



CITY OF PORT LAVACA, TEXAS

ANNUAL FINANCIAL REPORT

FOR THE YEAR ENDED SEPTEMBER 30, 2016

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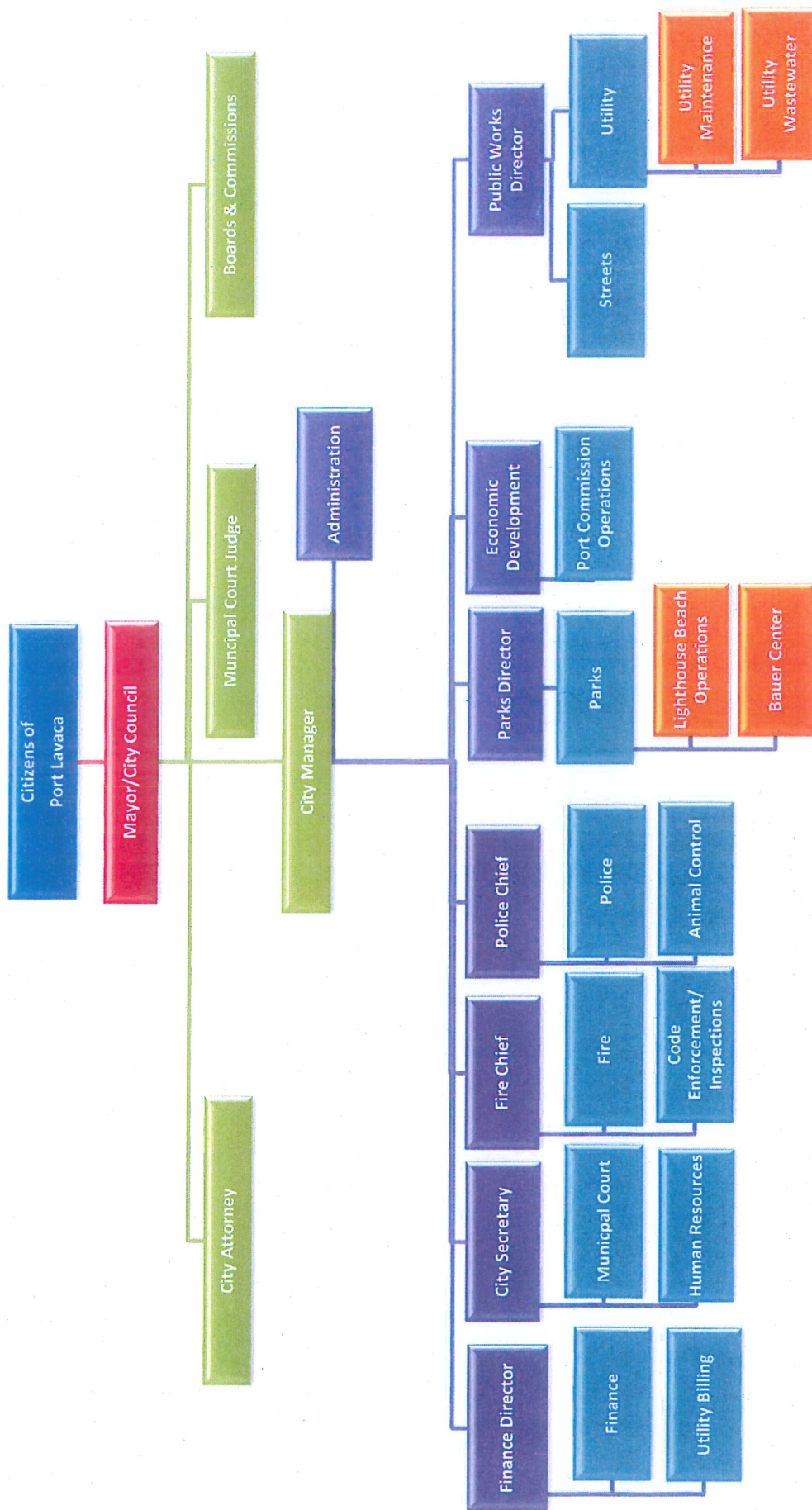
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INTRODUCTORY SECTION



CITY OF PORT LAVACA, TEXAS
DIRECTORY OF PRINCIPAL OFFICIALS
September 30, 2016

City Officials

Jack Whitlow

Ken Barr

Jerry Smith

Lee Rivera

Rosie Padron

Tim Dent

Jim Ward

Elective Position

Mayor

Mayor Pro-Tem

Council Member

Council Member

Council Member

Council Member

Council Member

Key Staff

Robert Bradshaw

Scotty Jones

Mandy Grant

Joe Reyes, Jr.

Colin Rangnow

Darren Gurley

Appointive Position

City Manager

Director of Finance

City Secretary

Chief of Fire

Chief of Police

Director of Public Works

FINANCIAL SECTION



CERTIFIED PUBLIC ACCOUNTANTS
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INDEPENDENT AUDITORS' REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Port Lavaca, Texas (the "City") as of and for the year ended September 30, 2016, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the organization's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

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

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, 2016, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information, schedule of changes in net pension liability and related ratios, and schedule of employer contributions as listed in the table of contents, 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. 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.

Other Information

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

The combining and individual nonmajor fund financial statements are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining and individual nonmajor fund financial statements are fairly stated in all material respects in relation to the basic financial statements as a whole.

The introductory section has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated May 24, 2017, on our consideration of the City's internal control over financial reporting and on 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* in considering the City's internal control over financial reporting and compliance.

Harrison, Waldrop & Uherek, LLP

HARRISON, WALDROP & UHEREK, L.L.P.
Certified Public Accountants

May 24, 2017

CITY OF PORT LAVACA, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the year ended September 30, 2016

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, 2016.

FINANCIAL HIGHLIGHTS

Government-wide

- The assets and deferred outflows of the City exceeded its liabilities and deferred inflows at the close of the most recent fiscal year by \$55,474,536 (net position). Of this amount, \$15,616,172 (unrestricted net position) may be used to meet the City's ongoing obligations to citizens and creditors.
- The City's total net position increased by \$2,084,686 over the prior year.

Governmental Activities

- Net position grew from \$30,174,390 in 2015, to \$31,240,585 (an increase of 4%) as of September 30, 2016.

Business-type Activities

- Net position grew from \$23,215,460 in 2015, to \$24,233,951 (an increase of 4%) as of September 30, 2016.

Governmental Funds

- As of September 30, 2016, the City's governmental funds reported an ending fund balance of \$10,761,534, an increase of \$1,153,467 (12%) in comparison with the prior year.
- At the end of the fiscal year, unassigned fund balance for the General Fund was \$4,922,293 or 70% of total General Fund expenditures.
- The committed portion of the General Fund's fund balance totaled \$3,534,329. These monies were committed by the Council to pay health insurance claims, capital asset replacement, and to be ready financially in the event of a disaster.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

Organization and Flow of Financial Section Information

Independent Auditors' Report

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

Management's Discussion and Analysis

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

Pages 4 to 12

Government-wide Financial Statements

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

Pages 13 to 16

Fund Financial Statements

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

Pages 17 to 26

Notes to Financial Statements

Provides a summary of significant accounting policies and related disclosures.

Pages 27 to 53

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 position* presents information on all of the City's assets and liabilities, with the difference between the two reported as net position. Over time, increases or decreases in net position 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 position changed during the most recent fiscal year. All changes in net position 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 13-16 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 17-20 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 21-24 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 25-26 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 27-53 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 58-75 of this report.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. The City's assets and deferred outflows exceeded liabilities and deferred inflows by \$55,474,536 as of September 30, 2016.

The largest portion of the City's net position (69%) 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 position (28%) represents unrestricted financial resources available for future operations. Additionally, a portion of the City's net position (3%) 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 position for the primary government as a whole.

City of Port Lavaca, Texas

Net Position

	Governmental Activities		Business-type Activities		Total	
	2016	2015	2016	2015	2016	2015
Current and other assets	\$ 11,719,061	\$ 10,775,046	\$ 6,976,941	\$ 6,375,726	\$ 18,696,002	\$ 17,150,772
Capital assets, net	22,739,936	23,226,824	23,623,990	23,796,805	46,363,926	47,023,629
Total assets	34,458,997	34,001,870	30,600,931	30,172,531	65,059,928	64,174,401
Total deferred outflows of resources	761,528	322,661	238,580	159,651	1,000,108	482,312
Current and other liabilities	864,520	1,130,497	1,380,488	1,252,815	2,245,008	2,383,312
Noncurrent liabilities	2,946,051	2,868,392	5,197,783	5,839,815	8,143,834	8,708,207
Total liabilities	3,810,571	3,998,889	6,578,271	7,092,630	10,388,842	11,091,519
Total deferred inflows of resources	169,369	151,252	27,289	24,092	196,658	175,344
Net Position:						
Net investment in capital assets	20,549,966	20,724,855	17,986,418	17,592,876	38,536,384	38,317,731
Restricted	1,321,980	1,330,800	-	-	1,321,980	1,330,800
Unrestricted	9,368,639	8,118,735	6,247,533	5,622,584	15,616,172	13,741,319
Total net position	\$ 31,240,585	\$ 30,174,390	\$ 24,233,951	\$ 23,215,460	\$ 55,474,536	\$ 53,389,850

GOVERNMENT-WIDE FINANCIAL ANALYSIS - (Continued)

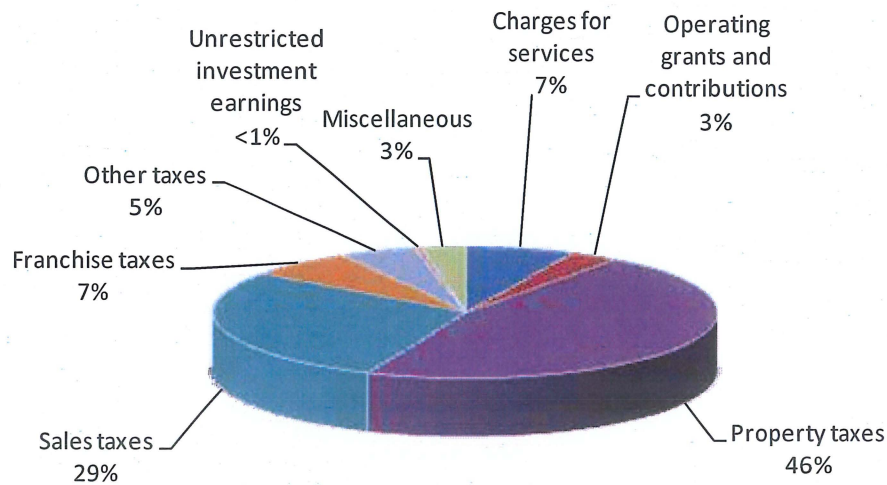
Net position of the City increased by \$2,084,686. Key elements of this increase are due primarily because revenues remained consistent with the prior year and there was a decrease in expenses for the business-type activities.

City of Port Lavaca, Texas						
Changes in Net Position						
	Governmental Activities		Business-type Activities		Total	
	2016	2015	2016	2015	2016	2015
REVENUES						
Program revenues:						
Charges for services	\$ 608,227	\$ 603,814	\$ 6,322,642	\$ 6,558,643	\$ 6,930,869	\$ 7,162,457
Operating grants and contributions	273,077	364,996	2,000	-	275,077	364,996
Capital grants and contributions	-	32,894	45,625	37,000	45,625	69,894
General revenues:						
Property taxes	4,054,264	4,071,091	-	-	4,054,264	4,071,091
Sales taxes	2,510,153	2,809,977	-	-	2,510,153	2,809,977
Franchise taxes	587,153	615,800	-	-	587,153	615,800
Other taxes	427,960	538,290	-	-	427,960	538,290
Unrestricted investment earnings	42,964	29,459	38,787	13,563	81,751	43,022
Miscellaneous	254,054	245,554	-	-	254,054	245,554
Total revenues	8,757,852	9,311,875	6,409,054	6,609,206	15,166,906	15,921,081
EXPENSES						
General government	2,417,076	2,405,720	-	-	2,417,076	2,405,720
Public safety	3,200,259	3,292,483	-	-	3,200,259	3,292,483
Public works	1,592,784	1,374,483	-	-	1,592,784	1,374,483
Parks and recreation	697,230	685,084	-	-	697,230	685,084
Interest on long-term debt	53,809	60,841	-	-	53,809	60,841
Public utilities	-	-	4,452,538	4,614,845	4,452,538	4,614,845
Port commission	-	-	396,088	447,151	396,088	447,151
Beach operations	-	-	272,436	344,669	272,436	344,669
Total expenses	7,961,158	7,818,611	5,121,062	5,406,665	13,082,220	13,225,276
Change in net position before transfers	796,694	1,493,264	1,287,992	1,202,541	2,084,686	2,695,805
Transfers	269,501	864,500	(269,501)	(864,500)	-	-
Change in net position	1,066,195	2,357,764	1,018,491	338,041	2,084,686	2,695,805
Net position - October 1	30,174,390	27,816,626	23,215,460	22,877,419	53,389,850	50,694,045
Net position - September 30	\$ 31,240,585	\$ 30,174,390	\$ 24,233,951	\$ 23,215,460	\$ 55,474,536	\$ 53,389,850

GOVERNMENT-WIDE FINANCIAL ANALYSIS - (Continued)

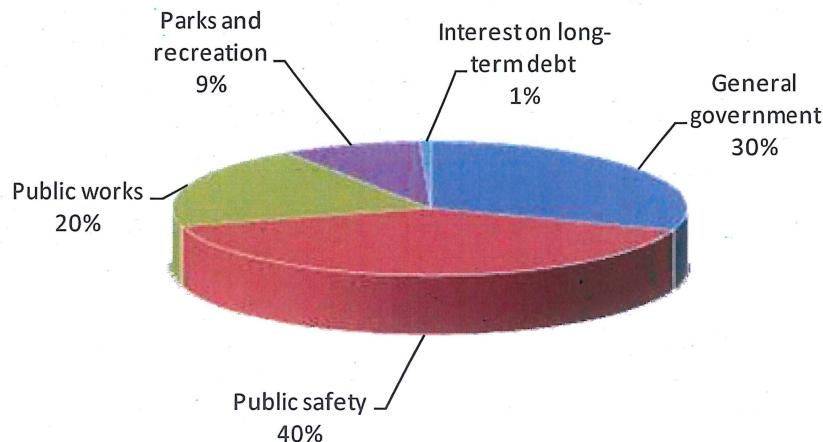
Graphic presentations of selected data from the summary tables follow to assist in the analysis of the City's activities.

