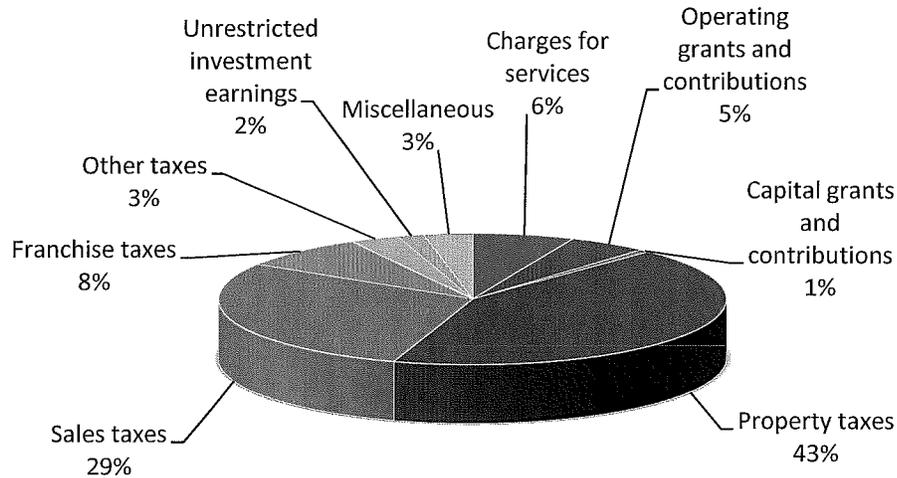
Net assets of the City increased by \$2,083,503. Key elements of the increase are due primarily because of increased revenues in governmental activities such as charges for services and taxes along with business-type activities for capital grants and contributions.

City of Port Lavaca, Texas						
Changes in Net Assets						
	Governmental Activities		Business-type Activities		Total	
	2010	2009	2010	2009	2010	2009
REVENUES						
Program revenues:						
Charges for services	\$ 804,307	\$ 484,632	\$ 5,893,741	\$ 5,966,101	\$ 6,698,048	\$ 6,450,733
Operating grants and contributions	322,510	378,324	2,000	2,000	324,510	380,324
Capital grants and contributions	125,279	51,589	374,396	236,338	499,675	287,927
General revenues:						
Property taxes	3,414,317	3,214,039	-	-	3,414,317	3,214,039
Sales taxes	2,295,492	2,170,959	-	-	2,295,492	2,170,959
Franchise taxes	620,247	613,509	-	-	620,247	613,509
Other taxes	271,287	235,571	-	-	271,287	235,571
Unrestricted investment earnings	54,319	123,127	28,286	75,060	82,605	198,187
Miscellaneous	277,928	235,375	-	18,000	277,928	253,375
Total revenues	8,185,686	7,507,125	6,298,423	6,297,499	14,484,109	13,804,624
EXPENSES						
General government	1,886,794	1,847,859	-	-	1,886,794	1,847,859
Public safety	3,191,293	2,603,997	-	-	3,191,293	2,603,997
Public works	1,406,502	1,615,002	-	-	1,406,502	1,615,002
Parks and recreation	686,747	547,013	-	-	686,747	547,013
Interest on long-term debt	147,266	154,696	-	-	147,266	154,696
Public utilities	-	-	4,283,432	4,288,109	4,283,432	4,288,109
Port commission	-	-	395,332	379,371	395,332	379,371
Beach operations	-	-	218,240	162,064	218,240	162,064
Total expenses	7,318,602	6,768,567	4,897,004	4,829,544	12,215,606	11,598,111
Change in net assets before special item and transfers	867,084	738,558	1,401,419	1,467,955	2,268,503	2,206,513
Special item -						
Litigation settlement	(185,000)	-	-	-	(185,000)	-
Transfers	182,943	275,000	(182,943)	(275,000)	-	-
Change in net assets	865,027	1,013,558	1,218,476	1,192,955	2,083,503	2,206,513
Net assets at beginning of year, as restated	23,035,411	22,021,853	17,210,897	16,017,942	40,246,308	38,039,795
Net assets at end of year	\$ 23,900,438	\$ 23,035,411	\$ 18,429,373	\$ 17,210,897	\$ 42,329,811	\$ 40,246,308

GOVERNMENT-WIDE FINANCIAL ANALYSIS - (Continued)

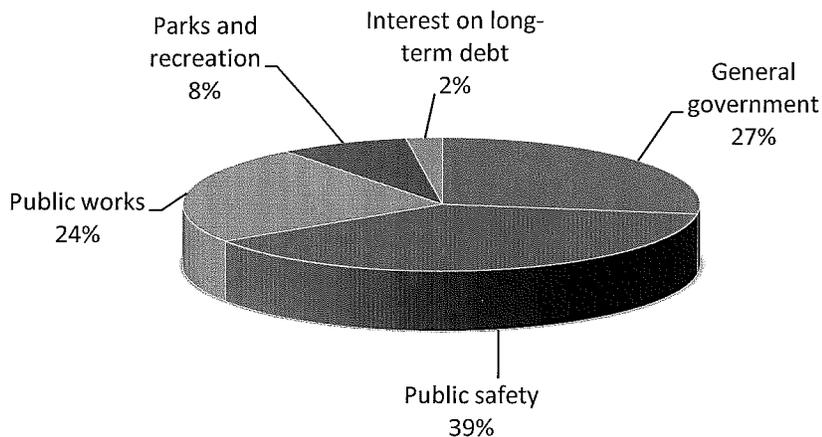
Graphic presentations of selected data from the summary tables follow to assist in the analysis of the City's activities.

Governmental Activities Revenues



For the fiscal year ended September 30, 2010, revenues from governmental activities totaled \$8.2 million. Charges for services increased \$319,675 or 65.96% from fiscal year 2009 as a result of the Redflex traffic system. Property tax revenues also increased approximately \$200,000 due to the increase in property valuations for the 2009 tax year.

Governmental Activities Expenses



For the fiscal year ended September 30, 2010, expenses for governmental activities totaled \$7.3 million. This is an increase of \$550,035 or 8.13% from fiscal year 2009. Expenses related to the functional category, public safety, increased \$587,296. This is due to the operating lease payments made on the red light camera system in fiscal year 2010 in the amount of \$292,200 and various other public safety expense increases including personnel and capital outlay.

GOVERNMENT-WIDE FINANCIAL ANALYSIS - (Continued)

Business-type activities increased the City's net assets by \$1,218,476. The key elements of this increase relate to the Public Utility Fund. The Public Utility Fund had an operating income for fiscal year 2010 of \$1,219,751.

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, 2010, the City's governmental funds, which consist of a general fund, two debt service funds, three capital projects funds, and eleven special revenue funds, reported an ending fund balance of \$5,198,916, which is a decrease of \$1,593,033 from last year's total of \$6,791,949.

The General Fund is the chief operating fund of the City. Its fund balance decreased by \$1,765,224 during the fiscal year due mainly to the transfer to the Street Construction Fund, a major capital projects fund, in the amount of \$2,486,000. The transfer was to pay for construction costs related to the Lynnhaven Street project. 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 28.27% of total General Fund expenditures as compared to 40.77% in the prior year.

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 \$4,979,458. The increase in total net assets for the year was \$1,029,169. Net assets of the Port Commission and Beach Operating Funds increased during the 2010 fiscal year. Increases in these funds were \$51,479 and \$137,828 respectively.

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

GENERAL FUND BUDGETARY HIGHLIGHTS

Total revenues earned were \$379,222 greater than budgeted expectations, with tax revenues making up \$249,547 or 66% of the positive variance. These positive variances in tax revenues included ad valorem taxes (21%), sales taxes (36%), and the remaining 9% was contributed by franchise and beverage taxes.

Total actual expenditures were over budgeted expenditures by \$128,743. This primarily was due to the funding of a boat ramp project at the City's Bay Front Peninsula Park that was originally planned to be funded by a federal grant during the budgetary process. In addition, actual expenditures exceeded final amended budget appropriations in the public safety departments. Overtime for the City police and fire personnel increased as a result of shifts, short staffing levels, and special programs. The finance department costs were higher due to the payment of accrued vacation for the retirement of the City's senior accountant.

GENERAL FUND BUDGETARY HIGHLIGHTS - (Continued)

In addition, the City purchased furniture for an additional office in the finance department during fiscal year 2010 which was not included in the budget. Conservative budgetary practices resulted in positive budget variances as it relates to parks and recreation, public works (including streets), and the majority of general government departments.

Differences between the General Fund's original budget and final amended budget were a net decrease of \$357,027 to expenditures and an increase of \$2,486,000 to transfers to other funds. Included in the decrease to budgeted expenditures was a decrease of \$500,000 in the street department's infrastructure capital expenditures and \$165,000 in the street department's maintenance expenditures. Also, personnel costs in the police department were increased by \$55,000 to cover increased costs as explained in the previous paragraph. These monies instead were transferred during the fiscal year to the Street Construction Fund which is a major capital project fund.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

The City's investment in capital assets as of September 30, 2010, amounts to \$42,548,418 (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)						
	<u>Governmental</u>		<u>Business-type</u>		<u>Total</u>	
	<u>2010</u>	<u>2009</u>	<u>2010</u>	<u>2009</u>	<u>2010</u>	<u>2009</u>
Non-Depreciable Assets						
Land	\$ 1,013,552	\$ 934,397	\$ 1,501,012	\$ 1,501,012	\$ 2,514,564	\$ 2,435,409
Construction in progress	3,463,279	656,056	210,344	587,326	3,673,623	1,243,382
Other Capital Assets						
Machinery and equipment	2,713,222	2,602,666	762,825	737,998	3,476,047	3,340,664
Buildings and structures	4,950,846	4,932,546	4,413,599	4,323,856	9,364,445	9,256,402
Infrastructure	25,849,740	25,849,740	34,723,751	33,982,726	60,573,491	59,832,466
Accumulated depreciation on other capital assets	<u>(15,831,152)</u>	<u>(15,140,670)</u>	<u>(21,222,600)</u>	<u>(20,475,165)</u>	<u>(37,053,752)</u>	<u>(35,615,835)</u>
Total	<u>\$ 22,159,487</u>	<u>\$ 19,834,735</u>	<u>\$ 20,388,931</u>	<u>\$ 20,657,753</u>	<u>\$ 42,548,418</u>	<u>\$ 40,492,488</u>

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.

CAPITAL ASSET AND DEBT ADMINISTRATION - (Continued)

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 \$12.8 million. The following table details the nature of this debt and other debt obligations of the City.

City of Port Lavaca, Texas

Long-term Debt

	Governmental Activities		Business-type Activities		Total	
	2010	2009	2010	2009	2010	2009
Revenue bonds	\$ -	\$ -	\$ 5,025,000	\$ 5,315,000	\$ 5,025,000	\$ 5,315,000
Certificates of obligation	3,515,000	3,715,000	3,800,000	3,940,000	7,315,000	7,655,000
Capital leases	261,340	332,486	193,957	237,874	455,297	570,360
Compensated absences	104,362	99,458	19,900	21,955	124,262	121,413
Safety pay	24,797	22,771	5,173	7,136	29,970	29,907
Total	\$ 3,905,499	\$ 4,169,715	\$ 9,044,030	\$ 9,521,965	\$ 12,949,529	\$ 13,691,680

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

General Fund

Sales tax revenues increased from \$2,170,959 in 2009 to \$2,295,492 in 2010 (6%); however, sales tax revenues continue to be volatile with trends over prior year being inconsistent. Budgeting sales tax will remain very conservative until further signs of economic recovery are indicated.

The City has two housing projects both of which are adding homes in the City. Property taxes on new values have been abated for five years. The current tax on the appraised value remains set, however, all new value to ad valorem is abated for a five-year period. In addition, a tax rebate is being provided for a fifteen-year period which will allow a developer to recoup infrastructure costs when a home is sold. The developer will receive 25% from the ad valorem taxes that were collected on the increase in value of the lot sold.

This year, the City completed a \$2 million street project in the Lynnhaven subdivision by using reserves rather than increasing debt. Over the next few years, the City plans to increase capital expenditures in the parks and recreation budget to focus on Bay Front Peninsula Park and Wilson Field. This is all part of the budget plan to emphasize the City's desire to improve the quality of life for its current and future residents.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES - (Continued)

Public Utility Fund

The City has not adjusted water and sewer rates since October 2008. The increase in 2008 was to ensure debt service coverage related to utility infrastructure repairs and replacements. The City does not foresee any rate increases for the 2012 fiscal year. Weather continues to be a factor for the Public Utility Fund. Forecasts of dry conditions will increase the demand for water this year, but it is too early to project year-end revenues. Current water and sewer sales are on target with the budget.

Future plans include continuation of infrastructure replacement. The City has replaced many antiquated water lines throughout the City by means of grants and Texas Water Development Board loans. Plans are to replace water lines and valves to increase water pressure, provide cleaner water, decrease the water loss percentage, and reduce outages due to very old infrastructure. The City has applied for another Texas Community Development Program (TCDP) block grant of \$250,000 with a City match of \$50,000 to continue sewer line replacement in low income areas. The City has previously completed two TCDP grants for water line replacement in the Bonorden Subdivision and the Center Street area.

Beach Operating Fund

The City is proceeding with the ongoing project of the fishing pier expansion through federal funding from the General Land Office and local match contributions. In addition, the Trails Grant has been completed providing citizens with improved hike and bike trails.

Port Commission Fund

Helena Chemicals has increased the size of its operation at the Harbor of Refuge location and is currently using rail transportation at this location. The City issued bonds in 2008 to construct 900 feet of public dock bulkhead. The City (Port Commission) is working with Equalizer Inc. (a fertilizer company) to expand their operations. Equalizer will use the bulkhead and trucks to move their product.

The City is replacing the A-Dock at Nautical Landing through federal, state, and local funds. Future improvements include a breakwater at the entrance of Nautical Landing Marina, rebuilding the retaining wall next to existing docks, and improvements to the Marina's day room facilities.

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, 2010

	Governmental Activities	Business-type Activities	Total
ASSETS			
Current assets			
Cash and cash equivalents	\$ 3,600,758	\$ 4,199,978	\$ 7,800,736
Investments	2,296,205	1,298,820	3,595,025
Receivables (net)	781,840	750,541	1,532,381
Due from other governments	582,924	202,369	785,293
Internal balances	(759,262)	759,262	-
Deferred expenditures/expenses	50,017	20,772	70,789
Inventory	-	42,645	42,645
Total current assets	<u>6,552,482</u>	<u>7,274,387</u>	<u>13,826,869</u>
Noncurrent assets			
Capital assets			
Land and other assets not being depreciated	4,476,831	1,711,356	6,188,187
Assets being depreciated (net)	17,682,656	18,677,575	36,360,231
Bond issue costs (net)	46,303	289,136	335,439
Total noncurrent assets	<u>22,205,790</u>	<u>20,678,067</u>	<u>42,883,857</u>
Total assets	<u>28,758,272</u>	<u>27,952,454</u>	<u>56,710,726</u>
LIABILITIES			
Current liabilities			
Accounts payable	440,687	347,745	788,432
Payroll related liabilities	123,227	23,900	147,127
Accrued interest payable	28,096	44,294	72,390
Other payables	29,414	2,945	32,359
Due to other governments	77,451	2,523	79,974
Accrued compensated absences	39,769	6,144	45,913
Accrued safety pay	24,797	5,173	29,970
Claims payable	185,000	-	185,000
Unearned revenue	60,000	21,363	81,363
Customer deposits	8,460	203,140	211,600
Current portion of noncurrent liabilities			
Capital leases	74,358	45,675	120,033
Bonds and certificates	205,000	455,000	660,000
Total current liabilities	<u>1,296,259</u>	<u>1,157,902</u>	<u>2,454,161</u>
Noncurrent liabilities			
Accrued compensated absences	64,593	13,756	78,349
Capital leases	186,982	148,282	335,264
Bonds and certificates (net of unamortized deferred amounts)	3,310,000	8,203,141	11,513,141
Total noncurrent liabilities	<u>3,561,575</u>	<u>8,365,179</u>	<u>11,926,754</u>
Total liabilities	<u>4,857,834</u>	<u>9,523,081</u>	<u>14,380,915</u>
NET ASSETS			
Invested in capital assets, net of related debt	18,383,147	11,536,833	29,919,980
Restricted for:			
Debt service	185,684	-	185,684
Facilities maintenance	55,871	15	55,886
Capital projects	-	51,454	51,454
Other purposes	543,243	-	543,243
Unrestricted	4,732,493	6,841,071	11,573,564
Total net assets	<u>\$ 23,900,438</u>	<u>\$ 18,429,373</u>	<u>\$ 42,329,811</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, 2010

Function/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Governmental activities				
General government	\$ 1,886,794	\$ 424,409	\$ -	\$ -
Public safety	3,191,293	357,031	318,010	-
Public works	1,406,502	-	4,500	125,279
Parks and recreation	686,747	22,867	-	-
Interest on long-term debt	147,266	-	-	-
Total governmental activities	<u>7,318,602</u>	<u>804,307</u>	<u>322,510</u>	<u>125,279</u>
Business-type activities				
Public utilities	4,283,432	5,178,425	-	290,716
Port commission	395,332	439,793	2,000	-
Beach operations	218,240	275,523	-	83,680
Total business-type activities	<u>4,897,004</u>	<u>5,893,741</u>	<u>2,000</u>	<u>374,396</u>
Total government	<u>\$ 12,215,606</u>	<u>\$ 6,698,048</u>	<u>\$ 324,510</u>	<u>\$ 499,675</u>

General revenues:

Taxes:

 Property taxes, levied for general purposes

 Property taxes, levied for debt service

 Sales taxes

 Franchise taxes

 Other taxes

 Unrestricted investment earnings

 Miscellaneous

Transfers

Special item - litigation settlement

Total general revenues, transfers, and special item

Change in net assets

Net assets - beginning, as restated

Net assets - ending

The accompanying notes are an integral part of this statement.

Net (Expense) Revenue and
Changes in Net Assets

Governmental Activities	Business- type Activities	Total
\$ (1,462,385)	\$ -	\$ (1,462,385)
(2,516,252)	-	(2,516,252)
(1,276,723)	-	(1,276,723)
(663,880)	-	(663,880)
(147,266)	-	(147,266)
<u>(6,066,506)</u>	<u>-</u>	<u>(6,066,506)</u>
-	1,185,709	1,185,709
-	46,461	46,461
-	140,963	140,963
-	<u>1,373,133</u>	<u>1,373,133</u>
<u>(6,066,506)</u>	<u>1,373,133</u>	<u>(4,693,373)</u>
3,065,457	-	3,065,457
348,860	-	348,860
2,295,492	-	2,295,492
620,247	-	620,247
271,287	-	271,287
54,319	28,286	82,605
277,928	-	277,928
182,943	(182,943)	-
(185,000)	-	(185,000)
<u>6,931,533</u>	<u>(154,657)</u>	<u>6,776,876</u>
865,027	1,218,476	2,083,503
<u>23,035,411</u>	<u>17,210,897</u>	<u>40,246,308</u>
<u>\$ 23,900,438</u>	<u>\$ 18,429,373</u>	<u>\$ 42,329,811</u>

CITY OF PORT LAVACA, TEXAS

BALANCE SHEET

GOVERNMENTAL FUNDS

September 30, 2010

	<u>General</u>	<u>Street Construction</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
ASSETS				
Current assets				
Cash and cash equivalents	\$ 2,621,937	\$ -	\$ 978,821	\$ 3,600,758
Investments	2,296,205	-	-	2,296,205
Receivables (net)	667,878	-	113,962	781,840
Due from other governments	412,866	-	170,058	582,924
Deferred expenditures	50,017	-	-	50,017
Total assets	<u>\$ 6,048,903</u>	<u>\$ -</u>	<u>\$ 1,262,841</u>	<u>\$ 7,311,744</u>
LIABILITIES AND FUND BALANCES				
Liabilities				
Accounts payable	\$ 167,497	\$ 218,677	\$ 54,513	\$ 440,687
Payroll related payables	123,227	-	-	123,227
Other payables	29,414	-	-	29,414
Due to other governments	27,923	-	49,528	77,451
Due to other funds	446,001	62,367	250,894	759,262
Customer and other deposits	8,460	-	-	8,460
Deferred revenue	631,634	-	42,693	674,327
Total liabilities	<u>1,434,156</u>	<u>281,044</u>	<u>397,628</u>	<u>2,112,828</u>
Fund balances				
Reserved for:				
Deferred expenditures	50,017	-	-	50,017
Unreserved, designated for:				
Operating reserves	2,063,977	-	-	2,063,977
Health insurance claims	500,000	-	-	500,000
Capital asset replacement	250,000	-	-	250,000
Unreserved, undesignated reported in:				
General fund	1,750,753	-	-	1,750,753
Special revenue funds	-	-	704,036	704,036
Debt service funds	-	-	161,177	161,177
Capital projects funds	-	(281,044)	-	(281,044)
Total fund balances	<u>4,614,747</u>	<u>(281,044)</u>	<u>865,213</u>	<u>5,198,916</u>
Total liabilities and fund balances	<u>\$ 6,048,903</u>	<u>\$ -</u>	<u>\$ 1,262,841</u>	<u>\$ 7,311,744</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, 2010

Total governmental fund balances	\$ 5,198,916
<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.	510,243
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.	104,084
Capital assets used in governmental activities are reported as expenditures in governmental funds when purchased or constructed. The cost of these assets is \$37,990,639 and the accumulated depreciation is \$15,831,152.	22,159,487
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 \$14,530.	46,303
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	\$ (3,515,000)
Capital leases payable	(261,340)
Accrued interest payable	(28,096)
Compensated absences	(104,362)
Safety pay	(24,797)
Claims payable	(185,000)
	<u>(4,118,595)</u>
Net assets of governmental activities	\$ <u>23,900,438</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, 2010

	<u>General</u>	<u>Street Construction</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
REVENUES				
Taxes				
Ad valorem	\$ 3,072,269	\$ -	\$ 349,797	\$ 3,422,066
Sales	2,295,492	-	-	2,295,492
Other	629,575	-	261,959	891,534
Fines, fees, and forfeitures	407,479	-	362,050	769,529
Intergovernmental	248,499	-	199,290	447,789
Licenses and permits	97,740	-	-	97,740
Investment	52,302	243	1,774	54,319
Rental	22,737	-	-	22,737
Charges for services	5,956	-	-	5,956
Miscellaneous	133,191	-	2,000	135,191
Total revenues	<u>6,965,240</u>	<u>243</u>	<u>1,176,870</u>	<u>8,142,353</u>
EXPENDITURES				
Current				
General government	1,663,263	-	196,631	1,859,894
Public safety	2,864,220	-	349,046	3,213,266
Public works	1,005,511	-	10,600	1,016,111
Parks and recreation	579,783	-	-	579,783
Capital outlay	79,155	2,681,944	161,670	2,922,769
Debt service				
Principal retirement	-	-	200,000	200,000
Interest and fiscal charges	-	-	148,599	148,599
Total expenditures	<u>6,191,932</u>	<u>2,681,944</u>	<u>1,066,546</u>	<u>9,940,422</u>
Excess (deficiency) of revenues over expenditures	773,308	(2,681,701)	110,324	(1,798,069)
OTHER FINANCING SOURCES (USES)				
Transfers in	364,133	2,486,000	421,701	3,271,834
Transfers out	(2,907,701)	-	(164,133)	(3,071,834)
Sale of capital assets	5,036	-	-	5,036
Total other financing sources (uses)	<u>(2,538,532)</u>	<u>2,486,000</u>	<u>257,568</u>	<u>205,036</u>
Net change in fund balances	(1,765,224)	(195,701)	367,892	(1,593,033)
Fund balances at beginning of year, as restated	<u>6,379,971</u>	<u>(85,343)</u>	<u>497,321</u>	<u>6,791,949</u>
Fund balances at end of year	<u>\$ 4,614,747</u>	<u>\$ (281,044)</u>	<u>\$ 865,213</u>	<u>\$ 5,198,916</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, 2010

Total net change in fund balances - governmental funds		\$ (1,593,033)
<i>Amounts reported for governmental activities in the statement of activities are different because:</i>		
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 2009/2010 capital outlays is to increase net assets.		3,103,674
The net effect of various miscellaneous transactions involving capital assets (i.e., sales, trade-ins, and donations) is to decrease net assets.		(31,517)
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.		(747,405)
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	\$ 200,000	
Capital lease principal retirement	<u>71,146</u>	271,146
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	7,788	
Other revenues	<u>44,970</u>	52,758
Some items reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds. These activities consist of:		
Increase in compensated absences	(4,904)	
Increase in safety pay	(2,025)	
Decrease in accrued interest	3,770	
Increase in claims payable	(185,000)	
Decrease in bond issue costs	<u>(2,437)</u>	<u>(190,596)</u>
Change in net assets of governmental activities		\$ <u>865,027</u>

The accompanying notes are an integral part of this statement.

CITY OF PORT LAVACA, TEXAS

STATEMENT OF NET ASSETS

PROPRIETARY FUNDS

September 30, 2010

	Business-type Activities - Enterprise Funds			
	Public Utility	Port Commission	Beach Operating	Total
ASSETS				
Current assets				
Cash and cash equivalents	\$ 3,361,224	\$ 545,700	\$ 293,054	\$ 4,199,978
Investments	513,651	581,094	204,075	1,298,820
Receivables (net)	742,116	8,351	74	750,541
Due from other governments	132,369	-	70,000	202,369
Due from other funds	533,086	271,449	-	804,535
Prepaid expenses	13,196	5,664	1,912	20,772
Inventory	42,645	-	-	42,645
Total current assets	5,338,287	1,412,258	569,115	7,319,660
Noncurrent assets				
Capital assets				
Land and other assets not being depreciated	273,083	1,141,660	296,613	1,711,356
Assets being depreciated (net)	13,529,852	3,573,698	1,574,025	18,677,575
Bond issue costs (net)	253,266	35,870	-	289,136
Net noncurrent assets	14,056,201	4,751,228	1,870,638	20,678,067
Total assets	19,394,488	6,163,486	2,439,753	27,997,727
LIABILITIES				
Current liabilities				
Accounts payable	309,567	22,430	15,748	347,745
Payroll related liabilities	23,596	304	-	23,900
Accrued interest payable	36,248	8,046	-	44,294
Other payables	2,945	-	-	2,945
Due to other governments	2,523	-	-	2,523
Due to other funds	-	-	45,273	45,273
Accrued compensated absences	6,144	-	-	6,144
Accrued safety pay	5,173	-	-	5,173
Deferred revenue	9,003	12,360	-	21,363
Customer deposits	203,140	-	-	203,140
Current portion of noncurrent liabilities				
Capital leases	45,675	-	-	45,675
Bonds and certificates	395,000	60,000	-	455,000
Total current liabilities	1,039,014	103,140	61,021	1,203,175
Long-term liabilities, net of current portion				
Accrued compensated absences	13,756	-	-	13,756
Capital leases	148,282	-	-	148,282
Bonds and certificates (net of unamortized deferred amounts)	6,643,141	1,560,000	-	8,203,141
Total long-term liabilities	6,805,179	1,560,000	-	8,365,179
Total liabilities	7,844,193	1,663,140	61,021	9,568,354
NET ASSETS				
Invested in capital assets, net of related debt	6,570,837	3,095,358	1,870,638	11,536,833
Restricted for:				
Facilities maintenance	-	-	15	15
Unrestricted net assets	4,979,458	1,404,988	508,079	6,892,525
Total net assets	\$ 11,550,295	\$ 4,500,346	\$ 2,378,732	\$ 18,429,373

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, 2010

	Business-type Activities - Enterprise Funds			
	Public Utility	Port Commission	Beach Operating	Total
OPERATING REVENUES				
Charges for services				
Water sales	\$ 2,268,438	\$ -	\$ -	\$ 2,268,438
Sewer services	1,903,513	-	-	1,903,513
Waste collection	740,591	-	-	740,591
Tap and service fees	82,086	-	-	82,086
Gate fees	-	-	52,490	52,490
Leases and rentals	-	435,928	217,656	653,584
Penalties	92,835	773	-	93,608
Miscellaneous	90,962	3,092	5,377	99,431
Total operating revenues	<u>5,178,425</u>	<u>439,793</u>	<u>275,523</u>	<u>5,893,741</u>
OPERATING EXPENSES				
Personnel services	680,522	38,449	53	719,024
Materials and supplies	78,740	1,357	2,419	82,516
Services	1,211,522	73,737	79,005	1,364,264
Water purchases	1,135,675	-	-	1,135,675
Maintenance and repairs	346,736	26,152	48,056	420,944
Depreciation and amortization	488,562	191,090	88,707	768,359
Miscellaneous	16,917	-	-	16,917
Total operating expenses	<u>3,958,674</u>	<u>330,785</u>	<u>218,240</u>	<u>4,507,699</u>
Operating income	1,219,751	109,008	57,283	1,386,042
NONOPERATING REVENUES (EXPENSES)				
Noncapital grants and contributions	-	2,000	-	2,000
Gain (loss) of disposition of capital assets	(18,141)	-	-	(18,141)
Investment income	16,403	9,018	2,865	28,286
Interest expense	(306,617)	(64,547)	-	(371,164)
Net nonoperating revenues	<u>(308,355)</u>	<u>(53,529)</u>	<u>2,865</u>	<u>(359,019)</u>
Income before capital contributions and transfers	911,396	55,479	60,148	1,027,023
Capital grants and contributions	307,773	-	83,680	391,453
Transfers out	<u>(190,000)</u>	<u>(4,000)</u>	<u>(6,000)</u>	<u>(200,000)</u>
Change in net assets	1,029,169	51,479	137,828	1,218,476
Net assets at beginning of year	<u>10,521,126</u>	<u>4,448,867</u>	<u>2,240,904</u>	<u>17,210,897</u>
Net assets at end of year	<u>\$ 11,550,295</u>	<u>\$ 4,500,346</u>	<u>\$ 2,378,732</u>	<u>\$ 18,429,373</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, 2010

	Business-type Activities - Enterprise Funds			
	Public Utility	Port Commission	Beach Operating	Total
CASH FLOWS FROM OPERATING ACTIVITIES:				
Cash received from customers	\$ 5,084,074	\$ 456,565	\$ 288,109	\$ 5,828,748
Cash payments to suppliers for goods and services	(2,828,516)	(101,495)	(122,808)	(3,052,819)
Cash payments to employees for services	(684,382)	(38,745)	(747)	(723,874)
Net cash provided (used) by operating activities	<u>1,571,176</u>	<u>316,325</u>	<u>164,554</u>	<u>2,052,055</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:				
Increase (decrease) in customer deposits	(79,780)	-	-	(79,780)
Receipts from noncapital grants and contributions	-	2,000	-	2,000
Borrowings from (to) other funds	(10,147)	(271,449)	(211,299)	(492,895)
Transfers to other funds	(190,000)	(4,000)	(6,000)	(200,000)
Net cash provided (used) by noncapital financing activities	<u>(279,927)</u>	<u>(273,449)</u>	<u>(217,299)</u>	<u>(770,675)</u>
CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES:				
Acquisition of capital assets	(339,921)	(21,476)	(74,189)	(435,586)
Receipts from capital grants and contributions	241,353	-	126,844	368,197
Principal paid on capital debt	(413,917)	(60,000)	-	(473,917)
Interest paid on capital debt	(305,493)	(64,845)	-	(370,338)
Net cash provided (used) by capital financing activities	<u>(817,978)</u>	<u>(146,321)</u>	<u>52,655</u>	<u>(911,644)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:				
Investment maturities	500,000	47,936	-	547,936
Investment income	12,975	2,780	764	16,519
Net cash provided (used) by investing activities	<u>512,975</u>	<u>50,716</u>	<u>764</u>	<u>564,455</u>
Net increase (decrease) in cash and cash equivalents	986,246	(52,729)	674	934,191
Cash and cash equivalents at beginning of year	<u>2,374,978</u>	<u>598,429</u>	<u>292,380</u>	<u>3,265,787</u>
Cash and cash equivalents at end of year	<u>\$ 3,361,224</u>	<u>\$ 545,700</u>	<u>\$ 293,054</u>	<u>\$ 4,199,978</u>

(continued)

CITY OF PORT LAVACA, TEXAS
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
For the year ended September 30, 2010

	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	\$ 1,219,751	\$ 109,008	\$ 57,283	\$ 1,386,042
Adjustments to reconcile operating income to net cash provided by operating activities:				
Depreciation and amortization	488,562	191,090	88,707	768,359
Change in assets and liabilities:				
(Increase) decrease in accounts receivable	(97,599)	17,605	12,586	(67,408)
(Increase) decrease in prepaid expense	(9,938)	(2,675)	482	(12,131)
(Increase) decrease in inventory	38,861	-	-	38,861
Increase (decrease) in accounts and other payables	(66,302)	2,426	6,190	(57,686)
Increase (decrease) in payroll related liabilities	158	(296)	(694)	(832)
Increase (decrease) in due to other governments	(1,547)	-	-	(1,547)
Increase (decrease) in compensated absences	(2,055)	-	-	(2,055)
Increase (decrease) in safety pay	(1,963)	-	-	(1,963)
Increase (decrease) in deferred revenue	3,248	(833)	-	2,415
Net cash provided (used) by operating activities	\$ 1,571,176	\$ 316,325	\$ 164,554	\$ 2,052,055

Noncash capital and related financing activities

The Public Utility Fund received noncash contributions relating to capital asset additions of \$17,057 in fiscal year 2010.

The accompanying notes are an integral part of this statement.

CITY OF PORT LAVACA, TEXAS
STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
September 30, 2010

	Fireman's Relief and Retirement Fund	Police Seized Nonforfeiture Fund
	<u> </u>	<u> </u>
ASSETS		
Cash and cash equivalents	\$ -	\$ 20,574
Total assets	<u> </u>	<u> </u>
	-	\$ 20,574
LIABILITIES		
Due to others	-	\$ 20,574
Total liabilities	<u> </u>	<u> </u>
	-	\$ 20,574
NET ASSETS		
Restricted for payment of pension benefits	-	
Total net assets	<u> </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, 2010

	<u>Fireman's Relief and Retirement Fund</u>
ADDITIONS	
Employer contributions	\$ 3,216
DEDUCTIONS	
Benefits	<u>3,483</u>
Change in net assets	(267)
Net assets at beginning of year	<u>267</u>
Net assets at end of year	<u><u>\$ -</u></u>

The accompanying notes are an integral part of this statement.