Governmental Revenues



For the fiscal year ended September 30, 2016, revenues from governmental activities totaled \$8.8 million. Sales tax revenues decreased \$299,824 or 11% from fiscal year 2015.

Governmental Functional Expenses



For the fiscal year ended September 30, 2016, expenses for governmental activities totaled \$8 million. This is an increase of \$142,547 or 2% from fiscal year 2015.

GOVERNMENT-WIDE FINANCIAL ANALYSIS - (Continued)

Business-type activities increased the City's net position by \$1,018,491. The key elements of this increase relate to the Public Utility Fund. The Public Utility Fund had an operating income for fiscal year 2016 of \$966,818.

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, 2016, the City's governmental funds, which consist of the General Fund, one debt service fund, one capital projects fund, and twelve special revenue funds, reported an ending fund balance of \$10,761,534, which is an increase of \$1,153,467 from last year's total of \$9,608,067.

The General Fund is the chief operating fund of the City. Its fund balance increased by \$699,105 during the fiscal year due mainly to revenue exceeding budget expectations and expenditures coming in less than expected. As a measure of the General Fund's liquidity, it may be useful to compare unassigned fund balance to total fund expenditures. Unassigned fund balance represents 70% of total General Fund expenditures as compared to 55% in the prior year. The main reason for the increase in percentage is due to the same reasons explained above for the increase in overall fund balance.

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 position of the Public Utility Fund at the end of the fiscal year amounted to \$4,582,954. The increase in total net position for the year was \$966,818. Net positions of the Port Commission Fund and the Beach Operating Fund both increased during the 2016 fiscal year by \$19,556 and \$32,117, 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 \$276,066 greater than budgeted expectations, with tax revenues making up \$138,999 or 50% of the positive variance. Sales tax made up 43% of the variance while property tax contributed to the 46% of the variance. Total intergovernmental revenue decreased 4% from prior year.

Total actual expenditures were under budgeted expenditures by \$563,826. Conservative budgetary practices resulted in positive budget variances as it relates to general government, public safety, parks and recreation, public works (including streets) departments.

GENERAL FUND BUDGETARY HIGHLIGHTS - (Continued)

Differences between the General Fund's original budget and final amended budget were a net increase of \$175,036 to expenditures. A few of the changes are briefly summarized as follows:

- An increase of \$31,000 in City Secretary department which consisted of an increase of \$20,000 in personnel services due to adding a full-time employee and an increase of \$11,000 in election costs due to the reprinting of ballots.
- An increase of \$427,125 in the street department which consisted of the following: Increase of \$93,000 in capital expenditures-building and improvements for the additional cost of building the Public Works Service Center Building; increase of \$9,671 in personnel services; increase of \$26,175 in sealcoat maintenance due to cost overrun; increase of \$8,645 in furniture and equipment purchased for the new Public Works Service Center Building; and an increase of \$20,310 in maintenance for repairing existing street equipment.
- An increase of \$21,246 in code enforcement department due to adding a new code enforcement officer and for additional contracted services.
- A net increase of \$6,000 in police expenditures due to additional personnel services and for unexpected repairs to buildings, vehicles, and trailers.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

The City's investment in capital assets as of September 30, 2016, amounts to \$46,363,926 (net of accumulated depreciation). This investment in capital assets includes land, buildings, improvements, vehicles, machinery and equipment, and infrastructure.

City of Port Lavaca, Texas						
Capital Assets (Net of Depreciation)						
	Governmental Activities		Business-type Activities		Total	
	2016	2015	2016	2015	2016	2015
Non-Depreciable Assets						
Land	\$ 1,263,497	\$ 1,263,497	\$ 1,501,012	\$ 1,501,012	\$ 2,764,509	\$ 2,764,509
Construction in progress	232,595	1,544,000	337,301	355,573	569,896	1,899,573
Other Capital Assets						
Machinery and equipment	3,290,851	3,252,201	862,956	875,578	4,153,807	4,127,779
Buildings and structures	6,849,706	6,331,403	4,954,482	4,907,532	11,804,188	11,238,935
Infrastructure	31,396,424	30,261,710	42,013,219	41,227,774	73,409,643	71,489,484
Accumulated depreciation on other capital assets	(20,293,137)	(19,425,987)	(26,044,980)	(25,070,664)	(46,338,117)	(44,496,651)
Total	\$ 22,739,936	\$ 23,226,824	\$ 23,623,990	\$ 23,796,805	\$ 46,363,926	\$ 47,023,629

Major capital asset events during the current fiscal year included various infrastructure projects and the purchase of vehicles and equipment for governmental and business-type 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 \$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	
	2016	2015	2016	2015	2016	2015
Revenue bonds	\$ -	\$ -	\$ 2,965,000	\$ 3,355,000	\$ 2,965,000	\$ 3,355,000
General obligation bonds	2,180,000	2,460,000	-	-	2,180,000	2,460,000
Certificates of obligation	-	-	2,820,000	3,000,000	2,820,000	3,000,000
Issuance discount	-	-	(27,774)	(28,460)	(27,774)	(28,460)
Capital leases	89,837	132,094	-	-	89,837	132,094
Compensated absences	105,383	171,185	17,114	13,331	122,497	184,516
Safety pay	-	25,619	-	4,380	-	29,999
Net pension liability	935,668	471,792	165,118	75,150	1,100,786	546,942
Total	\$ 3,310,888	\$ 3,260,690	\$ 5,939,458	\$ 6,419,401	\$ 9,250,346	\$ 9,680,091

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***

Although the City has been experiencing a steady growth in sales tax since 2010, sales tax revenue declined slightly in 2016. Even with the positive trend in sales tax over the prior years, the City continues to forecast sales tax revenue from an extremely conservative position. Property values remained relatively flat over prior year. A small increase in property tax revenue was a result of new property added to the tax roll.

The City approved a Five-Year Capital Plan that continues to focus on infrastructure upgrades and improvements to streets and parks based on a "pay as you go" philosophy. The City recently completed construction of a state of the art Public Works Service Center and finalized numerous improvements at several City Parks- notably the newly constructed Veteran's Memorial at Bayfront Peninsula Park. Fiscal Year 2016-2017 is primarily focused on improving existing amenities at Bayfront Peninsula Park by matching City funds with a grant from Texas Parks & Wildlife. Moreover, City Council recently approved funding for the acquisition of eight (8) undeveloped waterfront lots which are an integral component of the overall Waterfront Development Plan.

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

Utility Fund

The City has recently completed a water and wastewater rate study to help plan for future infrastructure needs. The consultant provided the City with various rate structure solutions. The study determined that the City needed to change the rate structure and increase the rates. City Council approved the first rate increase since 2008 in October 2013 and again in October 2016. In keeping with the consultant's recommendation, the next increase will occur in October 2019. This increase ensures debt service coverage for utility infrastructure repairs and replacements. Weather continues to be a factor for the Public Utility Fund. Forecasts of dry conditions will increase the demand for water this year, but is too early to project year end. Current water and sewer sales are on budget target.

Future plans include continuation of infrastructure replacement. The City has replaced many antiquated water lines 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 water loss percentage, and reduce outages due to very old infrastructure. In keeping with the City's Five -Year Capital Plan, Bonorden sewer line and Smith Rd. water line has been completed. Other City projects include Commerce Street reconstruction, Colorado Street water line replacement and in fiscal year 2017-2018, the replacement of Center Street sewer lines.

Beach Fund

The City has added new playground equipment at Lighthouse Beach Park. The City also installed a 50' T-Head at the end of the fishing pier through a grant that was awarded by the General Land Office. This completed the fishing pier expansion project which brought the pier length to approximately 900'. The City plans to seek a grant to remove the abandoned pier that was replaced. Continuing with improvements at Lighthouse Beach Park, there will be an addition of six (6) concrete pads for trailers and the existing boat ramp will be upgraded to include boater access to the ramp. Adding more RV spaces in the park are under consideration.

Port Commission

The City of Port Lavaca, in partnership with Calhoun Port Authority, recently completed maintenance dredging of the Matagorda Ship Channel and the Harbor of Refuge. Operations at the Harbor of Refuge continue to expand with increases in both barge and truck traffic due to Eagle Ford Shale related activities. In addition, the City is addressing infrastructure improvements and repairs that include breakwater, bulkhead, dock, and roads, to accommodate future growth and activity at Harbor of Refuge, City Harbor and City Marina.

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: Sandra Mason, Finance Director, 202 North Virginia, Port Lavaca, Texas 77979.

Basic Financial Statements

CITY OF PORT LAVACA, TEXAS
STATEMENT OF NET POSITION
September 30, 2016

	Governmental Activities	Business-type Activities	Total
ASSETS			
Current assets			
Cash and cash equivalents	\$ 9,199,382	\$ 6,294,870	\$ 15,494,252
Investments	490,000	746,190	1,236,190
Receivables (net)	710,484	685,230	1,395,714
Due from other governments	426,678	2,000	428,678
Internal balances	846,800	(846,800)	-
Prepaid items	45,717	67,122	112,839
Inventory	-	28,329	28,329
Total current assets	<u>11,719,061</u>	<u>6,976,941</u>	<u>18,696,002</u>
Noncurrent assets			
Capital assets			
Land and other assets not being depreciated	1,496,092	1,838,313	3,334,405
Assets being depreciated (net)	<u>21,243,844</u>	<u>21,785,677</u>	<u>43,029,521</u>
Total noncurrent assets	<u>22,739,936</u>	<u>23,623,990</u>	<u>46,363,926</u>
Total assets	<u>34,458,997</u>	<u>30,600,931</u>	<u>65,059,928</u>
DEFERRED OUTFLOWS OF RESOURCES			
Deferred outflow related to TMRS	681,661	118,926	800,587
Deferred amount on refunding	<u>79,867</u>	<u>119,654</u>	<u>199,521</u>
Total deferred outflows of resources	<u>761,528</u>	<u>238,580</u>	<u>1,000,108</u>

The accompanying notes are an integral part of this statement.

	Governmental Activities	Business-type Activities	Total
LIABILITIES			
Current liabilities			
Accounts payable	\$ 165,448	\$ 310,858	\$ 476,306
Payroll related liabilities	162,187	30,826	193,013
Accrued interest payable	5,577	27,418	32,995
Other payables	58,143	11,673	69,816
Due to other governments	25,343	4,103	29,446
Accrued compensated absences	35,830	6,675	42,505
Unearned revenue	64,041	33,101	97,142
Customer deposits	18,944	220,834	239,778
Current portion of long-term obligations	329,007	735,000	1,064,007
Total current liabilities	<u>864,520</u>	<u>1,380,488</u>	<u>2,245,008</u>
Noncurrent liabilities			
Accrued compensated absences	69,553	10,439	79,992
Net pension liability	935,668	165,118	1,100,786
Noncurrent portion of long-term obligations	1,940,830	5,022,226	6,963,056
Total noncurrent liabilities	<u>2,946,051</u>	<u>5,197,783</u>	<u>8,143,834</u>
Total liabilities	<u>3,810,571</u>	<u>6,578,271</u>	<u>10,388,842</u>
DEFERRED INFLOWS OF RESOURCES			
Deferred inflow related to TMRS	<u>169,369</u>	<u>27,289</u>	<u>196,658</u>
NET POSITION			
Net investment in capital assets	20,549,966	17,986,418	38,536,384
Restricted for:			
Debt service	153,522	-	153,522
Economic development, tourism and conventions	1,060,041	-	1,060,041
Public safety	82,009	-	82,009
Municipal court	26,408	-	26,408
Unrestricted	<u>9,368,639</u>	<u>6,247,533</u>	<u>15,616,172</u>
Total net position	<u>\$ 31,240,585</u>	<u>\$ 24,233,951</u>	<u>\$ 55,474,536</u>

CITY OF PORT LAVACA, TEXAS
STATEMENT OF ACTIVITIES
For the year ended September 30, 2016

Function/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Governmental activities				
General government	\$ 2,417,076	\$ 337,865	\$ -	\$ -
Public safety	3,200,259	183,232	273,077	-
Public works	1,592,784	-	-	-
Parks and recreation	697,230	87,130	-	-
Interest on long-term debt	53,809	-	-	-
Total governmental activities	<u>7,961,158</u>	<u>608,227</u>	<u>273,077</u>	<u>-</u>
Business-type activities				
Public utilities	4,452,538	5,586,184	-	45,625
Port commission	396,088	425,986	2,000	-
Beach operations	272,436	310,472	-	-
Total business-type activities	<u>5,121,062</u>	<u>6,322,642</u>	<u>2,000</u>	<u>45,625</u>
Total government	<u>\$ 13,082,220</u>	<u>\$ 6,930,869</u>	<u>\$ 275,077</u>	<u>\$ 45,625</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

Total general revenues and transfers

Change in net position

Net position - beginning

Net position - ending

The accompanying notes are an integral part of this statement.