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NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Reporting Entity

In evaluating how to define the government, for financial reporting purposes, the City's management has considered all potential component units. The decision to include a potential component unit in the reporting entity was made by applying the criteria set forth in the Governmental Accounting Standards Board (GASB) Statement No. 14, *The Financial Reporting Entity*, and as amended by GASB Statement No. 39, *Determining Whether Certain Organizations are Component Units*. Under these guidelines, the reporting entity consists of the primary government (all funds of the City), organizations for which the primary government is financially accountable and any other organization for which the nature and significance of their relationship with the primary government is such that exclusion could cause the City's financial statements to be misleading or incomplete. Entities other than the primary government that are included in the primary government's financial statements are called component units. No legally separate organizations met the necessary criteria for inclusion as component units for the year ended September 30, 2010.

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, 2010.

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>
City council	\$ 28,809	\$ 29,178	\$ 369
Municipal court	90,343	91,846	1,503
Finance	187,560	197,119	9,559
City hall	111,278	113,158	1,880
Police	1,630,374	1,665,747	35,373
Fire	1,090,975	1,106,148	15,173
Parks	272,672	274,333	1,661
Swimming pool	28,750	29,526	776
Transfers out	2,487,500	2,907,701	420,201

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

B. Deficit Fund Equity

As of September 30, 2010, the Street Construction Fund, a major capital projects fund, had a deficit fund equity balance in the amount of \$281,044. Steps will be taken to eliminate this deficit in the upcoming fiscal year by fund transfers.

NOTE 3: DEPOSITS AND INVESTMENTS

As of September 30, 2010, 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	\$ 6,518,111	43
TexSTAR Pool	873,321	47
Certificates of Deposits	2,775,122	185
U.S. Government Securities	819,903	608
	<u>\$ 10,986,457</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, 2010, 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	\$ 611,607	\$ -	\$ -	\$ -	\$ 44,940	\$ 656,547
Franchise taxes	85,371	-	-	-	-	85,371
Municipal court fines	135,311	-	-	-	-	135,311
Charges for services	91,593	717,720	8,351	-	-	817,664
Occupancy taxes	-	-	-	-	71,269	71,269
Miscellaneous	<u>10,874</u>	<u>27,790</u>	<u>-</u>	<u>74</u>	<u>-</u>	<u>38,738</u>
Gross receivables	934,756	745,510	8,351	74	116,209	1,804,900
Less: Allowance for uncollectibles	<u>(266,878)</u>	<u>(3,394)</u>	<u>-</u>	<u>-</u>	<u>(2,247)</u>	<u>(272,519)</u>
Net total receivables	<u>\$ 667,878</u>	<u>\$ 742,116</u>	<u>\$ 8,351</u>	<u>\$ 74</u>	<u>\$ 113,962</u>	<u>\$ 1,532,381</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, 2010, was \$0.75 per \$100 of assessed valuation. Property taxes attach as an enforceable lien on property as of January 1. Taxes are levied on October 1 and payable by the following January 31, which comprises the collection dates for the current tax roll. The Calhoun County Appraisal District bills, collects, and remits daily all ad valorem taxes.

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

	<u>Unavailable</u>	<u>Unearned</u>	<u>Total</u>
General Fund			
Ad valorem taxes	\$ 467,550	\$ -	\$ 467,550
Charges for services	22,898	60,000	82,898
Municipal court fines	81,186	-	81,186
Nonmajor Funds			
Ad valorem taxes	<u>42,693</u>	<u>-</u>	<u>42,693</u>
	<u>\$ 614,327</u>	<u>\$ 60,000</u>	<u>\$ 674,327</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, 2010:

	<u>General Fund</u>	<u>Public Utility</u>	<u>Beach Operating</u>	<u>Nonmajor Funds</u>	<u>Total</u>
Sales taxes	\$ 402,663	\$ -	\$ -	\$ -	\$ 402,663
Reimbursement for services	6,000	-	-	-	6,000
Mixed beverage taxes	2,550	-	-	-	2,550
Grant reimbursements	<u>1,653</u>	<u>132,369</u>	<u>70,000</u>	<u>170,058</u>	<u>374,080</u>
	<u>\$ 412,866</u>	<u>\$ 132,369</u>	<u>\$ 70,000</u>	<u>\$ 170,058</u>	<u>\$ 785,293</u>

NOTE 6: CAPITAL ASSETS

The capital asset activity of the City was as follows for the year ended September 30, 2010:

	Beginning Balance	Additions	Deletions/ Transfers	Ending Balance
Governmental activities				
Capital assets, not being depreciated:				
Land	\$ 934,397	\$ 79,155	\$ -	\$ 1,013,552
Construction in progress	656,056	2,807,223	-	3,463,279
Total capital assets not being depreciated	1,590,453	2,886,378	-	4,476,831
Capital assets, being depreciated:				
Machinery and equipment	2,602,666	198,996	(88,440)	2,713,222
Buildings and structures	4,932,546	18,300	-	4,950,846
Infrastructure	25,849,740	-	-	25,849,740
Total capital assets being depreciated	33,384,952	217,296	(88,440)	33,513,808
Less accumulated depreciation for:				
Machinery and equipment	(1,278,725)	(245,310)	56,923	(1,467,112)
Buildings and structures	(2,391,194)	(131,257)	-	(2,522,451)
Infrastructure	(11,470,751)	(370,838)	-	(11,841,589)
Total accumulated depreciation	(15,140,670)	(747,405)	56,923	(15,831,152)
Total capital assets being depreciated, net	18,244,282	(530,109)	(31,517)	17,682,656
Governmental activities capital assets, net	\$ 19,834,735	\$ 2,356,269	\$ (31,517)	\$ 22,159,487
Business-type activities				
Capital assets, not being depreciated:				
Land	\$ 1,501,012	\$ -	\$ -	\$ 1,501,012
Construction in progress	587,326	415,977	(792,959)	210,344
Total capital assets not being depreciated	2,088,338	415,977	(792,959)	1,711,356
Capital assets, being depreciated:				
Machinery and equipment	737,998	48,222	(23,395)	762,825
Buildings and structures	4,323,856	89,743	-	4,413,599
Infrastructure	33,982,726	741,025	-	34,723,751
Total capital assets being depreciated	39,044,580	878,990	(23,395)	39,900,175
Less accumulated depreciation for:				
Machinery and equipment	(401,501)	(50,248)	5,254	(446,495)
Buildings and structures	(2,250,215)	(139,214)	-	(2,389,429)
Infrastructure	(17,823,449)	(563,227)	-	(18,386,676)
Total accumulated depreciation	(20,475,165)	(752,689)	5,254	(21,222,600)
Total capital assets being depreciated, net	18,569,415	126,301	(18,141)	18,677,575
Business-type activities capital assets, net	\$ 20,657,753	\$ 542,278	\$ (811,100)	\$ 20,388,931

NOTE 6: CAPITAL ASSETS - (Continued)

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

Governmental activities:

General government	\$ 28,009
Public safety	152,095
Public works	440,063
Parks and recreation	127,238
Total depreciation expense - governmental activities	<u>\$ 747,405</u>

Business-type activities:

Public Utility	\$ 474,220
Port Commission	189,762
Beach Operating	88,707
Total depreciation expense - business-type activities	<u>\$ 752,689</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, 2010, were as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
Public Utility	General	\$ 445,776
	Nonmajor Special Revenue	87,310
Port Commission	General	225
	Street Construction	62,367
	Nonmajor Special Revenue	72,967
	Nonmajor Debt Service	6,509
	Nonmajor Capital Projects	84,108
	Beach Operating	45,273
		<u>\$ 804,535</u>

NOTE 7: INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS - (Continued)

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:

	Transfers In			Total
	General	Street Construction	Nonmajor	
Transfers out:				
General	\$ -	\$ 2,486,000	\$ 421,701	\$ 2,907,701
Public Utility	190,000	-	-	190,000
Port Commission	4,000	-	-	4,000
Beach Operating	6,000	-	-	6,000
Nonmajor	164,133	-	-	164,133
	<u>\$ 364,133</u>	<u>\$ 2,486,000</u>	<u>\$ 421,701</u>	<u>\$ 3,271,834</u>

NOTE 8: LEASE OBLIGATIONS

A. 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
	477,504	332,921
Less: Accumulated depreciation	(133,612)	(85,100)
	<u>\$ 343,892</u>	<u>\$ 247,821</u>

NOTE 8: LEASE OBLIGATIONS - (Continued)A. Capital Leases - (Continued)

The future minimum lease obligations and the net present value of these minimum lease payments as of September 30, 2010, were as follows:

Year Ending September 30	Governmental Activities	Business-type Activities
2011	\$ 86,634	\$ 53,433
2012	86,634	53,433
2013	30,778	53,433
2014	30,778	53,433
2015	30,778	-
2016	30,779	-
Total minimum lease payments	296,381	213,732
Less: Amount representing interest	(35,041)	(19,775)
Present value of minimum lease payments	<u>\$ 261,340</u>	<u>\$ 193,957</u>

B. Operating Lease

The City has entered into a lease agreement for a red light camera system that is used to enforce various traffic laws within the City. The agreement was signed on February 20, 2008 and the first citation was issued in late 2008 or early 2009 which established the beginning of the five-year lease period. The lease agreement provides for future minimum rental payments as follows:

Year Ending September 30	
2011	\$ 292,200
2012	292,200
2013	292,200
2014	48,700
	<u>\$ 925,300</u>

Rental expenditures in 2010 were \$292,200. The City does not have the option to purchase the leased system at the expiration of the lease terms.

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, 2010:

Year Ending September 30	
2011	\$ 250,335
2012	189,814
2013	100,957
2014	58,984
2015	30,426
	630,516
Thereafter	15,740
	<u>\$ 646,256</u>

NOTE 10: LONG-TERM DEBT

A. Changes in Long-Term Liabilities

Long-term liability activity for the year ended September 30, 2010, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental activities					
Certificates payable	\$ 3,715,000	\$ -	\$ 200,000	\$ 3,515,000	\$ 205,000
Capital leases	332,486	-	71,146	261,340	74,358
Compensated absences	99,458	118,027	113,123	104,362	39,769
Safety pay	22,771	24,797	22,771	24,797	24,797
Total governmental activity long-term liabilities	<u>\$ 4,169,715</u>	<u>\$ 142,824</u>	<u>\$ 407,040</u>	<u>\$ 3,905,499</u>	<u>\$ 343,924</u>
Business-type activities					
Bonds and certificates payable:					
Revenue bonds	\$ 5,315,000	\$ -	\$ 290,000	\$ 5,025,000	\$ 310,000
Certificates	3,940,000	-	140,000	3,800,000	145,000
Less deferred amounts:					
Loss on refunding	(137,790)	-	2,365	(135,425)	-
Issuance discounts	(31,983)	-	549	(31,434)	-
Net bonds and certificates	9,085,227	-	432,914	8,658,141	455,000
Capital leases	237,874	-	43,917	193,957	45,675
Compensated absences	21,955	19,781	21,836	19,900	6,144
Safety pay	7,136	5,173	7,136	5,173	5,173
Total business-type activity long-term liabilities	<u>\$ 9,352,192</u>	<u>\$ 24,954</u>	<u>\$ 505,803</u>	<u>\$ 8,877,171</u>	<u>\$ 511,992</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, 2010, \$2,425,000 of bonds outstanding was considered defeased.

Compensated absences and safety pay 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, 2010, were comprised of the following individual issues:

\$3,575,000 2003 Certificates of Obligation due in annual installments ranging from \$160,000 to \$260,000 through February 15, 2023; interest rates varying between 3.00% and 4.45%.	\$ 2,660,000
\$1,000,000 2005 Certificates of Obligation due in annual installments ranging from \$45,000 to \$80,000 through February 15, 2024; interest rates at 4.00% and 4.50%.	<u>855,000</u>
Total Certificates of Obligations	<u>\$ 3,515,000</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>Year Ending September 30</u>	<u>Governmental Activities</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
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	240,000	107,995	347,995
2016-2020	1,360,000	381,348	1,741,348
2021-2024	1,045,000	78,340	1,123,340
	<u>\$ 3,515,000</u>	<u>\$ 1,084,542</u>	<u>\$ 4,599,542</u>

C. Revenue Bonds and Certificates

Revenue bonds and certificates payable were comprised of the following individual issues at September 30, 2010:

\$4,950,000 Series 1996 Utility System Revenue Bonds due in annual installments ranging from \$265,000 to \$360,000 through February 15, 2018; interest rate varying between 4.05% and 4.45%.	\$ 2,475,000
\$1,535,000 Series 2004 Certificates of Obligation, issued through the Texas Water Development Board, due in annual installments ranging from \$65,000 to \$125,000 through February 15, 2024; interest rates varying between 2.00% and 3.55%.	1,295,000
\$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%.	2,550,000
\$925,000 Series 2007 Combination Tax and Revenue Certificate of Obligation due in annual installments ranging from \$20,000 to \$140,000 through February 15, 2022; interest rate of 4.00%.	885,000
\$1,700,000 Series 2008 Combination Tax and Surplus Harbor System Revenue Certificates of Obligation due in annual installments ranging from \$60,000 to \$125,000 through February 15, 2028; interest rate of 3.93%.	<u>1,620,000</u>
Total Revenue Bonds and Certificates	<u>\$ 8,825,000</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
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	540,000	262,914	802,914
2016-2020	3,690,000	907,639	4,597,639
2021-2025	2,310,000	209,630	2,519,630
2026-2028	360,000	21,615	381,615
	<u>\$ 8,825,000</u>	<u>\$ 2,655,504</u>	<u>\$ 11,480,504</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, 2010.

As of September 30, 2010, the \$8,825,000 balance on the revenue bonds and certificates is detailed as follows according to the purpose of their issuance: \$3,845,000 or 43.57% water system improvements, \$3,360,000 or 38.07% wastewater system improvements, and \$1,620,000 or 18.36% harbor system improvements.

NOTE 11: DESIGNATIONS OF PROPRIETARY FUND NET ASSETS

Management has designated for operating reserves \$1,113,823 of the Public Utility Fund's \$4,979,458 unrestricted net assets. Management has also designated \$99,833 of the Port Commission Fund's \$1,404,988 unrestricted net assets for operating reserves and \$56,060 of the Beach Operating Fund's \$508,079 unrestricted net assets for operating reserves. The designated amounts represent approximately 90 days of operating expenses, including interest expense and transfers to other funds. The Public Utility Fund, the Port Commission Fund, and the Beach Operating Fund had \$3,865,635, \$1,305,155, and \$452,019, respectively, of unrestricted, undesignated net assets as of September 30, 2010.

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, 2010, 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.

NOTE 12: RISK MANAGEMENT - (Continued)

In the health insurance area, the City assumes all risk up to \$45,000 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 \$209,447.

Paid health-related claims totaled \$408,935 during the current fiscal year. The insurance carrier estimated that \$36,408 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 Liability	Current Year Claims and Changes in Estimates	Claim Payments	Ending Liability
Fiscal Year 2006	\$ 74,715	\$ 315,422	\$ 344,860	\$ 45,277
Fiscal Year 2007	45,277	283,700	304,819	24,158
Fiscal Year 2008	24,158	440,878	436,599	28,437
Fiscal Year 2009	28,437	659,428	622,727	65,138
Fiscal Year 2010	65,138	368,950	408,935	25,153

NOTE 13: CONTINGENCIES AND COMMITMENTS

A. Litigation

The City was involved in litigation as of September 30, 2010 related to Lebow condemnation and final judgment was agreed to in January 2011 whereby the City remitted payment in the amount of \$185,000 to dismiss the litigation. The payment was for legal fees, appraisal, surveying, and other recoverable costs incurred in the proceeding and has been recorded as a governmental liability in the government-wide financial statements. Management was not aware of any other threatened litigation or unasserted claims as of September 30, 2010 that would materially affect the City's financial position.

NOTE 13: CONTINGENCIES AND COMMITMENTS - (Continued)

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, 2010, may be impaired. In the opinion of the administration of the City, there are no significant contingent liabilities relating to compliance with the rules and regulations governing the City's various grant programs.

C. Water Purchase Commitment

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

D. Construction Commitments

As of September 30, 2010, 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	\$ 176,868	\$ 48,032	City/grant funds
Street improvements	<u>3,286,411</u>	<u>103,815</u>	City funds
	<u>3,463,279</u>	<u>151,847</u>	
Business-type activities:			
Nautical landings-boat docks	36,602	843,467	City/grant funds
Waterline replacement	149,518	150,482	City/grant funds
Pier reconstruction	<u>22,800</u>	<u>77,200</u>	City/grant funds
	<u>208,920</u>	<u>1,071,149</u>	
	<u>\$ 3,672,199</u>	<u>\$ 1,222,996</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.

NOTE 14: EMPLOYEES' RETIREMENT PLAN - (Continued)

Plan Description - (Continued)

	Plan Year 2009	Plan Year 2010
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

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
2010	\$ 243,337	100%	\$ -
2009	239,707	100%	-
2008	186,714	100%	-

NOTE 14: EMPLOYEES' RETIREMENT PLAN - (Continued)

Contributions - (Continued)

The required contribution rates for fiscal year 2010 were determined as part of the December 31, 2007 and 2008 actuarial valuations. Additional information as of the latest actuarial valuation, December 31, 2009, also follows:

	Actuarial Valuation Information		
	12/31/09	12/31/08	12/31/07
Actuarial cost method	projected unit credit	projected unit credit	projected unit credit
Amortization method	level percent of payroll	level percent of payroll	level percent of payroll
Amortization period in years	28 - closed	29 - closed	30 - closed
Asset valuation method	10-year smoothed market	amortized cost	amortized cost
Investment return	7.50%	7.50%	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%	2.1%

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)
12/31/2009	\$ 4,439,359	\$ 6,024,888	\$ 1,585,529	73.7%	\$3,218,833	49.3%
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 1 of any year to be effective the following January 1.