Net (Expense) Revenue and Changes in Net Position		
Governmental Activities	Business- type Activities	Total
\$ (2,079,211)	\$ -	\$ (2,079,211)
(2,743,950)	-	(2,743,950)
(1,592,784)	-	(1,592,784)
(610,100)	-	(610,100)
(53,809)	-	(53,809)
<u>(7,079,854)</u>	<u>-</u>	<u>(7,079,854)</u>
-	1,179,271	1,179,271
-	31,898	31,898
-	38,036	38,036
<u>-</u>	<u>1,249,205</u>	<u>1,249,205</u>
<u>(7,079,854)</u>	<u>1,249,205</u>	<u>(5,830,649)</u>
3,726,328	-	3,726,328
327,936	-	327,936
2,510,153	-	2,510,153
587,153	-	587,153
427,960	-	427,960
42,964	38,787	81,751
254,054	-	254,054
269,501	(269,501)	-
<u>8,146,049</u>	<u>(230,714)</u>	<u>7,915,335</u>
1,066,195	1,018,491	2,084,686
<u>30,174,390</u>	<u>23,215,460</u>	<u>53,389,850</u>
<u>\$ 31,240,585</u>	<u>\$ 24,233,951</u>	<u>\$ 55,474,536</u>

CITY OF PORT LAVACA, TEXAS

BALANCE SHEET

GOVERNMENTAL FUNDS

September 30, 2016

	<u>General</u>	<u>Street Construction</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
ASSETS				
Current assets				
Cash and cash equivalents	\$ 7,017,149	\$ 949,666	\$ 1,232,567	\$ 9,199,382
Investments	490,000	-	-	490,000
Receivables (net)	567,809	-	142,675	710,484
Due from other governments	426,283	-	395	426,678
Due from other funds	885,233	-	-	885,233
Prepaid items	45,717	-	-	45,717
Total assets	<u>\$ 9,432,191</u>	<u>\$ 949,666</u>	<u>\$ 1,375,637</u>	<u>\$ 11,757,494</u>
LIABILITIES				
Accounts payable	\$ 156,877	\$ -	\$ 8,571	\$ 165,448
Payroll related payables	161,111	-	1,076	162,187
Other payables	58,143	-	-	58,143
Due to other governments	25,343	-	-	25,343
Due to other funds	-	-	38,433	38,433
Customer and other deposits	18,944	-	-	18,944
Unearned revenue	64,041	-	-	64,041
Total liabilities	<u>484,459</u>	<u>-</u>	<u>48,080</u>	<u>532,539</u>
DEFERRED INFLOWS OF RESOURCES				
Unavailable revenue	445,393	-	18,028	463,421
Total deferred inflows of resources	<u>445,393</u>	<u>-</u>	<u>18,028</u>	<u>463,421</u>
FUND BALANCES				
Nonspendable	45,717	-	-	45,717
Restricted	-	-	1,309,529	1,309,529
Committed	3,534,329	949,666	-	4,483,995
Unassigned	4,922,293	-	-	4,922,293
Total fund balances	<u>8,502,339</u>	<u>949,666</u>	<u>1,309,529</u>	<u>10,761,534</u>
Total liabilities, deferred inflows and fund balances	<u>\$ 9,432,191</u>	<u>\$ 949,666</u>	<u>\$ 1,375,637</u>	<u>\$ 11,757,494</u>

The accompanying notes are an integral part of this statement.

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

September 30, 2016

Total governmental fund balances**\$ 10,761,534**

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

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 reported as "unavailable" in the funds.

391,854

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 unavailable revenues in the governmental funds and thus are not included in fund balance.

71,567

Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in governmental funds. The governmental capital assets at year-end consist of:

Governmental capital assets costs

\$ 43,033,073

Accumulated depreciation of governmental capital assets

(20,293,137)

22,739,936

Deferred outflows of resources are not reported in the governmental funds:

Deferred amount on refunding

79,867

Pension contributions after measurement date

134,331

Change in actuarial assumptions used to determine pension liability

52,077

Difference in projected and actual earnings on pension assets

495,253

761,528

Long-term liabilities are not due and payable in the current period and therefore are not reported as liabilities in the funds. Long-term liabilities at year-end consist of:

Bonds payable

(2,180,000)

Capital leases payable

(89,837)

Accrued interest payable

(5,577)

Compensated absences

(105,383)

Net pension liability

(935,668)

(3,316,465)

Deferred inflows of resources are not reported in the governmental funds:

Difference in expected and actual pension experience

(169,369)**Net position of governmental activities****\$ 31,240,585**

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, 2016*

	<u>General</u>	<u>Street Construction</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
REVENUES				
Taxes				
Ad valorem	\$ 3,706,583	\$ -	\$ 325,121	\$ 4,031,704
Sales	2,510,153	-	-	2,510,153
Other	611,399	-	403,714	1,015,113
Fines, fees, and forfeitures	317,651	-	190,696	508,347
Intergovernmental	258,107	-	14,970	273,077
Licenses and permits	109,637	-	-	109,637
Investment	36,208	1,844	4,912	42,964
Rental	87,130	-	-	87,130
Charges for services	2,744	-	-	2,744
Miscellaneous	71,990	-	91,070	163,060
Total revenues	<u>7,711,602</u>	<u>1,844</u>	<u>1,030,483</u>	<u>8,743,929</u>
EXPENDITURES				
Current				
General government	2,192,038	-	238,674	2,430,712
Public safety	2,870,529	-	217,479	3,088,008
Public works	1,190,259	-	-	1,190,259
Parks and recreation	738,490	-	-	738,490
Capital outlay	-	88,715	-	88,715
Debt service				
Principal retirement	-	-	280,000	280,000
Interest and fiscal charges	-	-	47,396	47,396
Total expenditures	<u>6,991,316</u>	<u>88,715</u>	<u>783,549</u>	<u>7,863,580</u>
Excess (deficiency) of revenues over expenditures	720,286	(86,871)	246,934	880,349
OTHER FINANCING SOURCES (USES)				
Transfers in	550,988	558,125	17,661	1,126,774
Transfers out	(575,786)	-	(281,487)	(857,273)
Sale of capital assets	3,617	-	-	3,617
Total other financing sources (uses)	<u>(21,181)</u>	<u>558,125</u>	<u>(263,826)</u>	<u>273,118</u>
Net change in fund balances	699,105	471,254	(16,892)	1,153,467
Fund balances at beginning of year	<u>7,803,234</u>	<u>478,412</u>	<u>1,326,421</u>	<u>9,608,067</u>
Fund balances at end of year	<u>\$ 8,502,339</u>	<u>\$ 949,666</u>	<u>\$ 1,309,529</u>	<u>\$ 10,761,534</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, 2016

Total net change in fund balances - governmental funds	\$ 1,153,467
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Amounts reported for governmental activities in the statement of activities are different because:

Capital outlays are reported in governmental funds as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense.

Increase in capital assets	\$ 443,827	
Depreciation expense	<u>(915,803)</u>	(471,976)

The net effect of various transactions involving capital assets (i.e., sales, trade-ins, transfers, and contributions) is to increase (decrease) net position. (14,912)

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:

Bond principal retirement	280,000	
Capital lease principal retirement	<u>42,257</u>	322,257

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	19,918	
Other revenues	<u>5,301</u>	25,219

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

Decrease in compensated absences	65,802	
Decrease in loss on bond refunding	(10,258)	
Decrease in safety pay	25,619	
Decrease in accrued interest	3,845	
Net pension costs	<u>(32,868)</u>	<u>52,140</u>

Change in net position of governmental activities	<u>\$ 1,066,195</u>
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The accompanying notes are an integral part of this statement.

CITY OF PORT LAVACA, TEXAS
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
September 30, 2016

	Business-type Activities - Enterprise Funds			
	Public Utility	Port Commission	Beach Operating	Total
ASSETS				
Current assets				
Cash and cash equivalents	\$ 4,612,019	\$ 1,072,912	\$ 609,939	\$ 6,294,870
Investments	746,190	-	-	746,190
Receivables (net)	672,220	12,559	451	685,230
Due from other governments	-	2,000	-	2,000
Prepaid items	60,560	4,906	1,656	67,122
Inventory	28,329	-	-	28,329
Total current assets	<u>6,119,318</u>	<u>1,092,377</u>	<u>612,046</u>	<u>7,823,741</u>
Noncurrent assets				
Capital assets				
Land and other assets not being depreciated	460,866	1,103,634	273,813	1,838,313
Assets being depreciated (net)	<u>16,485,602</u>	<u>3,495,653</u>	<u>1,804,422</u>	<u>21,785,677</u>
Net noncurrent assets	<u>16,946,468</u>	<u>4,599,287</u>	<u>2,078,235</u>	<u>23,623,990</u>
Total assets	<u>23,065,786</u>	<u>5,691,664</u>	<u>2,690,281</u>	<u>31,447,731</u>
DEFERRED OUTFLOWS OF RESOURCES				
Deferred outflow related to TMRS	118,926	-	-	118,926
Deferred amount on refunding	<u>119,654</u>	<u>-</u>	<u>-</u>	<u>119,654</u>
Total deferred outflows of resources	<u>238,580</u>	<u>-</u>	<u>-</u>	<u>238,580</u>
LIABILITIES				
Current liabilities				
Accounts payable	288,798	9,994	12,066	310,858
Payroll related liabilities	30,000	826	-	30,826
Accrued interest payable	21,433	5,985	-	27,418
Other payables	11,673	-	-	11,673
Due to other governments	4,103	-	-	4,103
Due to other funds	846,800	-	-	846,800
Accrued compensated absences	6,675	-	-	6,675
Unearned revenue	23,478	9,623	-	33,101
Customer deposits	219,484	850	500	220,834
Current portion of noncurrent liabilities				
Bonds and certificates	<u>655,000</u>	<u>80,000</u>	<u>-</u>	<u>735,000</u>
Total current liabilities	<u>2,107,444</u>	<u>107,278</u>	<u>12,566</u>	<u>2,227,288</u>
Long-term liabilities, net of current portion				
Accrued compensated absences	10,439	-	-	10,439
Net pension liability	165,118	-	-	165,118
Bonds and certificates (net of unamortized deferred amounts)	<u>3,897,226</u>	<u>1,125,000</u>	<u>-</u>	<u>5,022,226</u>
Total long-term liabilities	<u>4,072,783</u>	<u>1,125,000</u>	<u>-</u>	<u>5,197,783</u>
Total liabilities	<u>6,180,227</u>	<u>1,232,278</u>	<u>12,566</u>	<u>7,425,071</u>
DEFERRED INFLOWS OF RESOURCES				
Deferred inflow related to TMRS	<u>27,289</u>	<u>-</u>	<u>-</u>	<u>27,289</u>
NET POSITION				
Net investment in capital assets	12,513,896	3,394,287	2,078,235	17,986,418
Unrestricted	<u>4,582,954</u>	<u>1,065,099</u>	<u>599,480</u>	<u>6,247,533</u>
Total net position	<u>\$ 17,096,850</u>	<u>\$ 4,459,386</u>	<u>\$ 2,677,715</u>	<u>\$ 24,233,951</u>

The accompanying notes are an integral part of this statement.

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

For the year ended September 30, 2016

	Business-type Activities - Enterprise Funds			
	Public Utility	Port Commission	Beach Operating	Total
OPERATING REVENUES				
Charges for services				
Water sales	\$ 2,545,559	\$ -	\$ -	\$ 2,545,559
Sewer services	2,018,134	-	-	2,018,134
Waste collection	757,453	-	-	757,453
Tap and service fees	95,773	-	-	95,773
Gate fees	-	-	65,519	65,519
Leases and rentals	-	425,706	239,466	665,172
Penalties	102,947	-	-	102,947
Miscellaneous	66,318	280	5,487	72,085
Total operating revenues	<u>5,586,184</u>	<u>425,986</u>	<u>310,472</u>	<u>6,322,642</u>
OPERATING EXPENSES				
Personnel services	857,568	15,588	36	873,192
Materials and supplies	63,911	1,895	1,822	67,628
Services	1,159,091	67,092	124,552	1,350,735
Water purchases	1,186,049	-	-	1,186,049
Maintenance and repairs	311,141	32,498	23,353	366,992
Depreciation and amortization	643,351	230,540	116,041	989,932
Miscellaneous	54,244	-	6,632	60,876
Total operating expenses	<u>4,275,355</u>	<u>347,613</u>	<u>272,436</u>	<u>4,895,404</u>
Operating income (loss)	1,310,829	78,373	38,036	1,427,238
NONOPERATING REVENUES (EXPENSES)				
Noncapital grants and contributions	-	2,000	-	2,000
Investment income	32,548	4,158	2,081	38,787
Interest expense	(177,183)	(48,475)	-	(225,658)
Net nonoperating revenues	<u>(144,635)</u>	<u>(42,317)</u>	<u>2,081</u>	<u>(184,871)</u>
Income before capital contributions and transfers	1,166,194	36,056	40,117	1,242,367
Capital grants and contributions	45,625	-	-	45,625
Transfers out	<u>(245,001)</u>	<u>(16,500)</u>	<u>(8,000)</u>	<u>(269,501)</u>
Change in net position	966,818	19,556	32,117	1,018,491
Total net position at beginning of year	<u>16,130,032</u>	<u>4,439,830</u>	<u>2,645,598</u>	<u>23,215,460</u>
Total net position at end of year	<u>\$ 17,096,850</u>	<u>\$ 4,459,386</u>	<u>\$ 2,677,715</u>	<u>\$ 24,233,951</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, 2016

	Business-type Activities - Enterprise Funds			
	Public Utility	Port Commission	Beach Operating	Total
CASH FLOWS FROM OPERATING ACTIVITIES:				
Cash received from customers	\$ 5,691,364	\$ 425,964	\$ 310,370	\$ 6,427,698
Cash payments to suppliers for goods and services	(2,863,533)	(102,929)	(166,139)	(3,132,601)
Cash payments to employees for services	(835,068)	(15,498)	(36)	(850,602)
Net cash provided (used) by operating activities	<u>1,992,763</u>	<u>307,537</u>	<u>144,195</u>	<u>2,444,495</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:				
Borrowings from other funds	-	251,074	223,584	474,658
Borrowings to other funds	(1,118,018)	-	-	(1,118,018)
Transfers to other funds	(245,001)	(16,500)	(8,000)	(269,501)
Net cash provided (used) by noncapital financing activities	<u>(1,363,019)</u>	<u>234,574</u>	<u>215,584</u>	<u>(912,861)</u>
CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES:				
Acquisition of capital assets	(767,174)	-	(46,949)	(814,123)
Receipts from capital grants and contributions	45,625	-	-	45,625
Proceeds from sale of capital assets	649	-	-	649
Principal paid on capital debt	(495,000)	(75,000)	-	(570,000)
Interest paid on capital debt	(179,106)	(48,847)	-	(227,953)
Net cash provided (used) by capital financing activities	<u>(1,395,006)</u>	<u>(123,847)</u>	<u>(46,949)</u>	<u>(1,565,802)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:				
Purchase of investments	(245,000)	-	-	(245,000)
Proceeds from sales and maturities of investments	1,000,000	-	-	1,000,000
Investment income	30,713	4,158	2,081	36,952
Net cash provided (used) by investing activities	<u>785,713</u>	<u>4,158</u>	<u>2,081</u>	<u>791,952</u>
Net increase (decrease) in cash and cash equivalents	20,451	422,422	314,911	757,784
Cash and cash equivalents at beginning of year	<u>4,591,568</u>	<u>650,490</u>	<u>295,028</u>	<u>5,537,086</u>
Cash and cash equivalents at end of year	<u>\$ 4,612,019</u>	<u>\$ 1,072,912</u>	<u>\$ 609,939</u>	<u>\$ 6,294,870</u>

The accompanying notes are an integral part of this statement.

	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	\$ 1,310,829	\$ 78,373	\$ 38,036	\$ 1,427,238
Adjustments to reconcile operating income to net cash provided by operating activities:				
Depreciation and amortization	643,351	230,540	116,041	989,932
Change in assets and liabilities:				
(Increase) decrease in accounts receivable	99,433	(184)	(2)	99,247
(Increase) decrease in prepaid expense	(50,522)	496	167	(49,859)
(Increase) decrease in inventory	(624)	-	-	(624)
(Increase) decrease in deferred outflow related to TMRS	(81,886)	-	-	(81,886)
Increase (decrease) in accounts and other payables	(37,814)	(1,940)	(9,947)	(49,701)
Increase (decrease) in payroll related liabilities	11,818	90	-	11,908
Increase (decrease) in due to other governments	(137)	-	-	(137)
Increase (decrease) in compensated absences	3,783	-	-	3,783
Increase (decrease) in safety pay	(4,380)	-	-	(4,380)
Increase (decrease) in net pension liability	89,968	-	-	89,968
Increase (decrease) in unearned revenue	5,797	(88)	-	5,709
Increase (decrease) in customer deposits	(50)	250	(100)	100
Increase (decrease) in deferred inflow related to TMRS	3,197	-	-	3,197
Net cash provided (used) by operating activities	<u>\$ 1,992,763</u>	<u>\$ 307,537</u>	<u>\$ 144,195</u>	<u>\$ 2,444,495</u>

CITY OF PORT LAVACA, TEXAS
STATEMENT OF FIDUCIARY NET POSITION
FIDUCIARY FUNDS
September 30, 2016

	Fireman's Relief and Retirement Fund	Police Seized Nonforfeiture Fund
ASSETS		
Cash and cash equivalents	\$ 150	\$ 78,817
Total assets	<u>150</u>	<u>\$ 78,817</u>
LIABILITIES		
Due to others	-	\$ 78,817
Total liabilities	<u>-</u>	<u>\$ 78,817</u>
NET POSITION		
Restricted for payment of pension benefits	150	
Total net position	<u>\$ 150</u>	

The accompanying notes are an integral part of this statement.

CITY OF PORT LAVACA, TEXAS**STATEMENT OF CHANGES IN FIDUCIARY NET POSITION****FIDUCIARY FUND***For the year ended September 30, 2016*

	Fireman's Relief and Retirement Fund
ADDITIONS	
Employer contributions	<u>\$ 3,025</u>
DEDUCTIONS	
Benefits	<u>2,875</u>
Change in net position	150
Net position at beginning of year	<u>-</u>
Net position at end of year	<u><u>\$ 150</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 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, 2016.

B. Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net position 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 Capital Project Fund accounts for and reports financial resources that are restricted, committed, or assigned to expenditure for capital outlays, including the acquisition or construction of major capital facilities or other capital assets. Capital Project Funds exclude those types of capital-related outflows financed by proprietary funds or for assets that will be held in trust for individuals, private organizations, or other governments. The City has one Capital Project Fund and is reported as a major fund. The Street Construction Fund accounts for the funding of street improvements by the use of bond 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 fire-fighters.

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

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

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

The proprietary funds are accounted for on a flow of *economic resources measurement focus* and utilize the *accrual basis of accounting*. This basis of accounting recognizes revenues in the accounting period in which they are earned and become measurable and expenses in the accounting period in which they are incurred and become measurable. With this measurement focus, all assets and all liabilities associated with the operation of these funds are included on the statement of net position. The fund equity is segregated into net investment in capital assets, restricted net position, and unrestricted net position.

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 legally adopts an annual budget for the General Fund and the Debt Service Funds. The budgets for these governmental funds are prepared in accordance with generally accepted accounting principles (GAAP). The City Manager is authorized to transfer budgeted amounts within departments of individual funds; however, any revisions that alter the total departmental expenditures/expenses must be approved by the City Council. Therefore, the legal level of budgetary control is at the departmental level. Each fund other than the General Fund is defined as its own department. All encumbered and unencumbered appropriations lapse at the end of the fiscal year.

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, 2016.

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. Prepaid items are recorded when purchased rather than when consumed.

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 position. 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.

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

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

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 position. Bond premiums and discounts are deferred and amortized over the life of the bonds using the straight-line method. Bonds payable are reported net of the applicable bond premium or discount on the statement of net position.

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. Deferred Outflows/Inflows of Resources

The statement of net position reports a separate section for deferred outflows of resources which follows the asset section. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will *not* be recognized as an outflow of resources (expense/expenditure) until then. The City has two items that qualify for reporting in this category. One is the deferred amount on refunding reported in the government-wide statement of net position. A deferred amount on refunding results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt. The other item is the deferred amount calculated in the actuarial pension study required by GASB Statement No. 68 "*Accounting and Financial Reporting for Pensions*" (GASB No. 68) and the current year pension payments reported in the government-wide statement of net position.

In addition to liabilities, the statement of net position also reports a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period(s) and so will *not* be recognized as an inflow of resources (revenue) until that time. The City has two items that are considered deferred inflows of resources. One of the items arises only under a modified accrual basis of accounting and this item, *unavailable revenue*, is reported only in the governmental funds balance sheet. The governmental funds report unavailable revenues from a variety of sources and are further defined in Note 4. The other item that qualifies for reporting as a deferred inflow of resources is calculated in the actuarial pension study required by GASB No. 68. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)**L. Pensions**

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Texas Municipal Retirement System (TMRS) and additions to/deductions from TMRS's fiduciary net position have been determined on the same basis as they are reported by TMRS. For this purpose, plan contributions are recognized in the period that compensation is reported for the employee, which is when contributions are legally due. Benefit payments and refunds are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value. Information regarding the City's pension liability is obtained from TMRS through a report prepared for the City by TMRS consulting actuary, Gabriel Roeder Smith & Company (GRS), in compliance with GASB No. 68.

M. Fund Balance Policies

The following fund balance classifications describe the relative strength of the spending constraints placed on the purposes for which resources can be used:

- Nonspendable fund balance - amounts that cannot be spent because of their form (such as inventory or prepaid items) or because they are legally or contractually required to be maintained in tact;
- Restricted fund balance - amounts constrained to specific purposes by their providers (such as grantors, bondholders, and higher levels of government) through constitutional provisions or by enabling legislation;
- Committed fund balance - amounts constrained to specific purposes by a government itself, using its highest level of decision-making authority, to be reported as committed, amounts cannot be used for any other purpose unless the government takes the same highest level of action to remove or change the constraint;
- Assigned fund balance - amounts a government intends to use for a specific purpose; intent can be expressed by the governing body or by an official or body to which the governing body delegates the authority;
- Unassigned fund balance - amounts that are available for any purpose; positive amounts are reported only in the General Fund.

Fund balance classifications depict the nature of the net resources that are reported in a governmental fund. An individual governmental fund may include non-spendable resources and amounts that are restricted, committed, assigned, or any combination of those classifications. In addition, the General Fund may also include an unassigned amount.

Commitments will only be used for specific purposes pursuant to a formal action (ordinance or resolution) of the City Council. The action to commit funds must occur prior to fiscal year-end, to report such commitments in the balance sheet of the respective period, even though the amount may be determined subsequent to fiscal year-end. Commitments may be changed or lifted only by the City Council taking the same formal action that originally imposed the constraint.

The City Council delegates the responsibility to assign funds not to exceed \$25,000 to the City Manager or their designee to be used for specific purposes. City Council shall have the authority to assign any amount of funds to be used for specific purposes. Such assignments cannot exceed the available (spendable, unrestricted, uncommitted) fund balance in any particular fund. The assignments may occur subsequent to fiscal year-end.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)**N. Net Position Flow Assumptions**

When an expenditure is incurred for purposes for which both restricted and unrestricted (committed, assigned, or unassigned) amounts are available, it shall be the policy of the City to consider restricted amounts to have been reduced first. When an expenditure is incurred for purposes for which amounts in any of the unrestricted fund balance classifications could be used, it shall be the policy of the City that committed amounts would be reduced first, followed by assigned amounts and then unassigned amounts.

O. Minimum Fund Balance Policy

The City will maintain a minimum fund balance in its General Fund equal to 180 days of the operating expenditures and a policy to maintain an unassigned fund balance of no less than 120 days of operating expenditures as to provide operating liquidity and contingency funding for non-specific unscheduled expenditures such as natural disasters or major unexpected expenditures. In the event that the unassigned fund balance is calculated to be less than the policy stipulates, the City shall plan to adjust budget resources in subsequent fiscal years to restore the balance.

The City also has a goal to maintain a working capital position equal to 120 days of the operating budget and a policy to maintain a working capital position no less than 90 days of the operating budget in the enterprise funds. Refer to Note 12 which addresses the policy set by the Council for the enterprise funds.

P. 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**Budgetary Compliance**

There were several situations of expenditures exceeding the amount appropriated during the fiscal year 2015-2016.

<u>Fund Name- Department</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Negative Variance</u>
General Fund			
Animal control	\$ 111,906	\$ 112,674	\$ 768
Transfers out	570,125	575,786	5,661
2012 GO Refunding Bonds Fund			
Debt Service	327,300	327,396	96

These over expenditures were funded by available fund balance in the General and Debt Service Funds.

NOTE 3: DEPOSITS AND INVESTMENTS**Deposits**

State statutes require that all deposits in financial institutions be fully collateralized by U.S. Government obligations or its agencies and instrumentalities or direct obligations of Texas or its agencies and instrumentalities that have a market value of not less than the principal amount of the deposits. All deposits of the City that exceeded the federal depository insurance coverage level of \$250,000 per account were covered by collateral by the Federal Reserve Bank in the City's name under a collateral agreement with the First National Bank of Port Lavaca. The market value of the collateral held at the Federal Reserve Bank in the City's name at fiscal year-end was \$5,730,600.

At September 30, 2016, the carrying amount of the City's deposits was \$5,369,133 and the respective bank balances totaled \$5,504,727. The City's cash on hand totaled \$2,225.

Investments

The City may invest its excess funds in any instruments authorized by the Public Funds Investment Act of Texas. Investments authorized under this Act include, but are not limited to, the following: Obligations of the United States or its agencies and instrumentalities; direct obligations of the State of Texas or its agencies and instrumentalities; collateralized mortgage obligations directly issued by a federal agency or instrumentality of the United States, the underlying security for which is guaranteed by an agency or instrumentality of the United States; other obligations, the principal and interest of which are unconditionally guaranteed or insured by, or backed by the full faith and credit of, the State of Texas or the United States or their respective agencies and instrumentalities; certificates of deposit issued by a state or financial institution domiciled in the State of Texas which is guaranteed or insured by the Federal Deposit Insurance Corporation (FDIC) or otherwise secured; and certain repurchase agreements. For additional information see the City of Port Lavaca investment policy at www.portlavaca.org.

The City categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs.

As of September 30, 2016, the City had the following investments:

Investment Type	Fair Value	Fair Value Measurements Using		
		Level 1	Level 2	Level 3
Agency Notes/Bonds	\$ 501,190	\$ -	\$ 501,190	\$ -
Certificates of Deposits	490,000	-	490,000	-
Corporate Bonds	245,000	-	245,000	-
Total	\$ 1,236,190	\$ -	\$ 1,236,190	\$ -

NOTE 3: DEPOSITS AND INVESTMENTS - (Continued)**Investments - (Continued)*****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. To the extent possible, the City will attempt to match its investments with anticipated cash flow requirement and maintain additional liquidity for unexpected liabilities.

As of September 30, 2016, the City's investments had the following maturities:

Investment Type	Fair Value	Investment Maturities (in Years)			
		Less than 1	1-5	6-10	More than 10
Agency Notes/Bonds	\$ 501,190	\$ -	\$ 501,190	\$ -	\$ -
Certificates of Deposits	490,000	-	490,000	-	-
Corporate Bonds	245,000	-	245,000	-	-
Total	<u>\$ 1,236,190</u>	<u>\$ -</u>	<u>\$ 1,236,190</u>	<u>\$ -</u>	<u>\$ -</u>

Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. It is the City's policy to limit its investments to those with ratings of not less than A or its equivalent.

At September 30, 2016, the City's investments had the following quality ratings:

Investment Type	Fair Value	Quality Ratings			
		AAA	AA	A	Unrated
Agency Notes/Bonds	\$ 501,190	\$ 501,190	\$ -	\$ -	\$ -
Certificates of Deposits	490,000	-	-	-	490,000
Corporate Bonds	245,000	-	-	-	245,000
Total	<u>\$ 1,236,190</u>	<u>\$ 501,190</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 735,000</u>

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.