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.

The City contributes to the SDBF at a contractually required rate as determined by an annual actuarial valuation. The rate is equal to the cost of providing one-year term life insurance. The funding policy for the SDBF program is to assure that adequate resources are available to meet all death benefit payments for the upcoming year; the intent is not to pre-fund retired term life insurance during employees' entire careers.

The City's contributions to the TMRS SDBF for the years ended 2010, 2009, and 2008 were \$2,575, \$3,378, and \$2,271, respectively, which equaled the required contributions each year.

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, 2010, there were 12 individuals receiving benefits under the plan. Benefit payments for the year totaled \$3,500.

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, 2010.

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 \$116,117 as of September 30, 2010, are held in trust for the exclusive benefit of participants and their beneficiaries. As such, no amounts related to these assets are included in the accompanying financial statements.

NOTE 18: ISSUED BUT NON-EFFECTIVE PRONOUNCEMENT

GASB Statement No. 54, "*Fund Balance Reporting and Governmental Fund Type Definitions*," (the "Statement") was issued in February 2009. The Statement eliminates the requirement to report governmental fund balances as reserved, unreserved, or designated. It replaces those categories with five possible classifications of governmental fund balances – nonspendable, restricted, committed, assigned, and unassigned. The Statement also redefines the governmental funds for clarity and to be consistent with these new fund balance classifications. The provisions of the Statement are effective for periods beginning after June 15, 2010.

NOTE 19: ADJUSTMENTS TO AND RESTATEMENTS OF BEGINNING BALANCES

The governmental activities financial statements for the fiscal year September 30, 2009 have been restated to properly reflect the safety pay liability at September 30, 2009. The result of the restatement was to increase accrued safety pay and decrease unrestricted net asset balances of the governmental activities by \$22,771. There was no effect on the fund financial statements.

The General Fund financial statements for the fiscal year September 30, 2009 were also restated to properly report the balances and the activities of the Redflex Traffic System Fund as a separate nonmajor special revenue fund. The result of the restatement on the General Fund's financial statements was to decrease assets by \$99,181, decrease liabilities by \$49,653, and decrease unreserved, undesignated net assets by \$49,528. There was no effect on the governmental activities financial statements.

Required Supplementary Information

CITY OF PORT LAVACA, TEXAS*MAJOR GOVERNMENTAL FUNDS - GENERAL FUND**SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE**BUDGET (GAAP BASIS) AND ACTUAL**For the year ended September 30, 2010**With comparative totals for the year ended September 30, 2009*

	2010			Variance Positive (Negative)	2009
	Original Budget	Final Budget	Actual		Actual
REVENUES					
Taxes	\$ 5,852,789	\$ 5,747,789	\$ 5,997,336	\$ 249,547	\$ 5,623,116
Fines and forfeitures	332,000	359,000	407,479	48,479	436,288
Intergovernmental	248,500	248,500	248,499	(1)	274,203
Licenses and permits	68,000	83,000	97,740	14,740	96,535
Investment	55,000	69,000	52,302	(16,698)	115,500
Rental	40,500	25,500	22,737	(2,763)	37,390
Charges for services	5,500	5,500	5,956	456	5,332
Miscellaneous	19,000	47,898	133,191	85,293	96,453
Total revenues	<u>6,621,289</u>	<u>6,586,187</u>	<u>6,965,240</u>	<u>379,053</u>	<u>6,684,817</u>
EXPENDITURES					
Current					
General government	1,769,520	1,735,918	1,663,263	72,655	1,657,551
Public safety	2,740,423	2,826,043	2,864,220	(38,177)	2,695,753
Public works	1,836,484	1,251,984	1,005,511	246,473	1,422,306
Parks and recreation	493,990	590,290	579,783	10,507	440,345
Capital outlay	-	79,155	79,155	-	-
Total expenditures	<u>6,840,417</u>	<u>6,483,390</u>	<u>6,191,932</u>	<u>291,458</u>	<u>6,215,955</u>
Excess (deficiency) of revenues over expenditures	(219,128)	102,797	773,308	670,511	468,862
OTHER FINANCING SOURCES (USES)					
Transfers in	307,000	364,000	364,133	133	261,000
Transfers out	(1,500)	(2,487,500)	(2,907,701)	(420,201)	(683,558)
Sale of capital assets	5,000	5,000	5,036	36	14,141
Net other financing sources (uses)	<u>310,500</u>	<u>(2,118,500)</u>	<u>(2,538,532)</u>	<u>(420,032)</u>	<u>(408,417)</u>
Net change in fund balance	91,372	(2,015,703)	(1,765,224)	250,479	60,445
Fund balance at beginning of year, as restated	<u>6,379,971</u>	<u>6,379,971</u>	<u>6,379,971</u>	-	<u>6,319,526</u>
Fund balance at end of year	<u>\$ 6,471,343</u>	<u>\$ 4,364,268</u>	<u>\$ 4,614,747</u>	<u>\$ 250,479</u>	<u>\$ 6,379,971</u>

The accompanying notes to required supplementary information are an integral part of this schedule.

CITY OF PORT LAVACA, TEXAS**NOTES TO REQUIRED SUPPLEMENTARY INFORMATION**September 30, 2010

NOTE 1: BUDGETARY BASIS OF ACCOUNTING

The City annually adopts budgets that are prepared using the modified accrual basis of accounting, which is consistent with generally accepted accounting principles.

NOTE 2: BUDGETARY LEGAL COMPLIANCE

For the year ended September 30, 2010, the City complied with budgetary restrictions at all departmental levels except the following. The following table details this variance:

<u>General Fund Department</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Negative Variance</u>
City council	\$ 28,809	\$ 29,178	\$ 369
Municipal court	90,343	91,846	1,503
Finance	187,560	197,119	9,559
City hall	111,278	113,158	1,880
Police	1,630,374	1,665,747	35,373
Fire	1,090,975	1,106,148	15,173
Parks	272,672	274,333	1,661
Swimming pool	28,750	29,526	776
Transfers out	2,487,500	2,907,701	420,201

Combining and Individual Fund Statements and Schedules

NONMAJOR GOVERNMENTAL FUNDS

Nonmajor Special Revenue Funds

Special Revenue Funds are used to account for the proceeds of specific revenue sources (other than special assessments, private purpose trusts, or major capital projects) that are legally restricted to expenditures for specific purposes.

Hotel Occupancy Tax Fund - Accounts for the collection of hotel and motel taxes collected within the City. The City uses these funds to directly enhance and promote tourism and the convention and hotel industry or other expenses as approved by State Law.

Police Forfeitures Fund - Accounts for items seized by the City through the police department as a result of criminal investigations. The funds are used for one-time equipment purchases and other purchases to assist in police activities.

Municipal Court Technology and Building Security Funds - Account for fees collected on conviction of certain municipal court offenses and funds are intended to enhance these specific areas.

US DOJ 2009 Recovery Fund - Accounts for grants received from the United States Department of Justice to purchase public safety equipment, travel, etc.

TXDOT Palm Trees Fund - Accounts for maintenance of the palm trees that were funded by the Texas Department of Transportation (TXDOT).

Safe Routes to School Fund - Accounts for a federal grant awarded through the State of Texas, acting by and through the Texas Department of Transportation to fund sidewalks with ADA ramps, signage and striping along Half League Road and Seadrift Street (2009 Safe Routes to School Program).

Bullet Proof Vest Grant Fund - Accounts for the purchases of bullet proof vests funded 50% by the U.S. Department of Justice and 50% by the City through the Bullet Proof Vest Partnership Program.

Redflex Traffic System Fund - Accounts for fees collected by the City's red light camera system. This money is shared with the State's trauma account and the City can only use this money to enhance pedestrian safety.

Bayfront Peninsula Pier Fund - Accounts for maintenance of the City's pier located at Bayfront Park.

Homeland Security Grants Fund - Accounts for grant funds received from the Governor's Division of Emergency Management to provide law enforcement and emergency response communities with enhanced capabilities for detecting, deterring, disrupting, preventing and responding to potential threats of manmade, natural disasters and acts of terrorism.

Nonmajor Debt Service Funds

The Debt Service Funds are used to account for the accumulation of resources for and the payment of general long-term debt principal, interest, and related costs.

2003 Certificates of Obligation Fund - To accumulate monies for payment of the City's 2003 Certificates of Obligation.

2005 Certificates of Obligation Fund - To accumulate monies for payment of the City's 2005 Certificates of Obligation.

NONMAJOR GOVERNMENTAL FUNDS - (Continued)

Nonmajor Capital Project Funds

Capital Project Funds are used to account for financial resources to be used for the acquisition or construction of major capital assets and facilities other than those financed by proprietary funds and trust funds.

Boat Ramp Fund - Accounts for all costs associated with the construction of the boat ramp at Bayfront Park.

Texas Capital Fund - Accounts for federal funds received for various projects that relate to economic development within the City.

CITY OF PORT LAVACA, TEXAS
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
September 30, 2010

Special Revenue

	<u>Hotel Occupancy Tax</u>	<u>Police Forfeitures</u>	<u>Building Security</u>	<u>US DOJ 2009 Recovery</u>
ASSETS				
Current assets				
Cash and cash equivalents	\$ 552,238	\$ 9,830	\$ 9,996	\$ -
Receivables (net)	71,269	-	-	-
Due from other governments	<u>-</u>	<u>-</u>	<u>-</u>	<u>11,027</u>
Total assets	<u>\$ 623,507</u>	<u>\$ 9,830</u>	<u>\$ 9,996</u>	<u>\$ 11,027</u>
 LIABILITIES AND FUND BALANCE				
Liabilities				
Accounts payable	\$ 3,913	\$ -	\$ -	\$ -
Due to other governments	-	-	-	-
Due to other funds	91,659	-	-	11,027
Deferred revenue	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total liabilities	<u>95,572</u>	<u>-</u>	<u>-</u>	<u>11,027</u>
Fund balance				
Unreserved, undesignated	<u>527,935</u>	<u>9,830</u>	<u>9,996</u>	<u>-</u>
Total fund balance	<u>527,935</u>	<u>9,830</u>	<u>9,996</u>	<u>-</u>
Total liabilities and fund balance	<u>\$ 623,507</u>	<u>\$ 9,830</u>	<u>\$ 9,996</u>	<u>\$ 11,027</u>

Special Revenue

<u>TXDOT Palm Trees</u>	<u>Safe Routes to School</u>	<u>Bullet Proof Vest Grant</u>	<u>Redflex Traffic System</u>	<u>Court Technology Fund</u>	<u>Bayfront Peninsula Pier</u>
\$ -	\$ -	\$ -	\$ 144,549	\$ 32,551	\$ 61,971
-	-	-	-	-	-
-	4,500	-	-	-	-
<u>\$ -</u>	<u>\$ 4,500</u>	<u>\$ -</u>	<u>\$ 144,549</u>	<u>\$ 32,551</u>	<u>\$ 61,971</u>
\$ -	\$ 4,500	\$ -	\$ 75	\$ 5,676	\$ 6,100
-	-	-	49,528	-	-
-	-	-	-	21,563	-
-	-	-	-	-	-
<u>-</u>	<u>4,500</u>	<u>-</u>	<u>49,603</u>	<u>27,239</u>	<u>6,100</u>
-	-	-	94,946	5,312	55,871
-	-	-	94,946	5,312	55,871
<u>\$ -</u>	<u>\$ 4,500</u>	<u>\$ -</u>	<u>\$ 144,549</u>	<u>\$ 32,551</u>	<u>\$ 61,971</u>

(continued)

CITY OF PORT LAVACA, TEXAS
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
September 30, 2010

	<u>Special Revenue</u>		<u>Debt Service</u>
	<u>Homeland Security Grants</u>	<u>Total</u>	<u>2003 Certificates of Obligation</u>
ASSETS			
Current assets			
Cash and cash equivalents	\$ -	\$ 811,135	\$ 141,303
Receivables (net)	-	71,269	35,704
Due from other governments	57,899	73,426	-
Total assets	\$ 57,899	\$ 955,830	\$ 177,007
LIABILITIES AND FUND BALANCE			
Liabilities			
Accounts payable	\$ 21,725	\$ 41,989	\$ -
Due to other governments	-	49,528	-
Due to other funds	36,028	160,277	6,509
Deferred revenue	-	-	35,704
Total liabilities	57,753	251,794	42,213
Fund balance			
Unreserved, undesignated	146	704,036	134,794
Total fund balance	146	704,036	134,794
Total liabilities and fund balance	\$ 57,899	\$ 955,830	\$ 177,007

Debt Service		Capital Projects			Total Nonmajor Governmental Funds
2005 Certificates of Obligation	Total	Boat Ramp	Texas Capital Fund	Total	
\$ 26,383	\$ 167,686	\$ -	\$ -	\$ -	\$ 978,821
6,989	42,693	-	-	-	113,962
-	-	-	96,632	96,632	170,058
<u>\$ 33,372</u>	<u>\$ 210,379</u>	<u>\$ -</u>	<u>\$ 96,632</u>	<u>\$ 96,632</u>	<u>\$ 1,262,841</u>
\$ -	\$ -	\$ -	\$ 12,524	\$ 12,524	\$ 54,513
-	-	-	-	-	49,528
-	6,509	-	84,108	84,108	250,894
6,989	42,693	-	-	-	42,693
<u>6,989</u>	<u>49,202</u>	<u>-</u>	<u>96,632</u>	<u>96,632</u>	<u>397,628</u>
26,383	161,177	-	-	-	865,213
<u>26,383</u>	<u>161,177</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>865,213</u>
<u>\$ 33,372</u>	<u>\$ 210,379</u>	<u>\$ -</u>	<u>\$ 96,632</u>	<u>\$ 96,632</u>	<u>\$ 1,262,841</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, 2010

	Special Revenue			
	Hotel Occupancy Tax	Police Forfeitures	Building Security	US DOJ 2009 Recovery
REVENUES				
Taxes	\$ 261,959	\$ -	\$ -	\$ -
Fines, fees, and forfeitures	-	8,272	4,483	-
Intergovernmental	-	-	-	11,027
Investment	1,175	16	7	-
Miscellaneous	-	2,000	-	-
Total revenues	<u>263,134</u>	<u>10,288</u>	<u>4,490</u>	<u>11,027</u>
EXPENDITURES				
Current				
General government	169,381	-	-	-
Public safety	-	16,369	-	11,027
Public works	-	-	-	-
Capital outlay	-	-	-	-
Debt service				
Principal retirement	-	-	-	-
Interest and fiscal charges	-	-	-	-
Total expenditures	<u>169,381</u>	<u>16,369</u>	<u>-</u>	<u>11,027</u>
Excess (deficiency) of revenues over expenditures	93,753	(6,081)	4,490	-
OTHER FINANCING SOURCES (USES)				
Transfers in	-	-	-	-
Transfers out	(164,000)	-	-	-
Total other financing sources (uses)	<u>(164,000)</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net change in fund balances	(70,247)	(6,081)	4,490	-
Fund balances at beginning of year	<u>598,182</u>	<u>15,911</u>	<u>5,506</u>	<u>-</u>
Fund balances at end of year	<u>\$ 527,935</u>	<u>\$ 9,830</u>	<u>\$ 9,996</u>	<u>\$ -</u>

Special Revenue

TXDOT Palm Trees	Safe Routes to School	Bullet Proof Vest Grant	Redflex Traffic System	Court Technology Fund	Bayfront Peninsula Pier
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
-	-	-	342,933	6,362	-
-	4,500	585	-	-	-
-	-	-	87	60	107
-	-	-	-	-	-
-	<u>4,500</u>	<u>585</u>	<u>343,020</u>	<u>6,422</u>	<u>107</u>
-	-	-	-	27,250	-
-	-	2,540	297,602	-	-
-	4,500	-	-	-	6,100
-	-	-	-	-	-
-	-	-	-	-	-
-	<u>4,500</u>	<u>2,540</u>	<u>297,602</u>	<u>27,250</u>	<u>6,100</u>
-	-	(1,955)	45,418	(20,828)	(5,993)
-	-	1,952	-	-	-
<u>(133)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<u>(133)</u>	<u>-</u>	<u>1,952</u>	<u>-</u>	<u>-</u>	<u>-</u>
(133)	-	(3)	45,418	(20,828)	(5,993)
<u>133</u>	<u>-</u>	<u>3</u>	<u>49,528</u>	<u>26,140</u>	<u>61,864</u>
<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 94,946</u>	<u>\$ 5,312</u>	<u>\$ 55,871</u>

(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, 2010

	Special Revenue		Debt Service
	Homeland Security Grants	Total	2003 Certificates of Obligation
REVENUES			
Taxes	\$ -	\$ 261,959	\$ 266,459
Fines, fees, and forfeitures	-	362,050	-
Intergovernmental	57,899	74,011	-
Investment	-	1,452	291
Miscellaneous	-	2,000	-
Total revenues	<u>57,899</u>	<u>701,472</u>	<u>266,750</u>
EXPENDITURES			
Current			
General government	-	196,631	-
Public safety	21,508	349,046	-
Public works	-	10,600	-
Capital outlay	36,391	36,391	-
Debt service			
Principal retirement	-	-	155,000
Interest and fiscal charges	-	-	110,174
Total expenditures	<u>57,899</u>	<u>592,668</u>	<u>265,174</u>
Excess (deficiency) of revenues over expenditures	-	108,804	1,576
OTHER FINANCING SOURCES (USES)			
Transfers in	-	1,952	-
Transfers out	-	(164,133)	-
Total other financing sources (uses)	<u>-</u>	<u>(162,181)</u>	<u>-</u>
Net change in fund balances	-	(53,377)	1,576
Fund balances at beginning of year	<u>146</u>	<u>757,413</u>	<u>133,218</u>
Fund balances at end of year	<u>\$ 146</u>	<u>\$ 704,036</u>	<u>\$ 134,794</u>

Debt Service		Capital Projects			Total
2005 Certificates of Obligation	Total	Boat Ramp	Texas Capital Fund	Total	Nonmajor Governmental Funds
\$ 83,338	\$ 349,797	\$ -	\$ -	\$ -	\$ 611,756
-	-	-	-	-	362,050
-	-	-	125,279	125,279	199,290
31	322	-	-	-	1,774
-	-	-	-	-	2,000
<u>83,369</u>	<u>350,119</u>	<u>-</u>	<u>125,279</u>	<u>125,279</u>	<u>1,176,870</u>
-	-	-	-	-	196,631
-	-	-	-	-	349,046
-	-	-	-	-	10,600
-	-	-	125,279	125,279	161,670
45,000	200,000	-	-	-	200,000
38,425	148,599	-	-	-	148,599
<u>83,425</u>	<u>348,599</u>	<u>-</u>	<u>125,279</u>	<u>125,279</u>	<u>1,066,546</u>
(56)	1,520	-	-	-	110,324
-	-	419,749	-	419,749	421,701
-	-	-	-	-	(164,133)
-	-	<u>419,749</u>	-	<u>419,749</u>	<u>257,568</u>
(56)	1,520	419,749	-	419,749	367,892
26,439	159,657	(419,749)	-	(419,749)	497,321
<u>\$ 26,383</u>	<u>\$ 161,177</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 865,213</u>

(concluded)

GENERAL FUND

The General Fund is a constitutional fund and is utilized to account for all City revenues and expenditures except those which are required to be classed in other constitutional funds and such other funds that are presented separately to facilitate proper accountability.