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, 2016, 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	\$ 483,153	\$ -	\$ -	\$ -	\$ 18,977	\$ 502,130
Franchise taxes	80,977	-	-	-	-	80,977
Municipal court fines	111,496	-	-	-	-	111,496
Charges for services	158,192	683,126	11,480	-	-	852,798
Occupancy taxes	-	-	-	-	124,647	124,647
Miscellaneous	<u>41,439</u>	<u>1,606</u>	<u>2,134</u>	<u>451</u>	<u>-</u>	<u>45,630</u>
Gross receivables	875,257	684,732	13,614	451	143,624	1,717,678
Less: Allowance for uncollectibles	<u>(307,448)</u>	<u>(12,512)</u>	<u>(1,055)</u>	<u>-</u>	<u>(949)</u>	<u>(321,964)</u>
Net total receivables	<u>\$ 567,809</u>	<u>\$ 672,220</u>	<u>\$ 12,559</u>	<u>\$ 451</u>	<u>\$ 142,675</u>	<u>\$ 1,395,714</u>

The City is permitted by a local charter to levy taxes up to limits set by the Constitution and laws of the State of Texas. Currently, the State of Texas does not set limits on the rate at which ad valorem taxes may be assessed. The combined tax rate for the year ended September 30, 2016, 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 unavailable revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. The governmental funds also defer revenue recognition in connection with resources that have been received, but not yet earned. At the end of the current fiscal year, the various components of unavailable revenue and unearned revenue reported in the governmental funds were as follows:

	<u>Unavailable</u>	<u>Unearned</u>	<u>Total</u>
General Fund			
Ad valorem taxes	\$ 373,826	\$ -	\$ 373,826
Charges for services	15,819	64,041	79,860
Municipal court fines	55,748	-	55,748
Nonmajor Funds			
Ad valorem taxes	<u>18,028</u>	<u>-</u>	<u>18,028</u>
	<u>\$ 463,421</u>	<u>\$ 64,041</u>	<u>\$ 527,462</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, 2016:

	General Fund	Port Commission	Nonmajor Funds	Total
Sales taxes	\$ 420,340	\$ -	\$ -	\$ 420,340
Property taxes	5,943	-	395	6,338
Grant reimbursements	-	2,000	-	2,000
	<u>\$ 426,283</u>	<u>\$ 2,000</u>	<u>\$ 395</u>	<u>\$ 428,678</u>

NOTE 6: CAPITAL ASSETS

The capital asset activity of the City was as follows for the year ended September 30, 2016:

	Beginning Balance	Additions	Deletions/ Transfers	Ending Balance
Governmental activities				
Capital assets, not being depreciated:				
Land	\$ 1,263,497	\$ -	\$ -	\$ 1,263,497
Construction in progress	1,544,000	341,613	(1,653,018)	232,595
Total capital assets not being depreciated	<u>2,807,497</u>	<u>341,613</u>	<u>(1,653,018)</u>	<u>1,496,092</u>
Capital assets, being depreciated:				
Machinery and equipment	3,252,201	102,215	(63,565)	3,290,851
Buildings and structures	6,331,403	518,303	-	6,849,706
Infrastructure	30,261,710	1,134,714	-	31,396,424
Total capital assets being depreciated	<u>39,845,314</u>	<u>1,755,232</u>	<u>(63,565)</u>	<u>41,536,981</u>
Less accumulated depreciation for:				
Machinery and equipment	(2,231,280)	(283,660)	48,653	(2,466,287)
Buildings and structures	(3,165,957)	(175,119)	-	(3,341,076)
Infrastructure	(14,028,750)	(457,024)	-	(14,485,774)
Total accumulated depreciation	<u>(19,425,987)</u>	<u>(915,803)</u>	<u>48,653</u>	<u>(20,293,137)</u>
Total capital assets being depreciated, net	<u>20,419,327</u>	<u>839,429</u>	<u>(14,912)</u>	<u>21,243,844</u>
Governmental activities capital assets, net	<u>\$ 23,226,824</u>	<u>\$ 1,181,042</u>	<u>\$ (1,667,930)</u>	<u>\$ 22,739,936</u>

NOTE 6: CAPITAL ASSETS - (Continued)

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deletions/ Transfers</u>	<u>Ending Balance</u>
Business-type activities				
Capital assets, not being depreciated:				
Land	\$ 1,501,012	\$ -	\$ -	\$ 1,501,012
Construction in progress	<u>355,573</u>	<u>701,310</u>	<u>(719,582)</u>	<u>337,301</u>
Total capital assets not being depreciated	<u>1,856,585</u>	<u>701,310</u>	<u>(719,582)</u>	<u>1,838,313</u>
Capital assets, being depreciated:				
Machinery and equipment	875,578	-	(12,622)	862,956
Buildings and structures	4,907,532	46,950	-	4,954,482
Infrastructure	<u>41,227,774</u>	<u>785,445</u>	<u>-</u>	<u>42,013,219</u>
Total capital assets being depreciated	<u>47,010,884</u>	<u>832,395</u>	<u>(12,622)</u>	<u>47,830,657</u>
Less accumulated depreciation for:				
Machinery and equipment	(578,746)	(85,643)	11,973	(652,416)
Buildings and structures	(2,947,849)	(135,955)	-	(3,083,804)
Infrastructure	<u>(21,544,069)</u>	<u>(764,691)</u>	<u>-</u>	<u>(22,308,760)</u>
Total accumulated depreciation	<u>(25,070,664)</u>	<u>(986,289)</u>	<u>11,973</u>	<u>(26,044,980)</u>
Total capital assets being depreciated, net	<u>21,940,220</u>	<u>(153,894)</u>	<u>(649)</u>	<u>21,785,677</u>
Business-type activities capital assets, net	<u>\$ 23,796,805</u>	<u>\$ 547,416</u>	<u>\$ (720,231)</u>	<u>\$ 23,623,990</u>

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

Governmental activities:

General government	\$ 26,880
Public safety	216,320
Public works	511,796
Parks and recreation	<u>160,807</u>
Total depreciation expense - governmental activities	<u>\$ 915,803</u>

Business-type activities:

Public Utility	\$ 639,708
Port Commission	230,540
Beach Operating	<u>116,041</u>
Total depreciation expense - business-type activities	<u>\$ 986,289</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, 2016, were as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General	Public Utility	\$ 846,800
	Nonmajor Special Revenue	<u>38,433</u>
		<u>\$ 885,233</u>

B. Interfund Transfers

Each year various funds of the City transfer funds to other funds. Besides planned 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, in the amount of \$558,125. Also in fiscal year 2016, the Hotel Occupancy Tax Fund, a nonmajor special revenue fund made transfers to the General Fund during the fiscal year that totaled \$225,000, and were made to cover the continued costs of the City. During the current fiscal year, transfers between funds consisted of the following:

	<u>Transfers In</u>			
	<u>General</u>	<u>Street Const.</u>	<u>Nonmajor</u>	<u>Total</u>
Transfers out				
General	\$ -	\$ 558,125	\$ 17,661	\$ 575,786
Public Utility	245,001	-	-	245,001
Port Commission	16,500	-	-	16,500
Beach Operating	8,000	-	-	8,000
Nonmajor	<u>281,487</u>	<u>-</u>	<u>-</u>	<u>281,487</u>
	<u>\$ 550,988</u>	<u>\$ 558,125</u>	<u>\$ 17,661</u>	<u>\$ 1,126,774</u>

NOTE 8: LEASE OBLIGATIONS**A. Capital Lease**

The City has entered into lease agreements to finance a fire truck. This lease agreement qualifies as a capital lease for accounting purposes and, therefore, has been recorded at the present value of the future minimum lease payments as of the date of inception.

The assets acquired through capital leases are as follows:

	<u>Governmental Activities</u>
Machinery and equipment	
Other equipment	<u>\$ 309,776</u>
	309,776
Less: Accumulated depreciation	<u>(165,214)</u>
	<u>\$ 144,562</u>

The future minimum lease obligations and the net present value of these minimum lease payments as of September 30, 2016, were as follows:

<u>Year Ending September 30</u>	<u>Governmental Activities</u>
2017	<u>\$ 47,762</u>
2018	<u>47,762</u>
Total minimum lease payments	95,524
Less: Amount representing interest	<u>(5,687)</u>
Present value of minimum lease payments	<u>\$ 89,837</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 was extended for two additional two year periods and will expire on January 29, 2018. The lease agreement provides for future minimum rental payments as follows:

<u>Year Ending September 30</u>	
2017	<u>\$ 292,200</u>
2018	<u>97,400</u>
	<u>\$ 389,600</u>

Rental expenditures in 2016 were \$170,526. 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, 2016:

Year Ending September 30	
2017	\$ 57,002
2018	26,415
2019	18,000
2020	18,000
2021	18,000
	<u>137,417</u>
Thereafter	18,000
	<u>\$ 155,417</u>

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

Long-term liability activity for the year ended September 30, 2016, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental activities					
Bonds payable:					
General obligation bonds	\$ 2,460,000	\$ -	\$ 280,000	\$ 2,180,000	\$ 285,000
Net bonds payable	2,460,000	-	280,000	2,180,000	285,000
Capital leases	132,094	-	42,257	89,837	44,007
Compensated absences	171,185	95,047	160,849	105,383	35,830
Safety pay	25,619	-	25,619	-	-
Net pension liability	471,792	463,876	-	935,668	-
Total governmental activity					
long-term liabilities	<u>\$ 3,260,690</u>	<u>\$ 558,923</u>	<u>\$ 508,725</u>	<u>\$ 3,310,888</u>	<u>\$ 364,837</u>
Business-type activities					
Bonds and certificates payable:					
Revenue bonds	\$ 3,355,000	\$ -	\$ 390,000	\$ 2,965,000	\$ 430,000
Certificates	3,000,000	-	180,000	2,820,000	305,000
Less deferred amounts:					
Issuance discounts	(28,460)	-	(686)	(27,774)	-
Net bonds and certificates	6,326,540	-	569,314	5,757,226	735,000
Compensated absences	13,331	27,046	23,263	17,114	6,675
Safety pay	4,380	-	4,380	-	-
Net pension liability	75,150	89,968	-	165,118	-
Total business-type activity					
long-term liabilities	<u>\$ 6,419,401</u>	<u>\$ 117,014</u>	<u>\$ 596,957</u>	<u>\$ 5,939,458</u>	<u>\$ 741,675</u>

NOTE 10: LONG-TERM DEBT - (Continued)**A. Changes in Long-term Liabilities - (Continued)**

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

B. General Obligation Bonds

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.

General obligation bonds at September 30, 2016, was comprised of the following individual issue:

\$2,945,000 Series 2012 General Obligation Refunding Bonds due in annual installments ranging from \$60,000 to \$320,000 through February 15, 2024; interest fixed at 2.03%.	<u>\$ 2,180,000</u>
Total Bonds	<u>\$ 2,180,000</u>

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

<u>Year Ending September 30</u>	<u>Governmental Activities</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2017	\$ 285,000	\$ 41,361	\$ 326,361
2018	290,000	35,525	325,525
2019	300,000	29,537	329,537
2020	300,000	23,447	323,447
2021	305,000	17,306	322,306
2022-2024	700,000	16,037	716,037
	<u>\$ 2,180,000</u>	<u>\$ 163,213</u>	<u>\$ 2,343,213</u>

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

Revenue bonds and certificates payable were comprised of the following individual issues at September 30, 2016:

\$2,265,000 Series 2011 General Obligation Refunding Bonds due in annual installments ranging from \$345,000 to \$350,000 through February 15, 2018; interest rates varying of 2.83%.	\$ 695,000
\$1,535,000 Series 2004 Certificates of Obligation, issued through the Texas Water Development Board, due in annual installments ranging from \$90,000 to \$125,000 through February 15, 2024; interest rates varying between 2.00% and 3.55%.	850,000
\$2,680,000 Series 2007 General Obligation Refunding Bonds due in annual installments ranging from \$85,000 to \$555,000 through February 15, 2022; interest rates varying between 4.00% and 4.50%.	2,270,000
\$925,000 Series 2007 Combination Tax and Revenue Certificates of Obligation due in annual installments ranging from \$115,000 to \$140,000 through February 15, 2022; interest rate of 4.00%.	765,000
\$1,700,000 Series 2008 Combination Tax and Surplus Harbor System Revenue Certificates of Obligation due in annual installments ranging from \$80,000 to \$125,000 through February 15, 2028; interest rate of 3.93%.	<u>1,205,000</u>
Total Revenue Bonds and Certificates	<u>\$ 5,785,000</u>

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

<u>September 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2017	\$ 735,000	\$ 204,538	\$ 939,538
2018	755,000	179,525	934,525
2019	795,000	151,485	946,485
2020	830,000	119,864	949,864
2021	860,000	86,864	946,864
2022-2026	1,565,000	134,654	1,699,654
2027-2028	<u>245,000</u>	<u>9,727</u>	<u>254,727</u>
	<u>\$ 5,785,000</u>	<u>\$ 886,657</u>	<u>\$ 6,671,657</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, 2016.

As of September 30, 2016, the \$5,785,000 balance on the revenue bonds and certificates is detailed as follows according to the purpose of their issuance: \$3,148,750 or 54% water system improvements, \$1,431,250 or 25% wastewater system improvements, and \$1,205,000 or 21% harbor system improvements.

NOTE 11: PRIOR YEAR DEFEASANCE OF DEBT

In prior years, 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, 2016, \$5,010,000 of bonds outstanding was considered defeased.

NOTE 12: PROPRIETARY FUND NET POSITION

Management has committed for operating reserves \$1,174,385 of the Public Utility Fund's \$4,582,954 unrestricted net position. Management has also committed \$103,147 of the Port Commission Fund's \$1,065,099 unrestricted net position for operating reserves and \$70,109 of the Beach Operating Fund's \$599,480 unrestricted net position for operating reserves. The committed 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 \$3,408,569, \$961,952, and \$529,371, respectively, of unrestricted, uncommitted net position as of September 30, 2016.

NOTE 13: RISK MANAGEMENT

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During the year ended September 30, 2016, the City purchased insurance through the Texas Municipal League (TML) to cover its risk of loss in these areas. Substantially all risk of loss for events occurring during the current year has been transferred to TML by the payment of insurance premiums. Settled claims resulting from these risks have not exceeded insurance coverage in any of the past three fiscal years.

In the health insurance area, the City assumes all risk up to \$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 \$189,593.

Paid health-related claims totaled \$741,823 during the current fiscal year. The insurance carrier estimated that \$69,816 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 2012	\$ 33,209	\$ 837,116	\$ 840,430	\$ 29,895
Fiscal Year 2013	29,895	673,238	645,271	57,862
Fiscal Year 2014	57,862	826,576	826,398	58,040
Fiscal Year 2015	58,040	838,791	850,506	46,325
Fiscal Year 2016	46,325	765,314	741,823	69,816

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

The City was not involved in any litigation as of September 30, 2016, and management was not aware of any threatened litigation or unasserted claims as of that date.

B. Grant Programs

The City participates in grant programs that are governed by various rules and regulations of the grantor agencies. Costs charged to the respective grant programs are subject to audit and adjustment by the grantor agencies; therefore, to the extent that the City has not complied with the rules and regulations governing the grants, refunds of any monies received may be required, and the collectability of any related receivables at September 30, 2016, 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; this contract shall be in force until the latter of August 2035 or until the City has paid the part of any outstanding plant revenue bonds for which the City is at least partially responsible.

D. Construction Commitments

As of September 30, 2016, 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:			
Street improvements	\$ 30,380	\$ 319,620	City
Park improvements	130,211	119,789	City
Veterans' memorial	<u>72,004</u>	<u>62,996</u>	City/Contributions
	<u>232,595</u>	<u>502,405</u>	
Business-type activities:			
Smith Road waterline	32,284	267,716	City
Commerce Street sewerline	257,392	42,608	City
Bonorden Phase II	<u>47,625</u>	<u>282,375</u>	City/Grant
	<u>337,301</u>	<u>592,699</u>	
	<u>\$ 569,896</u>	<u>\$ 1,095,104</u>	

NOTE 15: DEFINED BENEFIT PENSION PLAN**Plan Description**

The City participates as one of 866 plans in the nontraditional, joint contributory, hybrid defined benefit pension plan administered by the TMRS. TMRS is an agency created by the State of Texas and administered in accordance with the TMRS Act, Subtitle G, Title 8, Texas Government Code (the TMRS Act) as an agent multiple-employer retirement system for municipal employees in the State of Texas. The TMRS Act places the general administration and management of the TMRS with a six-member Board of Trustees. Although the Governor, with the advice and consent of the Senate, appoints the Board, TMRS is not fiscally dependent on the State of Texas. TMRS's defined benefit pension plan is a tax-qualified plan under Section 401 (a) of the Internal Revenue Code. TMRS issues a publicly available comprehensive annual financial report (CAFR) that can be obtained at www.tmr.com.

All eligible employees of the City are required to participate in TMRS.

Benefits Provided

TMRS provides retirement, disability, and death benefits. Benefit provisions are adopted by the governing body of the City, within the options available in the state statutes governing TMRS. At retirement, the benefit is calculated as if the sum of the employee's contributions, with interest, and the City-financed monetary credits with interest were used to purchase an annuity. Members may choose to receive their retirement benefit in one of seven payments options. Members may also choose to receive a portion of their benefit as a partial lump sum distribution in an amount equal to 12, 24, or 36 monthly payments, which cannot exceed 75% of the member's deposits and interest.

The plan provisions are adopted by the governing body of the City, within the options available in the state statutes governing TMRS. Plan provisions of the City for plan year 2016 were as follows:

Employee deposit rate	5.0%
Matching ratio (City to employee)	1.5 to 1
Years required for vesting	5
Service retirement eligibility	
(expressed as age/years of service)	60/5, 0/25
Updated service credit	100.0 repeating
Annuity increase (to retirees)	70.0% of CPI

At the December 31, 2015 valuation and measurement date, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefits	57
Inactive employees entitled to but not yet receiving benefits	89
Active employees	94
	<u>240</u>

NOTE 15: DEFINED BENEFIT PENSION PLAN - (Continued)**Contributions**

The contribution rates for employees in TMRS are either 5%, 6%, or 7% of employee gross earnings, and the City matching percentages are either 100%, 150%, or 200%, both as adopted by the governing body of the City. Under the state law governing TMRS, the contribution rate for each City is determined annually by the actuary, using the Entry Age Normal (EAN) actuarial cost method. The actuarially determined rate is the estimated amount necessary to finance the cost of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. Employees for the City were required to contribute 5.00% of their annual gross earnings during the fiscal year. The contribution rates for the City were 6.20% and 5.68% in calendar years 2015 and 2016, respectively. The City's contributions to TMRS for the fiscal year ended September 30, 2016 were \$222,531, and were equal to the required contributions.

Net Pension Liability

The City's Net Pension Liability (NPL) was measured as of December 31, 2015, and the Total Pension Liability (TPL) used to calculate the Net Pension Liability was determined by an actuarial valuation as of that date.

Actuarial Assumptions

The Total Pension Liability in the December 31, 2015 actuarial valuation was determined using the following actuarial assumptions:

Inflation	2.5%
Overall Payroll Growth	3.0%
Investment Rate of Return	6.75%, net of pension plan investment expense, including inflation

Salary increases were based on a service-related table. Mortality rates for active members, retirees, and beneficiaries were based on the gender-distinct RP2000 Combined Healthy Mortality Tables with Blue Collar Adjustment, with male rates multiplied by 109% and female rates multiplied by 103%. The rates are projected on a fully generational basis by scale BB to account for future mortality improvements. For disables annuitants, the gender-distinct RP2000 Combined Healthy Mortality Tables with Blue Collar Adjustment are used with male rates multiplied by 109% and female rates multiplied by 103% with a 3-year set-forward for both males and females. In addition, a 3% minimum mortality rate is applied to reflect the impairment for younger members who become disabled. The rates are projected on a fully generational basis by scale BB to account for future mortality improvements subject to the 3% floor.

Actuarial assumptions used in the December 31, 2015, valuation were based on the results of actuarial experience studies. The experience study in TMRS was for the period December 31, 2010 through December 31, 2014. Healthy post-retirement mortality rates and annuity purchase rates were updated based on a Mortality Experience Investigation Study covering 2009 through 2011, and dated December 31, 2013. These assumptions were first used in the December 31, 2013 valuation, along with a change to the Entry Age Normal (EAN) actuarial cost method. Assumptions are reviewed annually. No additional changes were made for the 2014 valuation. After the Asset Allocation Study analysis and experience investigation study, the Board amended the long-term expected rate of return on pension plan investments from 7% to 6.75%. Plan assets are managed on a total return basis with an emphasis on both capital appreciation as well as the production of income, in order to satisfy the short-term and long-term funding needs of TMRS.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class.

NOTE 15: DEFINED BENEFIT PENSION PLAN - (Continued)**Net Pension Liability - (Continued)*****Actuarial Assumptions - (Continued)***

These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. . In determining their best estimate of a recommended investment return assumption under the various alternative asset allocation portfolios, GRS focused on the area between (1) arithmetic mean (aggressive) without an adjustment for time (conservative) and (2) the geometric mean (conservative) with an adjustment for time (aggressive). At its meeting on July 30, 2015, the TMRS Board approved a new portfolio target allocation.

The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return (Arithmetic)</u>
Domestic Equity	17.50%	4.55%
International Equity	17.50%	6.10%
Core Fixed Income	10.00%	1.00%
Non-Core Fixed Income	20.00%	3.65%
Real Return	10.00%	4.03%
Real Estate	10.00%	5.00%
Absolute Return	10.00%	4.00%
Private Equity	<u>5.00%</u>	8.00%
Total	<u>100.00%</u>	

NOTE 15: DEFINED BENEFIT PENSION PLAN - (Continued)**Net Pension Liability - (Continued)***Discount Rate*

The discount rate used to measure the Total Pension Liability was 6.75%. The projection of cash flows used to determine the discount rate assumed that employee and employer contributions will be made at the rates specified in statute. Based on that assumption, the pension plan's Fiduciary Net Position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the Total Pension Liability.

	Increase (Decrease)		
	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability
	(a)	(b)	(a) - (b)
Balance at 12/31/2014	\$ 9,888,897	\$ 9,341,955	\$ 546,942
Changes for the year:			
Service cost	358,107	-	358,107
Interest	688,461	-	688,461
Changes of benefit terms	-	-	-
Difference between expected and actual experience	(139,223)	-	(139,223)
Change of assumptions	88,376	-	88,376
Contributions - Employer	-	241,857	(241,857)
Contributions - Employee	-	195,047	(195,047)
Net investment income	-	13,784	(13,784)
Benefit payments, including refunds of employee contributions	(465,578)	(465,578)	-
Administrative expense	-	(8,396)	8,396
Other changes	-	(415)	415
Net changes	<u>530,143</u>	<u>(23,701)</u>	<u>553,844</u>
Balance at 12/31/2015	<u>\$ 10,419,040</u>	<u>\$ 9,318,254</u>	<u>\$ 1,100,786</u>

Sensitivity of the Net Pension Liability to Changes in the Discount Rate

The following presents the Net Pension Liability of the City, calculated using the discount rate of 6.75%, as well as what the City's Net Pension Liability would be if it were calculated using a discount rate that is 1-percentage-point lower (5.75%) or 1-percentage-point higher (7.75%) than the current rate:

	1.0% Decrease in Discount Rate (5.75%)	Discount Rate (6.75%)	1.0% Increase in Discount Rate (7.75%)
City's Net Pension Liability:	\$2,559,604	\$1,100,786	\$(84,677)

NOTE 15: DEFINED BENEFIT PENSION PLAN - (Continued)**Net Pension Liability - (Continued)***Pension Plan Fiduciary Net Position*

Detailed information about the pension plan's fiduciary net position is available in a separately-issued TMRS financial report. That report may be obtained on the internet at www.tmr.com.

Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

For the year ended September 30, 2016 the City recognized pension expense of \$266,679.

At September 30, 2016, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$ -	\$ 196,658
Changes in actuarial assumptions	61,267	-
Difference between projected and actual investment earnings	581,283	-
Contributions subsequent to the measurement date	158,037	-
Total	\$ 800,587	\$ 196,658

\$158,037 reported as deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability for the year ending September 30, 2017. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended December 31:	Pension Expense Amount
2016	\$ 60,284
2017	110,549
2018	147,030
2019	128,029
2020	-
Thereafter	-

NOTE 16: 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 2016, 2015, and 2014 were \$3,440, \$2,983, and \$2,440, respectively, which equaled the required contributions each year.

NOTE 17: 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. Quarterly payments of \$75 are made to qualifying individuals until their death, at which time the surviving spouse, if any, is entitled to receive payments of \$50 per quarter until death. As of September 30, 2016, there were 10 individuals receiving benefits under the plan. Benefit payments for the year totaled \$2,875.

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, 2016.

NOTE 18: 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 \$816,277 as of September 30, 2016, 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 19: FUND BALANCES

The following is a detail of the governmental fund balances as of September 30, 2016:

	<u>Nonspendable</u>	<u>Restricted</u>	<u>Committed</u>	<u>Unassigned</u>	<u>Total</u>
General					
Prepaid items	\$ 45,717	\$ -	\$ -	\$ -	\$ 45,717
Operating reserves	-	-	2,330,439	-	2,330,439
Health insurance claims	-	-	920,230	-	920,230
Capital asset replacement	-	-	283,660	-	283,660
Unassigned	-	-	-	4,922,293	4,922,293
Street Construction					
Various capital projects	-	-	949,666	-	949,666
Nonmajor Governmental					
Retirement of long-term debt	-	141,071	-	-	141,071
Tourism and conventions	-	1,049,921	-	-	1,049,921
Economic development	-	10,120	-	-	10,120
Police	-	82,009	-	-	82,009
Municipal court	-	26,408	-	-	26,408
	<u>\$ 45,717</u>	<u>\$ 1,309,529</u>	<u>\$ 4,483,995</u>	<u>\$ 4,922,293</u>	<u>\$ 10,761,534</u>

NOTE 20: SUBSEQUENT EVENT

In December 2016, the City issued General Obligation Refunding Bonds, Series 2016 of \$3,810,000. The bonds are due in annual installments ranging from \$100,000 to \$780,000 through 2024 with interest varying from 1.10% to 2.05%. The proceeds from the sale of the bonds will be used to refund 100% of the Combination Tax and Revenue Certificates of Obligations, Series 2004 and a portion of the City's outstanding debt (General Obligation Refunding Bonds, Series, 2007 and Combination Tax and Revenue Certificates of Obligations, Series 2007) and to pay costs of issuance of the bonds.