CITY OF PORT LAVACA, TEXAS
MAJOR GOVERNMENTAL FUNDS - GENERAL FUND
BALANCE SHEET
September 30, 2010
With comparative totals for September 30, 2009

	<u>2010</u>	<u>2009</u>
ASSETS		
Cash and cash equivalents	\$ 2,621,937	\$ 3,219,048
Investments	2,296,205	2,753,241
Receivables, net		
Taxes	552,920	544,996
Fines	81,186	39,775
Other	33,772	119,821
Due from other governments	412,866	410,762
Due from other funds	-	244,002
Deferred expenditures	<u>50,017</u>	<u>37,078</u>
Total assets	<u>\$ 6,048,903</u>	<u>\$ 7,368,723</u>
LIABILITIES AND FUND BALANCE		
Liabilities		
Accounts payable	\$ 167,497	\$ 167,080
Payroll related payables	123,227	118,466
Other payables	29,414	59,868
Due to other governments	27,923	31,179
Due to other funds	446,001	-
Customer and other deposits	8,460	35,065
Deferred revenue	<u>631,634</u>	<u>577,094</u>
Total liabilities	<u>1,434,156</u>	<u>988,752</u>
Fund balance		
Reserved for:		
Deferred expenditures	50,017	37,078
Unreserved, designated for:		
Operating reserves	2,063,977	3,107,978
Health insurance claims	500,000	500,000
Capital asset replacement	250,000	250,000
Unreserved, undesignated	<u>1,750,753</u>	<u>2,484,915</u>
Total fund balance	<u>4,614,747</u>	<u>6,379,971</u>
Total liabilities and fund balance	<u>\$ 6,048,903</u>	<u>\$ 7,368,723</u>

CITY OF PORT LAVACA, TEXAS

MAJOR GOVERNMENTAL FUNDS - GENERAL FUND

SCHEDULE OF REVENUES AND OTHER FINANCING SOURCES

BUDGET (GAAP BASIS) AND ACTUAL

For the year ended September 30, 2010

With comparative totals for the year ended September 30, 2009

	2010		Variance Positive (Negative)	2009
	Final Budget	Actual		Actual
REVENUES				
Taxes				
Ad valorem	\$ 2,993,789	\$ 3,072,269	\$ 78,480	\$ 2,829,131
Sales	2,160,000	2,295,492	135,492	2,170,959
Franchise	587,000	620,247	33,247	613,509
Beverage	7,000	9,328	2,328	9,517
Total taxes	<u>5,747,789</u>	<u>5,997,336</u>	<u>249,547</u>	<u>5,623,116</u>
Fines and forfeitures				
Municipal court	239,000	270,854	31,854	308,079
Tax penalties and fees	120,000	136,625	16,625	128,209
Total fines and forfeitures	<u>359,000</u>	<u>407,479</u>	<u>48,479</u>	<u>436,288</u>
Intergovernmental				
County reimbursements	246,000	246,000	-	271,625
Grants and allocations	2,500	2,499	(1)	2,578
Total intergovernmental	<u>248,500</u>	<u>248,499</u>	<u>(1)</u>	<u>274,203</u>
Licenses and permits				
Licenses				
Building/electrical	7,800	7,363	(437)	9,300
Animal	1,500	1,968	468	2,430
Alcoholic beverage	3,500	5,035	1,535	5,158
Permits				
Building	25,000	23,883	(1,117)	30,717
Electrical	6,500	9,634	3,134	9,830
Plumbing	5,000	9,868	4,868	8,628
Mechanical	2,500	4,817	2,317	3,657
Miscellaneous	31,200	35,172	3,972	26,815
Total licenses and permits	<u>83,000</u>	<u>97,740</u>	<u>14,740</u>	<u>96,535</u>
Investment	<u>69,000</u>	<u>52,302</u>	<u>(16,698)</u>	<u>115,500</u>
Rental	<u>25,500</u>	<u>22,737</u>	<u>(2,763)</u>	<u>37,390</u>
Charges for services				
Swimming pool fees	1,000	-	(1,000)	-
Police service fees	3,500	5,826	2,326	3,663
Fire service fees	1,000	-	(1,000)	1,189
Other	-	130	130	480
Total charges for services	<u>5,500</u>	<u>5,956</u>	<u>456</u>	<u>5,332</u>

(continued)

CITY OF PORT LAVACA, TEXAS**MAJOR GOVERNMENTAL FUNDS - GENERAL FUND****SCHEDULE OF REVENUES AND OTHER FINANCING SOURCES****BUDGET (GAAP BASIS) AND ACTUAL**

For the year ended September 30, 2010

With comparative totals for the year ended September 30, 2009

	2010			2009
	Final Budget	Actual	Variance Positive (Negative)	Actual
REVENUES - (Continued)				
Miscellaneous				
Reimbursements and refunds	\$ 17,300	\$ 49,163	\$ 31,863	\$ 76,344
Other	30,598	84,028	53,430	20,109
Total miscellaneous	<u>47,898</u>	<u>133,191</u>	<u>85,293</u>	<u>96,453</u>
Total revenues	<u>6,586,187</u>	<u>6,965,240</u>	<u>379,053</u>	<u>6,684,817</u>
OTHER FINANCING SOURCES				
Transfers in	364,000	364,133	133	261,000
Sale of capital assets	<u>5,000</u>	<u>5,036</u>	<u>36</u>	<u>14,141</u>
Total other financing sources	<u>369,000</u>	<u>369,169</u>	<u>169</u>	<u>275,141</u>
Total revenues and other financing sources	<u>\$ 6,955,187</u>	<u>\$ 7,334,409</u>	<u>\$ 379,222</u>	<u>\$ 6,959,958</u>

CITY OF PORT LAVACA, TEXAS

MAJOR GOVERNMENTAL FUNDS - GENERAL FUND
 SCHEDULE OF EXPENDITURES AND OTHER FINANCING USES
 BUDGET (GAAP BASIS) AND ACTUAL
 For the year ended September 30, 2010
 With comparative totals for the year ended September 30, 2009

	2010		Variance Positive (Negative)	2009
	Final Budget	Actual		Actual
EXPENDITURES				
Current				
General government				
City council				
Personnel services	\$ 23,289	\$ 23,278	\$ 11	\$ 23,286
Materials and supplies	750	710	40	1,455
Services	4,770	5,190	(420)	1,472
Total city council	<u>28,809</u>	<u>29,178</u>	<u>(369)</u>	<u>26,213</u>
City manager				
Personnel services	131,457	128,547	2,910	153,764
Materials and supplies	2,750	3,322	(572)	2,082
Services	55,300	54,366	934	4,558
Maintenance	1,000	881	119	1,077
Debt service	-	-	-	7,286
Total city manager	<u>190,507</u>	<u>187,116</u>	<u>3,391</u>	<u>168,767</u>
City secretary				
Personnel services	108,648	80,293	28,355	106,334
Materials and supplies	3,875	7,664	(3,789)	1,171
Services	2,100	9,000	(6,900)	822
Maintenance	500	25	475	-
Total city secretary	<u>115,123</u>	<u>96,982</u>	<u>18,141</u>	<u>108,327</u>
Human resources				
Personnel services	3,500	4,575	(1,075)	-
Materials and supplies	3,200	1,178	2,022	545
Services	17,530	16,506	1,024	2,799
Capital outlay	2,695	4,257	(1,562)	15,253
Total human resources	<u>26,925</u>	<u>26,516</u>	<u>409</u>	<u>18,597</u>
Elections				
Materials and supplies	400	226	174	-
Services	21,250	13,124	8,126	6,359
Maintenance	-	2,825	(2,825)	-
Total elections	<u>21,650</u>	<u>16,175</u>	<u>5,475</u>	<u>6,359</u>
Legal				
Services	87,000	79,846	7,154	114,773
Total legal	<u>87,000</u>	<u>79,846</u>	<u>7,154</u>	<u>114,773</u>
Municipal court				
Personnel services	64,293	64,639	(346)	52,519
Materials and supplies	1,200	1,003	197	786
Services	24,850	25,218	(368)	20,997
Maintenance	-	942	(942)	-
Sundry	-	44	(44)	18
Total municipal court	<u>90,343</u>	<u>91,846</u>	<u>(1,503)</u>	<u>74,320</u>

(continued)

CITY OF PORT LAVACA, TEXAS

MAJOR GOVERNMENTAL FUNDS - GENERAL FUND
 SCHEDULE OF EXPENDITURES AND OTHER FINANCING USES
 BUDGET (GAAP BASIS) AND ACTUAL
 For the year ended September 30, 2010
 With comparative totals for the year ended September 30, 2009

	2010		Variance	2009
	Final Budget	Actual	Positive (Negative)	Actual
EXPENDITURES - (Continued)				
Current - (Continued)				
General government - (Continued)				
Tax				
Services	\$ 101,843	\$ 101,791	\$ 52	\$ 88,332
Total tax	101,843	101,791	52	88,332
Finance				
Personnel services	172,510	181,406	(8,896)	164,640
Materials and supplies	10,000	7,271	2,729	4,563
Services	3,650	3,838	(188)	6,329
Maintenance	1,400	4,604	(3,204)	1,380
Total finance	187,560	197,119	(9,559)	176,912
City hall				
Personnel services	4,878	4,397	481	2,824
Materials and supplies	7,200	6,057	1,143	6,874
Services	53,700	61,036	(7,336)	63,037
Maintenance	45,500	41,668	3,832	12,025
Total city hall	111,278	113,158	(1,880)	84,760
Non-departmental				
Personnel services	434,000	453,103	(19,103)	555,484
Services	179,023	172,072	6,951	165,685
Maintenance	66,000	64,950	1,050	49,806
Sundry	95,857	33,411	62,446	19,215
Total non-departmental	774,880	723,536	51,344	790,190
Total general government	1,735,918	1,663,263	72,655	1,657,550
Public safety				
Police				
Personnel services	1,327,942	1,369,592	(41,650)	1,249,326
Materials and supplies	65,975	62,556	3,419	60,390
Services	84,128	82,456	1,672	88,066
Maintenance	62,500	61,307	1,193	85,104
Sundry	2,000	2,244	(244)	30,526
Debt service	20,829	20,829	-	65,701
Capital outlay	67,000	66,763	237	-
Total police	1,630,374	1,665,747	(35,373)	1,579,113
Fire				
Personnel services	797,987	805,341	(7,354)	769,584
Materials and supplies	44,532	49,944	(5,412)	29,638
Services	104,870	108,836	(3,966)	41,763
Maintenance	44,462	44,177	285	23,840
Sundry	4,000	3,500	500	33,975
Debt service	30,879	30,778	101	-
Capital outlay	64,245	63,572	673	118,952
Total fire	1,090,975	1,106,148	(15,173)	1,017,752

(continued)

CITY OF PORT LAVACA, TEXAS

MAJOR GOVERNMENTAL FUNDS - GENERAL FUND

SCHEDULE OF EXPENDITURES AND OTHER FINANCING USES

BUDGET (GAAP BASIS) AND ACTUAL

For the year ended September 30, 2010

With comparative totals for the year ended September 30, 2009

	2010		Variance Positive (Negative)	2009
	Final Budget	Actual		Actual
EXPENDITURES - (Continued)				
Current - (Continued)				
Public safety - (Continued)				
Animal control				
Personnel services	\$ 69,269	\$ 65,193	\$ 4,076	\$ 50,827
Materials and supplies	13,225	12,125	1,100	8,564
Services	10,650	9,379	1,271	9,302
Maintenance	11,550	5,558	5,992	4,521
Sundry	-	70	(70)	-
Capital outlay	-	-	-	25,674
Total animal control	104,694	92,325	12,369	98,888
Total public safety	2,826,043	2,864,220	(38,177)	2,695,753
Public works				
Public works				
Personnel services	117,583	116,682	901	110,512
Materials and supplies	4,925	5,512	(587)	5,857
Services	4,140	2,339	1,801	3,775
Maintenance	500	563	(63)	395
Total public works	127,148	125,096	2,052	120,539
Code enforcement/inspections				
Personnel services	127,779	92,387	35,392	119,532
Materials and supplies	11,600	8,338	3,262	5,252
Services	11,680	6,947	4,733	8,669
Maintenance	6,530	4,984	1,546	2,228
Capital outlay	15,000	15,420	(420)	13,385
Total code enforcement/inspections	172,589	128,076	44,513	149,066
Streets				
Personnel services	368,384	352,471	15,913	299,426
Materials and supplies	41,435	33,825	7,610	37,678
Services	187,350	191,076	(3,726)	187,325
Maintenance	251,700	131,590	120,110	416,730
Debt service	35,028	35,027	1	43,543
Capital outlay	68,350	8,350	60,000	164,958
Total streets	952,247	752,339	199,908	1,149,660
Total public works	1,251,984	1,005,511	246,473	1,419,265

(continued)

CITY OF PORT LAVACA, TEXAS

MAJOR GOVERNMENTAL FUNDS - GENERAL FUND

SCHEDULE OF EXPENDITURES AND OTHER FINANCING USES

BUDGET (GAAP BASIS) AND ACTUAL

For the year ended September 30, 2010

With comparative totals for the year ended September 30, 2009

	2010			2009
	Final Budget	Actual	Variance Positive (Negative)	Actual
EXPENDITURES - (Continued)				
Current - (Continued)				
Parks and recreation				
Parks				
Personnel services	\$ 158,097	\$ 162,088	\$ (3,991)	\$ 147,411
Materials and supplies	18,925	17,982	943	17,027
Services	31,700	41,045	(9,345)	45,496
Maintenance	47,150	36,418	10,732	27,552
Capital outlay	16,800	16,800	-	8,230
Total parks	<u>272,672</u>	<u>274,333</u>	<u>(1,661)</u>	<u>245,716</u>
Convention/visitors bureau				
Personnel services	56,818	47,415	9,403	53,026
Materials and supplies	8,000	8,765	(765)	6,596
Services	91,000	96,950	(5,950)	56,431
Maintenance	133,050	122,794	10,256	35,852
Total convention/visitors bureau	<u>288,868</u>	<u>275,924</u>	<u>12,944</u>	<u>151,905</u>
Swimming pool				
Materials and supplies	8,250	7,190	1,060	11,298
Services	11,000	13,626	(2,626)	16,159
Maintenance	9,500	8,710	790	15,255
Sundry	-	-	-	11
Total swimming pool	<u>28,750</u>	<u>29,526</u>	<u>(776)</u>	<u>42,723</u>
Total parks and recreation	<u>590,290</u>	<u>579,783</u>	<u>10,507</u>	<u>440,344</u>
Total current	<u>6,404,235</u>	<u>6,112,777</u>	<u>291,458</u>	<u>6,212,912</u>
Capital outlay	<u>79,155</u>	<u>79,155</u>	<u>-</u>	<u>-</u>
Total expenditures	<u>6,483,390</u>	<u>6,191,932</u>	<u>291,458</u>	<u>6,212,912</u>
OTHER FINANCING USES				
Transfers out	<u>2,487,500</u>	<u>2,907,701</u>	<u>(420,201)</u>	<u>683,558</u>
Total expenditures and other financing uses	<u>\$ 8,970,890</u>	<u>\$ 9,099,633</u>	<u>\$ (128,743)</u>	<u>\$ 6,896,470</u>

NONMAJOR DEBT SERVICE FUNDS

CITY OF PORT LAVACA, TEXAS**NONMAJOR GOVERNMENTAL FUNDS - 2003 CERTIFICATES OF OBLIGATION FUND****SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE****BUDGET (GAAP BASIS) AND ACTUAL**