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, 2016

With comparative totals for the year ended September 30, 2015

	2016				2015
	Original Budget	Final Budget	Actual	Variance Positive (Negative)	Actual
REVENUES					
Taxes	\$ 6,540,500	\$ 6,689,136	\$ 6,828,135	\$ 138,999	\$ 7,217,350
Fines and forfeitures	281,000	281,000	317,651	36,651	274,479
Intergovernmental	256,800	256,800	258,107	1,307	267,997
Licenses and permits	83,200	83,200	109,637	26,437	105,245
Investment	10,000	25,000	36,208	11,208	25,388
Rental	45,000	69,000	87,130	18,130	87,084
Charges for services	2,000	2,000	2,744	744	3,667
Miscellaneous	15,000	29,400	71,990	42,590	79,699
Total revenues	<u>7,233,500</u>	<u>7,435,536</u>	<u>7,711,602</u>	<u>276,066</u>	<u>8,060,909</u>
EXPENDITURES					
Current					
General government	2,392,259	2,411,693	2,192,038	219,655	2,114,748
Public safety	2,980,138	2,995,494	2,870,529	124,965	2,942,132
Public works	1,162,959	1,303,205	1,190,259	112,946	1,344,897
Parks and recreation	844,750	844,750	738,490	106,260	1,004,617
Total expenditures	<u>7,380,106</u>	<u>7,555,142</u>	<u>6,991,316</u>	<u>563,826</u>	<u>7,406,394</u>
Excess (deficiency) of revenues over expenditures	(146,606)	(119,606)	720,286	839,892	654,515
OTHER FINANCING SOURCES (USES)					
Transfers in	489,500	489,500	550,988	61,488	1,121,916
Transfers out	(262,000)	(570,125)	(575,786)	(5,661)	(691,649)
Sale of capital assets	5,000	5,000	3,617	(1,383)	43,061
Net other financing sources (uses)	<u>232,500</u>	<u>(75,625)</u>	<u>(21,181)</u>	<u>54,444</u>	<u>473,328</u>
Net change in fund balance	85,894	(195,231)	699,105	894,336	1,127,843
Fund balance at beginning of year	<u>7,803,234</u>	<u>7,803,234</u>	<u>7,803,234</u>	<u>-</u>	<u>6,675,391</u>
Fund balance at end of year	<u>\$ 7,889,128</u>	<u>\$ 7,608,003</u>	<u>\$ 8,502,339</u>	<u>\$ 894,336</u>	<u>\$ 7,803,234</u>

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

CITY OF PORT LAVACA, TEXAS**SCHEDULE OF CHANGES IN NET PENSION LIABILITY AND RELATED RATIOS**

Last ten years

	2014	2015
Total Pension Liability		
Service cost	\$ 314,835	\$ 358,107
Interest (on the total pension liability)	670,913	688,461
Changes of benefit terms	-	-
Difference between expected and actual experience	(250,547)	(139,223)
Change of assumptions	-	88,376
Benefit payments, including refunds of employee contributions	(546,714)	(465,578)
Net Change in Total Pension Liability	188,487	530,143
Total Pension Liability - Beginning	9,700,410	9,888,897
Total Pension Liability - Ending (a)	<u>\$ 9,888,897</u>	<u>\$ 10,419,040</u>
Plan Fiduciary Net Position		
Contributions - Employer	\$ 197,075	\$ 241,857
Contributions - Employee	176,910	195,047
Net investment income	515,111	13,784
Benefit payments, including refunds of employee contributions	(546,714)	(465,578)
Administrative expense	(5,379)	(8,396)
Other	(442)	(415)
Net Change in Plan Fiduciary Net Position	336,561	(23,701)
Plan Fiduciary Net Position - Beginning	9,005,394	9,341,955
Plan Fiduciary Net Position - Ending (b)	<u>\$ 9,341,955</u>	<u>\$ 9,318,254</u>
Net Pension Liability - Ending (a) - (b)	<u>\$ 546,942</u>	<u>\$ 1,100,786</u>
Plan Fiduciary Net Position as a Percentage of Total Pension Liability	94.47%	89.43%
Covered Employee Payroll	\$ 3,538,200	\$ 3,900,944
Net Pension Liability as a Percentage of Covered Employee Payroll	15.46%	28.22%

NOTE: Information for the prior eight years was not readily available. The City will compile the respective information over the next eight years as provided by TMRS on a "measurement date" basis.

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

CITY OF PORT LAVACA, TEXAS
SCHEDULE OF EMPLOYER CONTRIBUTIONS
Last ten fiscal years

	<u>2015</u>	<u>2016</u>
Actuarially Determined Contribution	\$ 225,696	\$ 222,531
Contribution in relation to the actuarially determined contribution	<u>(234,844)</u>	<u>(232,147)</u>
Contribution deficiency (excess)	<u>\$ (9,148)</u>	<u>\$ (9,616)</u>
Covered employee payroll	\$ 3,728,430	\$ 3,822,573
Contributions as a percentage of covered employee payroll	6.30%	6.07%

NOTE: Information for the prior eight fiscal years was not readily available. The City will compile the respective information over the next eight fiscal years.

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, 2016

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, 2016, the City complied with budgetary restrictions at all departmental levels except the following:

<u>Fund Name- Department</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Negative Variance</u>
General Fund			
Animal control	\$ 111,906	\$ 112,674	\$ 768
Transfers out	570,125	575,786	5,661

NOTE 3: TEXAS MUNICIPAL RETIREMENT SYSTEM

Valuation Date

Actuarially determined contribution rates are calculated as of December 31 and become effective in January, 13 months later.

Methods and Assumptions Used to Determine Contribution Rates

Actuarial Cost Method	Entry Age Normal
Amortization Method	Level Percentage of Payroll, Closed
Remaining Amortization Period	30 years
Asset Valuation Method	10 year Smoothed Market; 15% Soft Corridor
Inflation	2.5%
Salary Increases	3.50% to 10.5% including inflation
Investment Rate of Return	6.75%, net of pension plan investment expense, including inflation
Retirement Age	Experience-based table of rates that are specific to the City's plan of benefits. Last updated for the 2015 valuation pursuant to an experience study of the period 2010-2014
Mortality	RP2000 Combined Mortality Table with Blue Collar Adjustment with male rates multiplied by 109% and female rates multiplied by 103% and projected on a fully generational basis with scale BB.

Other Information

There were no benefit changes during the year.

Combining and Individual Fund Statements and Schedules

NONMAJOR GOVERNMENTAL FUNDS

Nonmajor Special Revenue Funds

Special Revenue Funds are used to account for and report the proceeds of specific revenue sources that are restricted or committed to expenditure for specific purposes other than debt service or capital projects.

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, Building Security, and Juvenile Case Manager Funds - Account for fees collected on conviction of certain municipal court offenses and funds are intended to enhance these specific areas.

Economic Development Fund - Accounts for funds received from public and private partners to be used for economic development purposes.

Bicycle Patrol Grant - Accounts for funds received from the Office of the Governor-Criminal Justice Division and used to purchase equipment needed to support the newly implemented bicycle patrol program. The purpose of this grant is to prevent and control crime.

HOME Program Fund - Accounts for grant funds received from the Texas Department of Housing and Community Affairs to provide funds to entities for the reconstruction of substandard homes in their community.

Texas Capital Fund - Accounts for federal funds received to fund downtown revitalization such as sidewalks in the Historic Commercial District.

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 Grant - 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 GOVERNMENTAL FUNDS - (Continued)

Nonmajor Debt Service Funds

The Debt Service Funds are used to account for and report financial resources that are restricted, committed or assigned to expenditure for general government debt principal and interest.

2012 General Obligation Refunding Bonds Fund - To accumulate monies for payment of the City's 2012 General Obligation Refunding Bonds.

CITY OF PORT LAVACA, TEXAS
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
September 30, 2016

	Special Revenue					
	Hotel Occupancy Tax	Police Forfeitures	Juvenile Case Manager	Building Security	Economic Development	Redflex Traffic System
ASSETS						
Current assets						
Cash and cash equivalents	\$ 933,845	\$ 5,510	\$ 1,076	\$ 25,571	\$ 10,120	\$ 81,291
Receivables (net)	124,647	-	-	-	-	-
Due from other governments	-	-	-	-	-	-
Total assets	<u>\$ 1,058,492</u>	<u>\$ 5,510</u>	<u>\$ 1,076</u>	<u>\$ 25,571</u>	<u>\$ 10,120</u>	<u>\$ 81,291</u>
LIABILITIES						
Liabilities						
Accounts payable	\$ 8,571	\$ -	\$ -	\$ -	\$ -	\$ -
Payroll related payables	-	-	1,076	-	-	-
Due to other funds	-	4,792	-	-	-	-
Total liabilities	<u>8,571</u>	<u>4,792</u>	<u>1,076</u>	<u>-</u>	<u>-</u>	<u>-</u>
DEFERRED INFLOWS OF RESOURCES						
Unavailable revenue	-	-	-	-	-	-
Total deferred inflows of resources	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
FUND BALANCE						
Restricted						
Retirement of long-term debt	-	-	-	-	-	-
Tourism and conventions	1,049,921	-	-	-	-	-
Economic development	-	-	-	-	10,120	-
Public safety	-	718	-	-	-	81,291
Municipal court	-	-	-	25,571	-	-
Total fund balance	<u>1,049,921</u>	<u>718</u>	<u>-</u>	<u>25,571</u>	<u>10,120</u>	<u>81,291</u>
Total liabilities, deferred inflows and fund balance	<u>\$ 1,058,492</u>	<u>\$ 5,510</u>	<u>\$ 1,076</u>	<u>\$ 25,571</u>	<u>\$ 10,120</u>	<u>\$ 81,291</u>

Special Revenue		Debt Service		Total Nonmajor Governmental Funds
Court Technology Fund	Total	2012 General Obligation Refunding Bonds	Total	
\$ 32,794	\$ 1,090,207	\$ 142,360	\$ 142,360	\$ 1,232,567
-	124,647	18,028	18,028	142,675
-	-	395	395	395
<u>\$ 32,794</u>	<u>\$ 1,214,854</u>	<u>\$ 160,783</u>	<u>\$ 160,783</u>	<u>\$ 1,375,637</u>
\$ -	\$ 8,571	\$ -	\$ -	\$ 8,571
-	1,076	-	-	1,076
<u>31,957</u>	<u>36,749</u>	<u>1,684</u>	<u>1,684</u>	<u>38,433</u>
<u>31,957</u>	<u>46,396</u>	<u>1,684</u>	<u>1,684</u>	<u>48,080</u>
-	-	18,028	18,028	18,028
-	-	18,028	18,028	18,028
-	-	141,071	141,071	141,071
-	1,049,921	-	-	1,049,921
-	10,120	-	-	10,120
-	82,009	-	-	82,009
<u>837</u>	<u>26,408</u>	<u>-</u>	<u>-</u>	<u>26,408</u>
<u>837</u>	<u>1,168,458</u>	<u>141,071</u>	<u>141,071</u>	<u>1,309,529</u>
<u>\$ 32,794</u>	<u>\$ 1,214,854</u>	<u>\$ 160,783</u>	<u>\$ 160,783</u>	<u>\$ 1,375,637</u>

CITY OF PORT LAVACA, TEXAS
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
For the year ended September 30, 2016

	Special Revenue					
	Hotel Occupancy Tax	Police Forfeitures	Juvenile Case Manager	Building Security	Economic Development	Bicycle Patrol Grant
REVENUES						
Taxes	\$ 403,714	\$ -	\$ -	\$ -	\$ -	\$ -
Fines, fees, and forfeitures	-	3,590	7,471	3,885	-	-
Intergovernmental	-	-	-	-	-	-
Investment	3,150	282	-	79	32	-
Miscellaneous	91,070	-	-	-	-	-
Total revenues	<u>497,934</u>	<u>3,872</u>	<u>7,471</u>	<u>3,964</u>	<u>32</u>	<u>-</u>
EXPENDITURES						
Current						
General government	227,414	-	-	1,775	-	-
Public safety	-	11,599	16,310	-	-	-
Debt service						
Principal retirement	-	-	-	-	-	-
Interest and fiscal charges	-	-	-	-	-	-
Total expenditures	<u>227,414</u>	<u>11,599</u>	<u>16,310</u>	<u>1,775</u>	<u>-</u>	<u>-</u>
Excess (deficiency) of revenues over expenditures	270,520	(7,727)	(8,839)	2,189	32	-
OTHER FINANCING SOURCES (USES)						
Transfers in	-	-	8,839	-	-	-
Transfers out	(225,000)	-	-	-	-	(189)
Total other financing sources (uses)	<u>(225,000)</u>	<u>-</u>	<u>8,839</u>	<u>-</u>	<u>-</u>	<u>(189)</u>
Net change in fund balances	45,520	(7,727)	-	2,189	32	(189)
Fund balances at beginning of year	<u>1,004,401</u>	<u>8,445</u>	<u>-</u>	<u>23,382</u>	<u>10,088</u>	<u>189</u>
Fund balances at end of year	<u>\$ 1,049,921</u>	<u>\$ 718</u>	<u>\$ -</u>	<u>\$ 25,571</u>	<u>\$ 10,120</u>	<u>\$ -</u>

Special Revenue						
HOME Program	Bullet Proof Vest Grant	Redflex Traffic System	Court Technology Fund	Bayfront Peninsula Pier	Homeland Security	Total
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 403,714
-	-	170,526	5,224	-	-	190,696
-	3,681	-	-	-	11,289	14,970
-	-	259	100	172	-	4,074
-	-	-	-	-	-	91,070
-	3,681	170,785	5,324	172	11,289	704,524
4,998	-	-	4,487	-	-	238,674
-	7,505	170,776	-	-	11,289	217,479
-	-	-	-	-	-	-
-	-	-	-	-	-	-
4,998	7,505	170,776	4,487	-	11,289	456,153
(4,998)	(3,824)	9	837	172	-	248,371
4,998	3,824	-	-	-	-	17,661
-	-	-	-	(56,298)	-	(281,487)
4,998	3,824	-	-	(56,298)	-	(263,826)
-	-	9	837	(56,126)	-	(15,455)
-	-	81,282	-	56,126	-	1,183,913
\$ -	\$ -	\$ 81,291	\$ 837	\$ -	\$ -	\$ 1,168,458

(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, 2016

	Debt Service		Total
	2012		Nonmajor
	General		Governmental
	Obligation		Funds
	Refunding Bonds	Total	
REVENUES			
Taxes	\$ 325,121	\$ 325,121	\$ 728,835
Fines, fees, and forfeitures	-	-	190,696
Intergovernmental	-	-	14,970
Investment	838	838	4,912
Miscellaneous	-	-	91,070
Total revenues	<u>325,959</u>	<u>325,959</u>	<u>1,030,483</u>
EXPENDITURES			
Current			
General government	-	-	238,674
Public safety	-	-	217,479
Debt service			
Principal retirement	280,000	280,000	280,000
Interest and fiscal charges	47,396	47,396	47,396
Total expenditures	<u>327,396</u>	<u>327,396</u>	<u>783,549</u>
Excess (deficiency) of revenues over expenditures	(1,437)	(1,437)	246,934
OTHER FINANCING SOURCES (USES)			
Transfers in	-	-	17,661
Transfers out	-	-	(281,487)
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>(263,826)</u>
Net change in fund balances	(1,437)	(1,437)	(16,892)
Fund balances at beginning of year	<u>142,508</u>	<u>142,508</u>	<u>1,326,421</u>
Fund balances at end of year	<u>\$ 141,071</u>	<u>\$ 141,071</u>	<u>\$ 1,309,529</u>

(concluded)