For the year ended September 30, 2010

With comparative totals for the year ended September 30, 2009

	2010			2009
	Final Budget	Actual	Variance Positive (Negative)	Actual
REVENUES				
Taxes				
Ad valorem	\$ 264,874	\$ 266,459	\$ 1,585	\$ 266,232
Investment	300	291	(9)	1,232
Total revenues	<u>265,174</u>	<u>266,750</u>	<u>1,576</u>	<u>267,464</u>
EXPENDITURES				
Debt service				
Principal retirement	155,000	155,000	-	150,000
Interest and fiscal charges	<u>110,174</u>	<u>110,174</u>	<u>-</u>	<u>115,240</u>
Total expenditures	<u>265,174</u>	<u>265,174</u>	<u>-</u>	<u>265,240</u>
Excess (deficiency) of revenues over expenditures	-	1,576	1,576	2,224
OTHER FINANCING SOURCES (USES)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net change in fund balances	-	1,576	1,576	2,224
Fund balances at beginning of year	<u>133,218</u>	<u>133,218</u>	<u>-</u>	<u>130,994</u>
Fund balances at end of year	<u>\$ 133,218</u>	<u>\$ 134,794</u>	<u>\$ 1,576</u>	<u>\$ 133,218</u>

CITY OF PORT LAVACA, TEXAS**NONMAJOR GOVERNMENTAL FUNDS - 2005 CERTIFICATES OF OBLIGATION FUND****SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE****BUDGET (GAAP BASIS) AND ACTUAL**

For the year ended September 30, 2010

With comparative totals for the year ended September 30, 2009

	2010			2009
	Final Budget	Actual	Variance Positive (Negative)	Actual
REVENUES				
Taxes				
Ad valorem	\$ 83,125	\$ 83,338	\$ 213	\$ 83,332
Investment	300	31	(269)	55
Total revenues	<u>83,425</u>	<u>83,369</u>	<u>(56)</u>	<u>83,387</u>
EXPENDITURES				
Debt service				
Principal retirement	45,000	45,000	-	45,000
Interest and fiscal charges	<u>38,425</u>	<u>38,425</u>	<u>-</u>	<u>40,225</u>
Total expenditures	<u>83,425</u>	<u>83,425</u>	<u>-</u>	<u>85,225</u>
Excess (deficiency) of revenues over expenditures	-	(56)	(56)	(1,838)
OTHER FINANCING SOURCES (USES)	-	-	-	-
Net change in fund balances	-	(56)	(56)	(1,838)
Fund balances at beginning of year	<u>26,439</u>	<u>26,439</u>	<u>-</u>	<u>28,277</u>
Fund balances at end of year	<u>\$ 26,439</u>	<u>\$ 26,383</u>	<u>\$ (56)</u>	<u>\$ 26,439</u>

STATISTICAL SECTION

This part of the City's comprehensive annual financial report presents detailed information as a context for understanding what the information in the financial statements, note disclosures, and required supplementary information says about the City's overall financial health.

<u>Contents</u>	<u>Page</u>
Financial Trends These schedules contain trend information to help the reader understand how the City's financial performance and well-being have changed over time.....	71
Revenue Capacity These schedules contain information to help the reader assess the factors affecting the City's ability to generate its property taxes and water and sewer revenues.....	82
Debt Capacity These schedules present information to help the reader assess the affordability of the City's current levels of outstanding debt and the City's ability to issue additional debt in the future	93
Demographic and Economic Information These schedules offer demographic and economic indicators to help the reader understand the environment within which the City's financial activities take place and to help make comparisons over time and with other governments	99
Operating Information These schedules contain information about the City's operations and resources to help the reader understand how the City's financial information relates to the services the City provides and the activities it performs	101

CITY OF PORT LAVACA, TEXAS**NET ASSETS BY COMPONENT (1)***Last seven fiscal years*

	Fiscal Year		
	2004	2005	2006
Governmental activities			
Invested in capital assets, net of related debt	\$ 15,819,596	\$ 17,965,142	\$ 12,509,383
Restricted	1,818,646	1,583,781	199,381
Unrestricted	3,622,128	3,971,998	5,022,591
Total governmental activities net assets	<u>\$ 21,260,370</u>	<u>\$ 23,520,921</u>	<u>\$ 17,731,355</u>
Business-type activities			
Invested in capital assets, net of related debt	\$ 14,830,163	\$ 13,735,139	\$ 10,460,620
Restricted	92,040	92,040	13,887
Unrestricted	2,282,096	3,138,979	4,353,647
Total business-type activities net assets	<u>\$ 17,204,299</u>	<u>\$ 16,966,158</u>	<u>\$ 14,828,154</u>
Primary government			
Invested in capital assets, net of related debt	\$ 30,649,759	\$ 31,700,281	\$ 22,970,003
Restricted	1,910,686	1,675,821	213,268
Unrestricted	5,904,224	7,110,977	9,376,238
Total primary government activities net assets	<u>\$ 38,464,669</u>	<u>\$ 40,487,079</u>	<u>\$ 32,559,509</u>

(1) Accrual basis of accounting

Note: The City began to report accrual information when it implemented GASB Statement No. 34 in fiscal year 2004.

Fiscal Year			
2007	2008	2009	2010
\$ 13,105,824	\$ 13,815,306	\$ 15,787,249	\$ 18,383,147
221,392	848,885	876,554	784,798
6,556,521	7,374,943	6,394,379	4,732,493
<u>\$ 19,883,737</u>	<u>\$ 22,039,134</u>	<u>\$ 23,058,182</u>	<u>\$ 23,900,438</u>
\$ 11,569,600	\$ 11,052,199	\$ 11,334,652	\$ 11,536,833
129,592	12,681	233,544	51,469
4,022,664	4,953,062	5,642,701	6,841,071
<u>\$ 15,721,856</u>	<u>\$ 16,017,942</u>	<u>\$ 17,210,897</u>	<u>\$ 18,429,373</u>
\$ 24,675,424	\$ 24,867,505	\$ 27,121,901	\$ 29,919,980
350,984	861,566	1,110,098	836,267
10,579,185	12,328,005	12,037,080	11,573,564
<u>\$ 35,605,593</u>	<u>\$ 38,057,076</u>	<u>\$ 40,269,079</u>	<u>\$ 42,329,811</u>

CITY OF PORT LAVACA, TEXAS**CHANGES IN NET ASSETS (1)**

Last seven fiscal years

	Fiscal Year		
	2004	2005	2006
Governmental activities			
Program expenses			
General government	\$ 946,221	\$ 1,023,110	\$ 1,265,792
Public safety	2,251,823	2,309,363	2,254,482
Public works	810,969	1,488,133	1,469,315
Parks and recreation	381,939	520,865	526,995
Interest on long-term debt	229,039	167,922	195,885
Total expenses	<u>4,619,991</u>	<u>5,509,393</u>	<u>5,712,469</u>
Program revenues			
Charges for services	408,552	422,898	679,279
Operating grants and contributions	260,990	15,497	100,558
Capital grants and contributions	130,951	620,816	517,067
Total program revenues	<u>800,493</u>	<u>1,059,211</u>	<u>1,296,904</u>
Total governmental activities net program expense	(3,819,498)	(4,450,182)	(4,415,565)
General revenues and other changes in net assets			
Taxes			
Property taxes	2,236,328	2,354,535	2,530,094
Sales taxes	1,516,932	1,707,459	1,823,450
Franchise taxes	607,321	581,284	598,795
Other taxes	149,155	176,049	173,856
Unrestricted investment earnings	74,167	172,664	266,681
Miscellaneous	121,392	309,383	41,739
Transfers	(24,938)	1,409,359	140,472
Special item - litigation settlement	-	-	-
Total general revenues and other changes in net assets	<u>4,680,357</u>	<u>6,710,733</u>	<u>5,575,087</u>
Total governmental activities change in net assets	<u>\$ 860,859</u>	<u>\$ 2,260,551</u>	<u>\$ 1,159,522</u>

Fiscal Year			
2007	2008	2009	2010
\$ 1,300,514	\$ 1,499,965	\$ 1,847,859	\$ 1,886,794
2,204,124	2,490,358	2,598,507	3,191,293
1,352,679	1,974,638	1,615,002	1,406,502
522,218	167,594	547,013	686,747
180,891	-	154,696	147,266
<u>5,560,426</u>	<u>6,132,555</u>	<u>6,763,077</u>	<u>7,318,602</u>
703,077	412,420	484,632	804,307
3,903	269,784	378,324	322,510
335,671	407,223	51,589	125,279
<u>1,042,651</u>	<u>1,089,427</u>	<u>914,545</u>	<u>1,252,096</u>
(4,517,775)	(5,043,128)	(5,848,532)	(6,066,506)
2,887,459	2,894,987	3,214,039	3,414,317
2,328,103	2,439,957	2,170,959	2,295,492
597,082	623,987	613,509	620,247
197,276	277,757	235,571	271,287
325,364	258,739	123,127	54,319
43,049	338,701	235,375	277,928
252,449	364,397	275,000	182,943
-	-	-	(185,000)
<u>6,630,782</u>	<u>7,198,525</u>	<u>6,867,580</u>	<u>6,931,533</u>
\$ <u>2,113,007</u>	\$ <u>2,155,397</u>	\$ <u>1,019,048</u>	\$ <u>865,027</u>

(continued)

CITY OF PORT LAVACA, TEXAS**CHANGES IN NET ASSETS (1)**

Last seven fiscal years

	Fiscal Year		
	2004	2005	2006
Business-type activities			
Expenses			
Public utilities	\$ 4,144,766	\$ 4,155,860	\$ 3,344,382
Port commission	350,064	325,995	310,482
Beach operations	267,928	115,506	171,037
Total expenses	<u>4,762,758</u>	<u>4,597,361</u>	<u>3,825,901</u>
Program revenues			
Charges for services	4,397,815	4,807,141	4,948,781
Operating grants and contributions	-	-	16,887
Capital grants and contributions	124,000	75,207	227,284
Total program revenues	<u>4,521,815</u>	<u>4,882,348</u>	<u>5,192,952</u>
Total governmental activities net program expense	(240,943)	284,987	1,367,051
General revenues and other changes in net assets			
Unrestricted investment earnings	22,682	65,694	166,310
Miscellaneous	121,085	139,410	7,475
Special item - GBRA clearwell	-	-	-
Transfers	20,920	(1,413,260)	(140,472)
Total general revenues and other changes in net assets	<u>164,687</u>	<u>(1,208,156)</u>	<u>33,313</u>
Prior period adjustment	-	685,028	-
Total business-type activities change in net assets	<u>\$ (76,256)</u>	<u>\$ (238,141)</u>	<u>\$ 1,400,364</u>
Total primary government change in net assets	<u>\$ 784,603</u>	<u>\$ 2,022,410</u>	<u>\$ 2,559,886</u>

(1) Accrual basis of accounting

Note: The City began to report accrual information when it implemented GASB Statement No. 34 in fiscal year 2004.

Fiscal Year			
2007	2008	2009	2010
\$ 3,835,279	\$ 3,913,016	\$ 4,288,109	\$ 4,283,432
345,062	328,525	379,371	395,332
129,800	150,828	162,064	218,240
<u>4,310,141</u>	<u>4,392,369</u>	<u>4,829,544</u>	<u>4,897,004</u>
5,088,403	5,612,806	5,966,101	5,893,741
3,000	2,000	2,000	2,000
178,859	153,218	236,338	374,396
<u>5,270,262</u>	<u>5,768,024</u>	<u>6,204,439</u>	<u>6,270,137</u>
960,121	1,375,655	1,374,895	1,373,133
234,879	176,704	75,060	28,286
-	-	18,000	-
-	(891,876)	-	-
<u>(252,449)</u>	<u>(364,397)</u>	<u>(275,000)</u>	<u>(182,943)</u>
<u>(17,570)</u>	<u>(1,079,569)</u>	<u>(181,940)</u>	<u>(154,657)</u>
-	-	-	-
\$ <u>942,551</u>	\$ <u>296,086</u>	\$ <u>1,192,955</u>	\$ <u>1,218,476</u>
\$ <u>3,055,558</u>	\$ <u>2,451,483</u>	\$ <u>2,212,003</u>	\$ <u>2,083,503</u>

CITY OF PORT LAVACA, TEXAS**FUND BALANCES, GOVERNMENTAL FUNDS (1)**

Last seven fiscal years

	Fiscal Year		
	2004	2005	2006
General Fund			
Reserved for:			
Prepaid Items	\$ -	\$ -	\$ 25,800
Unreserved, designated for:			
Operating reserves	-	-	2,529,900
Health insurance claims	-	-	500,000
Street improvements	-	-	300,000
Capital asset replacement	-	-	250,000
Unreserved, undesignated	<u>3,207,924</u>	<u>3,339,465</u>	<u>574,072</u>
Total general fund	<u>\$ 3,207,924</u>	<u>\$ 3,339,465</u>	<u>\$ 4,179,772</u>
All Other Governmental Funds			
Unreserved, undesignated reported in:			
Special revenue funds	\$ 87,034	\$ 268,151	\$ 379,336
Debt service funds	168,794	137,977	118,931
Capital projects funds	<u>1,649,852</u>	<u>1,445,804</u>	<u>664,705</u>
Total all other governmental funds	<u>\$ 1,905,680</u>	<u>\$ 1,851,932</u>	<u>\$ 1,162,972</u>

(1) Modified accrual basis of accounting

Note: Due to the changes in the City's fund structure initiated when GASB Statement No. 34 was implemented, the fund balance information is available only beginning in 2004.

Fiscal Year			
2007	2008	2009	2010
\$ 28,755	\$ 25,929	\$ 37,078	\$ 50,017
2,762,226	2,908,981	3,107,978	2,063,977
500,000	500,000	500,000	500,000
149,500	-	-	-
250,000	340,946	250,000	250,000
1,576,413	2,543,671	2,534,443	1,750,753
<u>\$ 5,266,894</u>	<u>\$ 6,319,527</u>	<u>\$ 6,429,499</u>	<u>\$ 4,614,747</u>
\$ 767,415	\$ 711,057	\$ 707,885	\$ 704,036
148,960	159,271	159,657	161,177
13,811	574,045	(505,092)	(281,044)
<u>\$ 930,186</u>	<u>\$ 1,444,373</u>	<u>\$ 362,450</u>	<u>\$ 584,169</u>

CITY OF PORT LAVACA, TEXAS

CHANGES IN FUND BALANCES, GOVERNMENTAL FUNDS (1)

Last seven fiscal years

	Fiscal Year		
	2004	2005	2006
Revenues			
Taxes	\$ 4,509,736	\$ 4,819,327	\$ 5,158,276
Licenses and permits	89,072	60,706	118,146
Fines and forfeitures	314,135	326,594	369,567
Charges for services	7,250	35,598	13,206
Intergovernmental	186,967	159,000	209,081
Grants and contributions	391,941	636,313	55,424
Investment	68,974	159,137	266,681
Rental	-	-	43,360
Miscellaneous	121,392	128,464	24,640
Total revenues	<u>5,689,467</u>	<u>6,325,139</u>	<u>6,258,381</u>
Expenditures			
Current			
General government	830,178	895,756	1,273,434
Public safety	2,048,339	2,156,627	2,315,618
Public works	186,164	216,640	226,067
Streets and highways	857,161	1,068,252	1,323,173
Parks and recreation	400,793	518,847	506,380
Non-departmental	719,977	382,723	-
Capital outlay	2,062,357	1,703,900	724,162
Debt service			
Principal retirement	110,000	405,000	216,538
Interest and fiscal charges	222,473	141,278	203,243
Total expenditures	<u>7,437,442</u>	<u>7,489,023</u>	<u>6,788,615</u>
Excess (deficiency) of revenues over expenditures	(1,747,975)	(1,163,884)	(530,234)
Other financing sources (uses)			
Transfers in	55,855	1,212,024	693,606
Transfers out	(258,138)	(992,266)	(553,134)
Debt issued	-	1,021,919	515,055
Sale of capital assets	-	-	17,099
Total other financing sources (uses)	<u>(202,283)</u>	<u>1,241,677</u>	<u>672,626</u>
Change in fund balances	<u>\$ (1,950,258)</u>	<u>\$ 77,793</u>	<u>\$ 142,392</u>
Debt service as a percentage of noncapital expenditures	<u>6.59%</u>	<u>10.43%</u>	<u>8.47%</u>

(1) Modified accrual basis of accounting

Note: Due to the changes in the City's fund structure initiated when GASB Statement No. 34 was implemented, the changes in fund balance information is available only beginning in 2004.

Fiscal Year				
	2007	2008	2009	2010
\$	5,927,214	\$ 6,298,996	\$ 6,198,734	\$ 6,609,092
	94,271	98,076	96,535	97,740
	409,948	402,550	501,345	769,529
	5,120	11,080	5,332	5,956
	514,747	262,384	429,913	447,789
	-	-	-	-
	325,364	258,739	123,127	54,319
	47,582	36,535	37,390	22,737
	43,049	267,720	96,453	135,191
	<u>7,367,295</u>	<u>7,636,080</u>	<u>7,488,829</u>	<u>8,142,353</u>
	1,310,596	1,588,358	1,846,671	1,859,894
	2,389,811	2,565,946	2,742,639	3,213,266
	200,936	1,301,846	1,422,306	1,016,111
	924,048	-	-	-
	408,748	447,281	440,345	579,783
	-	-	-	-
	1,142,459	454,855	1,947,494	2,922,769
	568,939	180,000	195,000	200,000
	174,400	161,865	155,465	148,599
	<u>7,119,937</u>	<u>6,700,151</u>	<u>8,749,920</u>	<u>9,940,422</u>
	247,358	935,929	(1,261,091)	(1,798,069)
	662,379	1,053,450	1,019,558	3,271,834
	(409,930)	(689,053)	(744,558)	(3,071,834)
	295,392	257,054	-	-
	19,762	9,439	14,141	5,036
	<u>567,603</u>	<u>630,890</u>	<u>289,141</u>	<u>205,036</u>
\$	<u>814,961</u>	<u>\$ 1,566,819</u>	<u>\$ (971,950)</u>	<u>\$ (1,593,033)</u>
	<u>15.57%</u>	<u>6.11%</u>	<u>5.81%</u>	<u>5.37%</u>

CITY OF PORT LAVACA, TX**TAX REVENUES BY SOURCE, GOVERNMENTAL FUNDS (1)***Last ten fiscal years*

<u>Fiscal Year</u>	<u>Ad Valorem</u>	<u>Sales</u>	<u>Franchise</u>	<u>Hotel/Motel</u>	<u>Beverage</u>	<u>Total</u>
2001	\$ 1,927,756	\$ 1,487,422	\$ 635,176	\$ 133,380	\$ 5,541	\$ 4,189,275
2002	1,983,934	1,421,427	634,708	146,942	4,948	4,191,959
2003	2,117,940	1,509,714	597,503	151,344	9,110	4,385,611
2004	2,236,328	1,516,932	607,321	140,423	8,732	4,509,736
2005	2,354,535	1,707,459	581,283	167,362	8,688	4,819,327
2006	2,562,175	1,823,450	598,795	164,769	9,087	5,158,276
2007	2,804,753	2,328,103	598,044	189,479	6,835	5,927,214
2008	2,957,295	2,439,957	623,987	267,816	9,941	6,298,996
2009	3,178,695	2,170,959	613,509	226,054	9,517	6,198,734
2010	3,422,066	2,295,492	620,247	261,959	9,328	6,609,092

(1) Modified accrual basis of accounting

CITY OF PORT LAVACA, TEXAS

ASSESSED AND ESTIMATED ACTUAL VALUE OF TAXABLE PROPERTY

Last nine fiscal years

Fiscal Year	Tax Roll	Real Property			Personal Property	Less: Tax Exempt Real Property	Total Taxable Assessed Value Before Freeze
		Residential Property	Non-Residential Property				
2002	2001	\$ 134,037,735	\$ 110,465,516	\$ 60,092,990	\$ 26,251,850	\$ 278,344,391	
2003	2002	163,834,185	118,067,559	60,090,881	38,520,537	303,472,088	
2004	2003	166,148,771	121,170,820	64,657,395	37,710,123	314,266,863	
2005	2004	169,079,600	118,907,439	72,553,055	36,891,135	323,648,959	
2006	2005	189,046,615	127,185,229	77,502,348	39,920,977	353,813,215	
2007	2006	194,093,974	138,630,022	86,459,061	40,041,353	379,141,704	
2008	2007	206,232,783	141,359,770	83,588,536	41,119,764	390,061,325	
2009	2008	231,441,796	154,694,954	95,630,537	51,553,761	430,213,526	
2010	2009	263,328,770	163,153,617	98,027,813	62,279,300	462,230,900	

(1) Includes tax-exempt property

NOTES: Property in the City is reassessed annually. The City assesses property at 100% of actual taxable value for all types of real and personal property. Tax rates are per \$100 of assessed value.

Information for ten years ago was not readily available.

SOURCE: Calhoun County Appraisal District

<u>Total Freeze Taxable</u>	<u>Freeze Adjusted Taxable</u>	<u>Total Direct Tax Rate</u>	<u>Estimated Tax Value Before Freeze Ceiling</u>	<u>Freeze Ceiling</u>	<u>Estimated Tax Value Including Freeze Ceiling</u>	<u>Assessed Value (1) as a Percentage of Actual Value</u>
\$ -	\$ 278,344,391	\$ 0.7182	\$ 1,999,069	\$ -	\$ 1,999,069	100.00%
-	303,472,088	0.7200	2,184,999	-	2,184,999	100.00%
-	314,266,863	0.7200	2,262,721	-	2,262,721	100.00%
-	323,648,959	0.7200	2,330,273	-	2,330,273	100.00%
-	353,813,215	0.7500	2,653,599	-	2,653,599	100.00%
-	379,141,704	0.7500	2,843,563	-	2,843,563	100.00%
-	390,061,325	0.7500	2,925,460	-	2,925,460	100.00%
(57,591,363)	372,622,163	0.7500	2,794,666	399,258	3,193,924	100.00%
(63,229,126)	399,001,774	0.7500	2,992,513	403,976	3,396,489	100.00%

CITY OF PORT LAVACA, TEXAS
DIRECT AND OVERLAPPING PROPERTY TAX RATES
PER \$100 OF ASSESSED VALUE
Last ten fiscal years

Fiscal Year	City Direct Rates			Overlapping Rates			
	Debt Service	General Fund	Total	School District	Calhoun County	Port Authority	Total
2001	\$0.1000	\$0.6175	\$0.7175	\$1.3078	\$0.3750	\$0.0047	\$ 1.6875
2002	0.0842	0.6340	0.7182	1.3078	0.4244	0.0047	1.7369
2003	0.1334	0.5866	0.7200	1.3668	0.5210	0.0047	1.8925
2004	0.0864	0.6336	0.7200	1.4176	0.5210	0.0046	1.9432
2005	0.0864	0.6360	0.7200	1.4176	0.5210	0.0043	1.9429
2006	0.0938	0.6562	0.7500	1.2969	0.4900	0.0041	1.7910
2007	0.0878	0.6622	0.7500	1.0968	0.4900	0.0039	1.5907
2008	0.0821	0.6679	0.7500	1.1100	0.4900	0.0039	1.6039
2009	0.0770	0.6730	0.7500	1.1201	0.4900	0.0039	1.6140
2010	0.0770	0.6730	0.7500	1.1331	0.4900	0.0039	1.6270

Source: Calhoun County Appraisal District

CITY OF PORT LAVACA, TEXAS
PRINCIPAL PROPERTY TAXPAYERS
(UNAUDITED)
Current Year and Nine Years Ago

2010		
Taxpayer	Taxable Assessed Valuation	Percentage of Total City Taxable Assessed Valuation
T W Laquay Dredging Inc	\$ 10,921,650	2.74%
RSC Equipment Rental Inc.#759	9,305,130	2.33%
Rexco Inc	9,146,840	2.29%
Wal-Mart Real Estate Business Trust	7,922,650	1.99%
Wal-Mart Stores Texas, LP	6,113,300	1.53%
Maxim Crane Works, LP	5,128,770	1.29%
H E Butt Grocery Company	4,912,400	1.23%
AEP Texas Central Company	4,226,010	1.06%
BKCK Ltd	3,850,480	0.97%
Port Lavaca Dodge	3,549,940	0.89%
	<u>\$ 65,077,170</u>	<u>16.31%</u>

2001		
Taxpayer	Taxable Assessed Valuation	Percentage of Total City Taxable Assessed Valuation
H E Butt Grocery Company	\$ 6,729,129	2.42%
Maxim Crane	5,197,862	1.87%
Verizon Southwest	5,050,680	1.81%
Rexco Inc	4,912,670	1.76%
AEP Central Power & Light Co.	3,563,640	1.28%
Prime Equipment	3,500,000	1.26%
Sea Breeze Village Apts. Ltd.	2,862,831	1.03%
Formosa Plastics Dev. Corp.	2,803,084	1.01%
First National Bank	2,788,233	1.00%
International Bank of Commerce	2,643,878	0.95%
	<u>\$ 40,052,007</u>	<u>14.39%</u>

Source: Calhoun County Appraisal District

CITY OF PORT LAVACA, TEXAS
PROPERTY TAX LEVIES AND COLLECTIONS
Last ten fiscal years

Fiscal Year	Taxes Levied for the Fiscal Year (Original Levy)	Adjustments	Total Adjusted Levy	Collections within the Fiscal Year of the Levy	
				Amount	Percentage of Levy
2001	\$ 1,915,989	\$ (2,646)	\$ 1,913,343	\$ 1,840,439	96.19%
2002	1,997,548	262	1,997,810	1,911,268	95.67%
2003	2,186,081	(7,108)	2,178,973	2,055,277	94.32%
2004	2,260,396	5,910	2,266,306	2,111,960	93.19%
2005	2,343,372	(9,994)	2,333,378	2,199,525	94.26%
2006	2,552,795	(5,340)	2,547,455	2,434,551	95.57%
2007	2,850,290	(6,724)	2,843,566	2,698,948	94.91%
2008	2,931,382	(5,944)	2,925,438	2,771,551	94.74%
2009	3,199,645	(5,324)	3,194,321	3,014,618	94.37%
2010	3,440,702	(44,490)	3,396,212	3,231,724	95.16%

SOURCE: Calhoun County Appraisal District

Collections in Subsequent Years	Total Collections to Date	
	Amount	Percentage of Levy
\$ 65,617	\$ 1,906,056	99.62%
78,316	1,989,584	99.59%
106,171	2,161,448	99.20%
144,032	2,255,992	99.54%
119,635	2,319,160	99.39%
96,009	2,530,560	99.34%
121,346	2,820,294	99.18%
120,405	2,891,956	98.86%
118,817	3,133,435	98.09%
-	3,231,724	95.16%

CITY OF PORT LAVACA, TEXAS**WATER PRODUCED AND CONSUMED AND WASTEWATER TREATED***Last ten fiscal years*

<u>Fiscal Year</u>	<u>Gallons of GBRA Water Purchased</u>	<u>Gallons of Metered Consumption</u>	<u>Gallons of Water Unaccounted</u>	<u>Average Percent Unaccounted</u>	<u>Gallons of Wastewater Treated</u>
2001	565,195	453,202	111,993	20%	N/A
2002	549,278	440,610	108,668	20%	N/A
2003	470,650	401,858	68,792	15%	N/A
2004	442,460	391,682	50,778	11%	465,620
2005	483,325	402,711	80,614	17%	396,770
2006	470,830	399,093	71,737	15%	417,390
2007	430,287	370,762	59,525	14%	498,810
2008	489,864	405,585	84,279	17%	382,770
2009	496,619	455,031	41,588	8%	368,120
2010	459,847	377,310	82,537	18%	435,540

NOTES: The City purchases water from the Guadalupe-Blanco River Authority.

Water and Sewer Usage Rates shown are for 5,000 gallons usage.

N/A denotes information not available.

SOURCE: City of Port Lavaca Utility Department

Total Direct Rate				
Water		Sewer		
Base Rate	Usage Rate	Base Rate	Usage Rate	
\$ 8.91	10.47	\$ 8.52	10.47	
8.98	10.65	8.52	10.65	
10.98	11.70	8.59	11.61	
12.46	13.29	9.75	13.17	
13.46	13.35	9.75	13.17	
13.96	13.35	11.75	10.65	
13.96	13.95	12.25	10.65	
15.00	14.25	14.00	10.65	
15.00	14.25	14.00	10.65	
15.00	14.25	14.00	10.65	

CITY OF PORT LAVACA, TEXAS

WATER AND SEWER RATES

Last ten fiscal years

	Fiscal Year				
	2001	2002	2003	2004	2005
Water Rates					
Base Rate (includes 2,000 gallons)					
Base Rate by Meter Size					
3/4" to 5/8"	\$ 8.91	\$ 8.98	\$ 10.98	\$ 12.46	\$ 13.46
1"	10.19	10.19	12.19	13.84	14.84
1 1/2"	12.76	12.76	14.76	16.75	17.75
2"	15.32	15.32	17.32	19.66	20.66
3"	20.54	20.54	22.54	25.58	26.58
4"	25.56	25.56	27.56	31.28	32.28
6"	36.61	36.61	38.61	44.16	45.16
Per 1,000 gallons over base charge	3.49	3.55	3.90	4.43	4.45
Sewer Rates					
Base Rate (includes 2,000 gallons)	8.52	8.52	8.59	9.75	9.75
Per 1,000 gallons over base charge	3.49	3.55	3.87	4.39	4.39

NOTES: Increases in water and sewer rates are approved by the City Council.

Sewer consumption rates for residential customers are based on the average of the last three-month period of December, January, and February that preceded the billing date.

Customers outside City limits are charged a rate of 1.5 times the inside City limit rates.

The City changed the rate classification in 2008.

SOURCE: City of Port Lavaca Utility Department

		Fiscal Year													
		2006		2007		2008		2009		2010					
						<u>Residential</u>		<u>Commercial</u>		<u>Residential</u>		<u>Commercial</u>			
\$	13.96	\$	13.96	\$	15.00	\$	17.50	\$	15.00	\$	17.50	\$	15.00	\$	17.50
	15.34		15.34		15.00		17.50		15.00		17.50		15.00		17.50
	18.25		18.25		15.00		17.50		15.00		17.50		15.00		17.50
	21.16		21.16		15.00		35.00		15.00		35.00		15.00		35.00
	27.08		27.08		15.00		35.00		15.00		35.00		15.00		35.00
	32.78		32.78		15.00		35.00		15.00		35.00		15.00		35.00
	45.66		45.66		15.00		35.00		15.00		35.00		15.00		35.00
	4.45		4.65		4.75		4.95		4.75		4.95		4.75		4.95
	11.75		12.25		14.00		15.75		14.00		15.75		14.00		15.75
	4.39		4.89		4.90		4.95		4.90		4.95		4.90		4.95

CITY OF PORT LAVACA, TEXAS
TEN LARGEST WATER CUSTOMERS
 (UNAUDITED)
 Current Year and Nine Years Ago

2010			
<u>Customer</u>	<u>Type of Business</u>	<u>12-Month Water Consumption</u>	<u>Percent of Total Billed</u>
Memorial Medical Center	Hospital	13,862	3.67%
Calhoun County	County Offices	9,779	2.59%
Calhoun County I.S.D.	Schools	9,548	2.53%
City of Port Lavaca	City Accounts	8,941	2.37%
Bordeaux Apartments	Apartment Complex	6,626	1.76%
Regency Nursing Home	Senior Center (Home)	6,607	1.75%
Hillman Shrimp & Oyster	Fishing Industry	4,394	1.16%
Splash & Dash	Car Wash	3,866	1.02%
Days Inn	Hotel/Motel	3,241	0.86%
The Laundromat	Laundry	2,817	0.75%

2001			
<u>Customer</u>	<u>Type of Business</u>	<u>12-Month Water Consumption</u>	<u>Percent of Total Billed</u>
Calhoun County I.S.D.	Schools	8,931	1.97%
Memorial Medical Center	Hospital	7,898	1.74%
Regency Nursing Home	Senior Center (Home)	7,148	1.58%
H.E.B.	Grocery Store	6,985	1.54%
Bordeaux Apartments	Apartment Complex	6,479	1.43%
King Fisher	Marina	5,856	1.29%
City of Port Lavaca	City Accounts	5,775	1.27%
Days Inn	Hotel/Motel	3,122	0.69%
Calhoun County	County Offices	3,007	0.66%
Sea Breeze	Apartment Complex	2,587	0.57%

SOURCE: City of Port Lavaca Utility Billing Department

CITY OF PORT LAVACA, TEXAS
RATIOS OF OUTSTANDING DEBT BY TYPE
Last ten fiscal years

Fiscal Year	Governmental Activities				Business-type Activities		
	Certificates of Obligation	General Obligation Bonds	Note Agreement	Capital Leases	Certificates of Obligation	Revenue Bonds	Capital Leases
2001	\$ 403,305	\$ 1,010,000	\$ -	\$ 63,504	\$ 536,695	\$ 7,120,000	\$ 33,449
2002	355,812	900,000	-	80,400	424,188	6,910,000	22,266
2003	325,000	-	-	37,497	315,000	6,690,000	8,838
2004	3,790,000	-	-	-	240,000	6,460,000	-
2005	4,385,000	-	-	96,149	185,000	6,225,000	61,790
2006	4,250,000	-	400,286	129,380	80,000	5,980,000	49,238
2007	4,090,000	-	114,027	302,097	440,000	5,725,000	21,219
2008	3,910,000	-	-	423,954	4,035,000	5,595,000	288,374
2009	3,715,000	-	-	332,486	3,940,000	5,315,000	237,874
2010	3,515,000	-	-	261,340	3,800,000	5,025,000	193,957

NOTE: Details regarding the City's outstanding debt can be found in the notes to financial statements.

<u>Total Primary Government</u>	<u>Percentage of Personal Income</u>	<u>Per Capita</u>
\$ 9,166,953	3.5%	\$ 770.27
8,692,666	3.3%	741.32
7,376,335	2.7%	632.35
10,490,000	3.8%	901.67
10,952,939	3.7%	951.68
10,888,904	3.5%	949.25
10,692,343	3.2%	937.51
14,252,328	4.1%	1,243.12
13,540,360	N/A	1,178.55
12,795,297	N/A	1,063.17

CITY OF PORT LAVACA, TEXAS*RATIOS OF NET GENERAL BONDED DEBT OUTSTANDING**Last ten fiscal years*

Fiscal Year	General Bonded Debt Outstanding			Debt Service Monies Available	Debt Payable from Enterprise Funds
	Certificates of Obligation	General Obligation Bonds	Total		
2001	\$ 940,000	\$ 1,010,000	1,950,000	\$ 101,493	\$ 536,695
2002	780,000	900,000	1,680,000	130,910	424,188
2003	4,215,000	-	4,215,000	86,070	315,000
2004	4,030,000	-	4,030,000	168,794	240,000
2005	4,570,000	-	4,570,000	137,977	185,000
2006	4,330,000	-	4,330,000	118,931	80,000
2007	4,530,000	-	4,530,000	148,960	440,000
2008	7,945,000	-	7,945,000	159,271	4,035,000
2009	6,655,000	-	6,655,000	159,657	3,940,000
2010	7,315,000	-	7,315,000	161,177	3,800,000

NOTES: Details regarding the City's outstanding debt can be found in the notes to financial statements.