GENERAL FUND

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

CITY OF PORT LAVACA, TEXAS**MAJOR GOVERNMENTAL FUNDS - GENERAL FUND****BALANCE SHEET**

September 30, 2016

With comparative totals for September 30, 2015

	2016	2015
ASSETS		
Cash and cash equivalents	\$ 7,017,149	\$ 5,674,979
Investments	490,000	500,000
Receivables, net		
Taxes	461,449	447,522
Fines	55,748	48,547
Other	50,612	28,580
Due from other governments	426,283	450,170
Due from other funds	885,233	1,522,854
Prepaid items	45,717	47,218
Total assets	\$ 9,432,191	\$ 8,719,870
LIABILITIES		
Accounts payable	\$ 156,877	\$ 246,148
Payroll related payables	161,111	107,748
Other payables	58,143	34,998
Due to other governments	25,343	17,714
Customer and other deposits	18,944	21,586
Unearned revenue	64,041	64,041
Total liabilities	484,459	492,235
DEFERRED INFLOWS OF RESOURCES		
Unavailable revenue	445,393	424,401
Total deferred inflows of resources	445,393	424,401
FUND BALANCE		
Nonspendable		
Prepaid items	45,717	47,218
Committed		
Operating reserves	2,330,439	2,468,798
Health insurance claims	920,230	924,846
Capital asset replacement	283,660	285,876
Unassigned	4,922,293	4,076,496
Total fund balance	8,502,339	7,803,234
Total liabilities, deferred inflows and fund balance	\$ 9,432,191	\$ 8,719,870

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, 2016

With comparative totals for the year ended September 30, 2015

	2016		Variance	2015
	Final Budget	Actual	Positive (Negative)	Actual
REVENUES				
Taxes				
Ad valorem	\$ 3,642,636	\$ 3,706,583	\$ 63,947	\$ 3,768,918
Sales	2,450,000	2,510,153	60,153	2,809,977
Franchise	581,500	587,153	5,653	615,800
Beverage	15,000	24,246	9,246	22,655
Total taxes	<u>6,689,136</u>	<u>6,828,135</u>	<u>138,999</u>	<u>7,217,350</u>
Fines and forfeitures				
Municipal court	158,000	212,719	54,719	154,231
Tax penalties and fees	<u>123,000</u>	<u>104,932</u>	<u>(18,068)</u>	<u>120,248</u>
Total fines and forfeitures	<u>281,000</u>	<u>317,651</u>	<u>36,651</u>	<u>274,479</u>
Intergovernmental				
Reimbursements	255,000	256,166	1,166	255,347
Grants and allocations	<u>1,800</u>	<u>1,941</u>	<u>141</u>	<u>12,650</u>
Total intergovernmental	<u>256,800</u>	<u>258,107</u>	<u>1,307</u>	<u>267,997</u>
Licenses and permits				
Licenses				
Building/electrical	7,000	8,028	1,028	9,431
Animal	4,000	7,270	3,270	7,570
Alcoholic beverage	4,000	5,295	1,295	5,135
Permits				
Building	30,000	22,733	(7,267)	34,689
Electrical	6,000	10,649	4,649	8,857
Plumbing	8,000	11,792	3,792	10,753
Mechanical	3,500	11,445	7,945	7,015
Miscellaneous	<u>20,700</u>	<u>32,425</u>	<u>11,725</u>	<u>21,795</u>
Total licenses and permits	<u>83,200</u>	<u>109,637</u>	<u>26,437</u>	<u>105,245</u>
Investment	<u>25,000</u>	<u>36,208</u>	<u>11,208</u>	<u>25,388</u>
Rental	<u>69,000</u>	<u>87,130</u>	<u>18,130</u>	<u>87,084</u>
Charges for services				
Police service fees	2,000	1,645	(355)	2,367
Other	<u>-</u>	<u>1,099</u>	<u>1,099</u>	<u>1,300</u>
Total charges for services	<u>2,000</u>	<u>2,744</u>	<u>744</u>	<u>3,667</u>

	2016			2015
	Final Budget	Actual	Variance Positive (Negative)	Actual
REVENUES - (Continued)				
Miscellaneous				
Reimbursements and refunds	\$ 10,000	\$ 11,669	\$ 1,669	\$ 9,838
Other	19,400	60,321	40,921	69,861
Total miscellaneous	<u>29,400</u>	<u>71,990</u>	<u>42,590</u>	<u>79,699</u>
 Total revenues	 <u>7,435,536</u>	 <u>7,711,602</u>	 <u>276,066</u>	 <u>8,060,909</u>
OTHER FINANCING SOURCES				
Transfers in	489,500	550,988	61,488	1,121,916
Sale of capital assets	<u>5,000</u>	<u>3,617</u>	<u>(1,383)</u>	<u>43,061</u>
Total other financing sources	<u>494,500</u>	<u>554,605</u>	<u>60,105</u>	<u>1,164,977</u>
Total revenues and other financing sources	<u>\$ 7,930,036</u>	<u>\$ 8,266,207</u>	<u>\$ 336,171</u>	<u>\$ 9,225,886</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, 2016

With comparative totals for the year ended September 30, 2015

	2016			2015
	Final Budget	Actual	Variance Positive (Negative)	Actual
EXPENDITURES				
Current				
General government				
City council				
Personnel services	\$ 29,094	\$ 27,205	\$ 1,889	\$ 27,612
Materials and supplies	380	380	-	429
Services	1,370	1,331	39	1,025
Total city council	30,844	28,916	1,928	29,066
City manager				
Personnel services	244,692	223,217	21,475	193,624
Materials and supplies	1,201	1,131	70	410
Services	6,127	5,356	771	5,987
Total city manager	252,020	229,704	22,316	200,021
City secretary				
Personnel services	91,978	88,128	3,850	72,402
Materials and supplies	2,352	1,451	901	1,171
Services	30,911	29,745	1,166	20,916
Maintenance	399	398	1	-
Total city secretary	125,640	119,722	5,918	94,489
Human resources				
Personnel services	47,313	44,469	2,844	53,409
Materials and supplies	2,479	1,977	502	1,726
Services	16,844	15,524	1,320	19,375
Maintenance	1,789	560	1,229	-
Total human resources	68,425	62,530	5,895	74,510
Municipal court				
Personnel services	87,184	84,638	2,546	80,162
Materials and supplies	3,794	3,723	71	1,541
Services	14,255	13,632	623	23,471
Maintenance	3,767	3,168	599	3,385
Total municipal court	109,000	105,161	3,839	108,559
Economic development				
Personnel services	114,546	87,257	27,289	70,320
Materials and supplies	1,055	658	397	5,718
Services	48,289	33,899	14,390	10,844
Maintenance	1,000	867	133	3,629
Total economic development	164,890	122,681	42,209	90,511

	2016			2015
	Final Budget	Actual	Variance Positive (Negative)	Actual
EXPENDITURES - (Continued)				
Current - (Continued)				
General government - (Continued)				
Finance				
Personnel services	\$ 209,773	\$ 209,970	\$ (197)	\$ 198,111
Materials and supplies	6,675	6,546	129	8,691
Services	5,986	5,933	53	12,134
Maintenance	500	456	44	508
Total finance	222,934	222,905	29	219,444
City hall				
Materials and supplies	9,230	9,215	15	7,575
Services	75,660	78,205	(2,545)	81,609
Maintenance	23,860	7,569	16,291	27,476
Total city hall	108,750	94,989	13,761	116,660
Non-departmental				
Personnel services	661,370	647,284	14,086	654,805
Services	520,963	458,250	62,713	434,965
Maintenance	70,385	68,105	2,280	66,780
Sundry	76,472	31,791	44,681	24,938
Total non-departmental	1,329,190	1,205,430	123,760	1,181,488
Total general government	2,411,693	2,192,038	219,655	2,114,748
Public safety				
Police				
Personnel services	1,299,315	1,299,801	(486)	1,354,478
Materials and supplies	102,071	75,464	26,607	64,449
Services	90,444	82,024	8,420	77,771
Maintenance	119,140	118,052	1,088	125,670
Capital outlay	46,680	46,680	-	44,641
Total police	1,657,650	1,622,021	35,629	1,667,009
Fire				
Personnel services	975,653	911,107	64,546	947,901
Materials and supplies	102,520	90,794	11,726	77,765
Services	56,938	50,079	6,859	53,550
Maintenance	43,048	36,091	6,957	35,808
Debt service	47,779	47,763	16	47,762
Total fire	1,225,938	1,135,834	90,104	1,162,786
Animal control				
Personnel services	82,352	82,856	(504)	85,027
Materials and supplies	7,481	7,268	213	8,111
Services	9,673	10,151	(478)	11,909
Maintenance	12,400	12,399	1	7,290
Total animal control	111,906	112,674	(768)	112,337
Total public safety	2,995,494	2,870,529	124,965	2,942,132

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, 2016

With comparative totals for the year ended September 30, 2015

	2016		Variance	2015
	Final Budget	Actual	Positive (Negative)	Actual
EXPENDITURES - (Continued)				
Current - (Continued)				
Public works				
Code enforcement/inspections				
Personnel services	\$ 149,878	\$ 149,846	\$ 32	\$ 121,314
Materials and supplies	5,964	5,813	151	5,772
Services	22,082	18,542	3,540	9,996
Maintenance	3,172	3,170	2	2,351
Capital outlay	-	-	-	21,965
Total code enforcement/inspections	181,096	177,371	3,725	161,398
Streets				
Personnel services	456,075	441,950	14,125	415,225
Materials and supplies	47,103	45,088	2,015	33,974
Services	144,657	130,974	13,683	138,934
Maintenance	368,674	289,296	79,378	170,043
Capital outlay	105,600	105,580	20	425,323
Total streets	1,122,109	1,012,888	109,221	1,183,499
Total public works	1,303,205	1,190,259	112,946	1,344,897
Parks and recreation				
Parks				
Personnel services	175,074	165,126	9,948	156,676
Materials and supplies	34,303	28,673	5,630	24,650
Services	61,670	64,738	(3,068)	58,166
Maintenance	67,125	64,693	2,432	78,690
Capital outlay	265,628	202,853	62,775	476,986
Total parks	603,800	526,083	77,717	795,168
Convention/visitors bureau				
Personnel services	60,275	59,317	958	60,665
Materials and supplies	6,373	6,028	345	5,020
Services	105,259	110,299	(5,040)	113,203
Maintenance	69,043	36,763	32,280	30,561
Total convention/visitors bureau	240,950	212,407	28,543	209,449
Total parks and recreation	844,750	738,490	106,260	1,004,617
Total current	7,555,142	6,991,316	563,826	7,406,394
Total expenditures	7,555,142	6,991,316	563,826	7,406,394
OTHER FINANCING USES				
Transfers out	570,125	575,786	(5,661)	691,649
Total expenditures and other financing uses	\$ 8,125,267	\$ 7,567,102	\$ 558,165	\$ 8,098,043

(concluded)

NONMAJOR DEBT SERVICE FUNDS

CITY OF PORT LAVACA, TEXAS**NONMAJOR GOVERNMENTAL FUNDS - 2012 GENERAL OBLIGATION REFUNDING BONDS FUND****SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE****BUDGET (GAAP BASIS) AND ACTUAL**

For the year ended September 30, 2016

With comparative totals for the year ended September 30, 2015

	2016			2015
	Final Budget	Actual	Variance Positive (Negative)	Actual
REVENUES				
Taxes				
Ad valorem	\$ 327,000	\$ 325,121	\$ (1,879)	\$ 270,748
Investment	300	838	538	453
Total revenues	<u>327,300</u>	<u>325,959</u>	<u>(1,341)</u>	<u>271,201</u>
EXPENDITURES				
Debt service				
Principal retirement	280,000	280,000	-	220,000
Interest and fiscal charges	<u>47,300</u>	<u>47,396</u>	<u>(96)</u>	<u>52,471</u>
Total expenditures	<u>327,300</u>	<u>327,396</u>	<u>(96)</u>	<u>272,471</u>
Excess (deficiency) of revenues over expenditures	-	(1,437)	(1,437)	(1,270)
OTHER FINANCING SOURCES (USES)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net change in fund balances	-	(1,437)	(1,437)	(1,270)
Fund balances at beginning of year	<u>142,508</u>	<u>142,508</u>	<u>-</u>	<u>143,778</u>
Fund balances at end of year	<u>\$ 142,508</u>	<u>\$ 141,071</u>	<u>\$ (1,437)</u>	<u>\$ 142,508</u>

AGENCY FUND

Agency Funds are used to account for resources held for others in a custodial capacity and do not involve measurement of results of operations.

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

CITY OF PORT LAVACA, TEXAS**STATEMENT OF CHANGES IN ASSETS AND LIABILITIES****AGENCY FUND***For the year ended September 30, 2016*

	<u>Balance Beginning of Year</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance End of Year</u>
POLICE SEIZED NONFORFEITURE FUND				
Assets				
Cash and cash equivalents	<u>\$ 79,622</u>	<u>\$ 7,387</u>	<u>\$ 8,192</u>	<u>\$ 78,817</u>
Total assets	<u>\$ 79,622</u>	<u>\$ 7,387</u>	<u>\$ 8,192</u>	<u>\$ 78,817</u>
Liabilities				
Due to others	<u>\$ 79,622</u>	<u>\$ 7,387</u>	<u>\$ 8,192</u>	<u>\$ 78,817</u>
Total liabilities	<u>\$ 79,622</u>	<u>\$ 7,387</u>	<u>\$ 8,192</u>	<u>\$ 78,817</u>

**OVERALL COMPLIANCE AND INTERNAL
CONTROL SECTION**



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**INDEPENDENT AUDITORS' 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, 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, 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, 2016, and the related notes to the financial statements, which collectively comprise the City's basic financial statements and have issued our report thereon dated May 24, 2017.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances 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. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

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 a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the consolidated financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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

Compliance and Other Matters

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

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Harrison, Waldrop & Uherek, LLP

HARRISON, WALDROP & UHEREK, L.L.P.
Certified Public Accountants

May 24, 2017



CITY OF PORT LAVACA

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