N/A denotes information not available.

<u>Net Bonded Debt</u>	<u>Percentage of Actual Taxable Value of Property</u>	<u>Per Capita</u>
1,311,812	N/A	\$ 110.23
1,124,902	0.40%	95.93
3,813,930	1.26%	326.95
3,621,206	1.15%	311.26
4,247,023	1.31%	369.02
4,131,069	1.17%	360.13
3,941,040	1.04%	345.55
3,750,729	0.96%	327.15
2,555,343	0.59%	222.42
3,353,823	0.73%	278.67

CITY OF PORT LAVACA, TEXAS**DIRECT AND OVERLAPPING GOVERNMENTAL ACTIVITIES DEBT****(UNAUDITED)**

September 30, 2010

	<u>Gross Debt Outstanding</u>		<u>Percentage Applicable to City</u>	<u>Amount Applicable to City</u>
	<u>Date</u>	<u>Amount</u>		
Direct Debt:				
City of Port Lavaca	9/30/2010	<u>\$ 3,515,000</u>	100.00%	<u>\$ 3,515,000</u>
Overlapping Debt:				
Calhoun County	9/30/2010	12,410,000	15.65%	1,942,523
Calhoun Independent School District	9/30/2010	16,430,000	15.11%	2,482,203
Calhoun Port Authority	9/30/2010	<u>32,400,000</u>	24.60%	<u>7,971,614</u>
Total Overlapping Debt		<u>61,240,000</u>		<u>12,396,340</u>
Total		<u>\$ 64,755,000</u>		<u>\$ 15,911,340</u>

NOTES: 1 There is no legal debt limit for the City. Texas municipalities are not bound by any direct constitutional or statutory maximums as to the amount of obligation bonds which may be issued; however, all local bonds must be submitted to and approved by the State Attorney General. It is the established practice of the Attorney General not to approve a prospective bond issue if it will result in a tax levy for general bonded debt of over \$1.00 for cities under 5,000 population, or \$1.50 for cities over 5,000 population.

2 The percentage of overlapping debt applicable is estimated using taxable property values. Applicable percentages were estimated by determining the portion of another governmental unit's taxable value that is within the City's boundaries and dividing it by each government's total taxable value.

SOURCE: Calhoun County Appraisal District
Calhoun County
Calhoun Port Authority
Calhoun County ISD

CITY OF PORT LAVACA, TEXAS**PLEDGED-REVENUE COVERAGE***Last ten fiscal years*

<u>Fiscal Year</u>		<u>Gross Revenue</u>	<u>Direct Operating Expenses</u>	<u>Net Available Revenue</u>	<u>Average Debt Service Requirements</u>	<u>Times Debt Coverage</u>
2001	(1)	\$ 4,090,217	\$ 3,110,570	\$ 979,647	\$ 539,000	1.82
2002	(1)	3,905,575	2,760,874	1,144,701	541,221	2.12
2003	(1)	3,642,066	2,911,661	730,405	543,442	1.34
2004	(2)	3,933,123	2,932,517	1,000,606	544,740	1.84
2005	(2)	4,467,282	2,895,575	1,571,707	540,000	2.91
2006	(2)	4,529,981	2,819,506	1,710,475	541,496	3.16
2007	(2)	4,674,553	3,134,268	1,540,285	541,619	2.84
2008	(2)	5,127,853	3,186,879	1,940,974	647,326	3.00
2009	(2)	5,331,869	3,478,632	1,853,237	656,105	2.82
2010	(2)	5,194,828	3,470,112	1,724,716	657,458	2.62

(1) Revenues and expenses of the Public Utility Fund net of debt service.

(2) "Gross Revenue" as used herein refers to all operating revenues and all interest income of the Public Utility Fund. "Direct Operating Expenses" is defined as all operating expenses of the Public Utility Fund (which does not include capital outlay or interest expense) less depreciation.

CITY OF PORT LAVACA, TEXAS
DEMOGRAPHIC AND ECONOMIC STATISTICS
 (UNAUDITED)
 Last ten fiscal years

<u>Fiscal Year</u>	<u>(1) Population</u>	<u>Personal Income</u>	<u>(2) Per Capita Personal Income (Calhoun County)</u>	<u>(3) School Enrollment</u>	<u>(4) Unemployment Rate</u>
2001	11,901	\$ 261,369,762	\$ 21,962	4,153	6.6%
2002	11,726	260,282,022	22,197	4,162	7.5%
2003	11,665	269,193,205	23,077	4,215	7.5%
2004	11,634	277,738,482	23,873	4,225	7.2%
2005	11,509	292,317,091	25,399	4,253	5.9%
2006	11,471	307,124,554	26,774	4,299	5.0%
2007	11,405	329,079,870	28,854	4,334	4.5%
2008	11,465	346,862,110	30,254	4,282	4.9%
2009	11,489	N/A	N/A	4,349	8.3%
2010	12,035	N/A	N/A	4,230	9.1%

NOTES: The unemployment rates are a twelve month average from October through September for City of Port Lavaca.

N/A denotes information not available.

SOURCE: (1) Population based on U.S. Census Bureau

(2) Bureau of Economic Analysis

(3) Calhoun Independent School District

(4) Texas Workforce Commission

CITY OF PORT LAVACA, TEXAS

PRINCIPAL EMPLOYERS

(UNAUDITED)

Current Year Only

2010

<u>Employer</u>	<u>Employees</u>	<u>Percentage of Total County Employment</u>
Alcoa	576	6.63%
INEOS Nitriles Formerly BP	129	1.48%
Calhoun County I.S.D.	650	7.48%
Calhoun County	330	3.80%
Formosa Plastics	1,530	17.60%
Seadrift Coke	141	1.62%
HEB Grocery	636	7.32%
International Bank Of Commerce	150	1.73%
King Fisher Marine Service	365	4.20%
Memorial Medical Center	141	1.62%
Dow Chemical	607	6.98%
	<u>5,255</u>	<u>60.45%</u>

NOTES: Information is for the City and Calhoun County.
Information for nine years ago or other previous years was not readily available.

SOURCE: Calhoun County Economic Development Corporation
Texas Workforce Commission- Victoria Office

CITY OF PORT LAVACA, TEXAS**FULL-TIME-EQUIVALENT CITY GOVERNMENT EMPLOYEES BY FUNCTION/PROGRAM***Last ten fiscal years*

Function/Program	Fiscal Year			
	2001	2002	2003	2004
General government				
City manager	2.0	2.0	2.0	2.0
City secretary	1.0	1.0	1.0	1.0
Finance	3.0	3.0	3.0	3.0
Municipal court	1.0	1.0	1.0	1.0
Technology	-	-	-	-
Custodial Services	-	-	-	-
Public safety				
Police	21.0	18.0	19.0	19.0
Communications	6.0	6.0	6.0	6.0
Fire	16.0	16.0	15.0	15.0
Code enforcement	2.0	2.0	2.0	2.0
Animal control	1.0	1.0	1.0	1.0
Public works				
Public works	1.0	1.0	1.0	1.0
Streets/Maintenance	9.0	10.0	8.0	8.0
Water/Wastewater				
Customer Service	3.0	3.0	3.0	3.0
Meter Readers	2.0	2.0	2.0	2.0
Water and sewer	24.0	14.0	19.0	14.0
Parks and Recreation	5	5.0	5.0	5.0
Bauer Center	2.0	2.0	2.0	2.0
Total	<u>99.0</u>	<u>87.0</u>	<u>90.0</u>	<u>85.0</u>

SOURCE: City of Port Lavaca Human Resource Department

Fiscal Year					
2005	2006	2007	2008	2009	2010
2.0	2.0	2.0	2.0	2.0	2.0
2.0	2.0	2.0	2.0	2.0	1.0
3.0	3.0	3.0	3.0	3.0	4.0
1.0	1.0	1.0	1.0	1.0	1.0
-	-	-	-	-	1.0
-	-	-	-	-	1.0
20.0	19.0	18.0	19.0	18.0	20.0
6.0	6.0	6.0	6.0	6.0	6.0
16.0	16.0	17.0	17.0	17.0	17.0
2.0	2.0	2.0	3.0	3.0	3.0
1.0	1.0	1.0	1.0	1.0	2.0
1.0	1.0	1.0	2.0	2.0	2.0
8.0	9.0	9.0	9.0	9.0	9.0
3.0	3.0	3.0	3.0	3.0	3.0
2.0	2.0	2.0	2.0	2.0	2.0
14.0	13.0	13.0	12.0	12.0	12.0
5.0	5.0	5.0	5.0	5.0	5.0
2.0	2.0	2.0	2.0	2.0	2.0
<u>88.0</u>	<u>87.0</u>	<u>87.0</u>	<u>89.0</u>	<u>88.0</u>	<u>93.0</u>

CITY OF PORT LAVACA, TEXAS

OPERATING INDICATORS BY FUNCTION/PROGRAM

Last ten fiscal years

Function/Program	Fiscal Year			
	2001	2002	2003	2004
General government				
Building permits issued	N/A	N/A	N/A	316
Building inspections conducted	N/A	N/A	N/A	653
Public safety				
Police				
Physical arrests	N/A	N/A	N/A	N/A
Traffic violations	N/A	N/A	N/A	N/A
Fire				
Fire calls	N/A	N/A	N/A	N/A
Public works				
Streets (miles)	49.3	49.3	49.3	49.3
Culture and recreation				
Parks and recreation				
Bauer center rentals	N/A	N/A	N/A	N/A
Lighthouse Beach Park				
Annual	299	272	237	352
Daily	6,855	6,732	4,784	7,398
Pavillion	N/A	N/A	16	54
Water and wastewater				
Water				
Water Customers	4,413	4,353	4,455	4,455
Water Taps	12	33	19	24
Average daily consumption	1.55 mgd	1.53 mgd	1.28 mgd	1.20 mgd
Peak daily consumption	1.87 mgd	1.90 mgd	1.61 mgd	1.52 mgd
Wastewater				
Sewer Customers	4,146	4,096	4,193	4,193
Sewer Taps	7	25	15	26
Average daily sewage treatment	N/A	N/A	N/A	1.28 mgd

NOTE: N/A denotes information not available.

SOURCE: Various City departments

Fiscal Year					
2005	2006	2007	2008	2009	2010
329	283	491	202	564	548
676	499	456	436	564	732
N/A	N/A	N/A	398	409	336
N/A	N/A	N/A	431	450	422
234	222	200	230	192	175
49.3	49.3	50.1	50.1	50.1	50.1
64	73	65	88	71	65
464	451	496	536	551	533
8,619	6,932	7,093	9,516	11,111	15,170
43	43	54	38	25	42
4,455	4,492	4,456	4,548	4,514	4,552
25	8	10	13	19	11
1.29 mgd	1.29 mgd	1.18 mgd	1.34 mgd	1.38 mgd	1.27 mgd
1.55 mgd	1.57 mgd	1.40 mgd	1.61 mgc	1.66 mgd	1.49 mgd
4,175	4,190	4,173	4,253	4,217	4,267
18	7	8	7	2	7
1.09 mgd	1.14 mgd	1.37 mgd	1.05 mgd	1.01 mgd	1.19 mgd

CITY OF PORT LAVACA, TEXAS

CAPITAL ASSET STATISTICS BY FUNCTION/PROGRAM

Last ten fiscal years

Function/Program	Fiscal Year			
	2001	2002	2003	2004
Public safety				
Police				
Stations	1	1	1	1
Patrol units	7	7	7	7
Fire stations	2	2	2	2
Highways and streets				
Streets (miles)	49.3	49.3	49.3	49.3
Streetlights	676	677	678	672
Culture and recreation				
Acreage	150	150	150	150
Parks	6	6	6	7
Baseball/softball diamonds	2	2	2	2
Community centers	1	1	1	1
Swimming pools	1	1	1	1
Water and wastewater				
Water				
Water mains (miles)	66	66	66	67
Fire hydrants	245	245	245	245
Storage capacity	1.761	1.761	1.761	1.761
Wastewater				
Sanitary sewers (miles)	55	55	55	55
Treatment capacity	2	2	2	2

SOURCE: Various City departments

Fiscal Year						
2005	2006	2007	2008	2009	2010	
1	1	1	1	1	1	1
7	7	7	7	7	7	7
2	2	2	2	2	2	2
49.3	49.3	50.1	50.1	50.1	50.1	50.1
672	680	686	686	684	686	686
150	150	150	150	150	150	150
7	7	7	7	7	7	7
2	2	2	2	2	2	2
1	1	1	1	1	1	1
1	1	1	1	1	1	1
67	68.5	68.5	68.5	69	69	69
250	250	250	250	259	259	259
1	1	1	1	1	1	1
56	56	58	58	58	58	58
2.5	2.5	2.5	2.5	2.5	2.5	2.5

SINGLE AUDIT SECTION



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

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

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Port Lavaca, Texas (the "City") as of and for the year ended September 30, 2010, which collectively comprise the City's basic financial statements and have issued our report thereon dated March 29, 2011. 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 deficiency in internal control 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 material weakness is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the City's financial statements will not be prevented, or detected and corrected on a timely basis.

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

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 Honorable Mayor
and Members of the City Council

This report 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.

Harrison Waldrey + Uherick, LLP.
March 29, 2011



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

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

Compliance

We have audited the compliance of the City of Port Lavaca, Texas (the "City") with the types of compliance requirements described in the *U. S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to its major federal program for the year ended September 30, 2010. The City's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal program is the responsibility of the City's management. Our responsibility is to express an opinion on the City's compliance based on our audit.

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

In our opinion the City complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended September 30, 2010.

Internal Control Over Compliance

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

The Honorable Mayor
and Members of the City Council

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

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

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

Harrison Waldrop + Uherick, LLP.
March 29, 2011

CITY OF PORT LAVACA, TEXAS**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

For the year ended September 30, 2010

<u>Federal Grantor/ Pass-Through Grantor/ Program or Cluster Title</u>	<u>Federal CFDA Number</u>	<u>Identifying Number</u>	<u>Federal Expenditures</u>
U.S. Department of Justice			
<i>Passed through Office of the Governor</i>			
<i>Criminal Justice Division</i>			
Bulletproof Vest Partnership Program	16.607	N/A	\$ 585
Edward Byrne Memorial Justice Assistance Grant - 2009 ARRA	16.804	2009-SB-B9-2065	<u>11,027</u>
Total U.S. Department of Justice			<u>11,612</u>
U.S. Department of Homeland Security			
<i>Passed through Texas Department of Public Safety</i>			
State Domestic Preparedness	97.074	2009-SS-T9-0064	<u>57,899</u>
U.S. Department of Commerce			
<i>Passed through Texas General Land Office</i>			
Coastal Zone Management	11.419	GLO 09-039-000-3356	40,325
Coastal Zone Management	11.419	GLO 10-064-000-3770	<u>13,680</u>
Total U.S. Department of Commerce			<u>54,005</u>
U.S. Department of Housing and Urban Development			
<i>Passed through Texas Department of Agriculture</i>			
Texas Community Development Block Grant	14.228	728282	125,279
<i>Passed through Texas Department of Rural Affairs</i>			
Texas Community Development Block Grant	14.228	728350	155,594
Texas Community Development Block Grant	14.228	729621	<u>135,123</u>
Total U.S. Department of Housing and Urban Development			<u>415,996</u>
U.S. Department of Transportation			
<i>Passed through Texas Department of Transportation</i>			
Safe Routes to School Program	20.205	CSJ 0913-19-023	<u>4,500</u>
U.S. General Services Administration			
<i>Passed through Texas Facilities Commission</i>			
Donation of Federal Surplus Personal Property	39.003	13515	<u>6,990</u>
Total Expenditures of Federal Awards			<u>\$ 551,002</u>

See accompanying notes to schedule of expenditures of federal awards.

CITY OF PORT LAVACA, TEXAS

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

September 30, 2010

NOTE 1: BASIS OF PRESENTATION

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

CITY OF PORT LAVACA, TEXAS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the year ended September 30, 2010

Section I - Summary of Auditors' Results

Financial Statements

Type of auditors' report issued: Unqualified

Internal control over financial reporting:

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

Noncompliance material to financial statements noted?

yes no

Federal Awards

Internal control over major programs:

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

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

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

yes no

Identification of major program:

<i>CFDA Number(s)</i>	<i>Name of Federal Program or Cluster</i>
14.228	Texas Community Development Block Grant

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

Auditee qualified as low-risk auditee? yes no

Section II - Financial Statement Findings

None noted.

Section III - Federal Award Findings and Questioned Costs

None noted.

CITY OF PORT LAVACA, TEXAS
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
For the year ended September 30, 2010

09-1 Administrative Oversight

Condition: The finding was a material weakness stating that the City's management failed to perform the proper administrative procedures prior to incurring substantial construction costs on the boat ramp project.

Recommendation: The auditors recommended that the City establish procedures that would insure that all administrative issues are completed before incurring project costs that would potentially not be reimbursed by a federal or state grant.

Current Status: The City's management has implemented procedures and continues to work on improving the grant administration process.

