

CITY OF PORT ISABEL, TEXAS

ANNUAL FINANCIAL REPORT

**FOR THE YEAR ENDED
SEPTEMBER 30, 2008**

CITY OF PORT ISABEL, TEXAS
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INTRODUCTORY SECTION

CITY OF PORT ISABEL, TEXAS

LIST OF CITY OFFICIALS

SEPTEMBER 30, 2008

Mayor.....Joe E. Vega
City Commissioner Place 1.....Juan Jose “JJ” Zamora
City Commissioner Place 2.....Maria de Jesus Garza
City Commissioner Place 3.....Martin C. Cantu
City Commissioner Place 4.....Guillermo “Memo” Torres
City Manager.....Edward P. Meza
City Secretary.....Susan Alcocer
Finance Director.....Donald Moore

FINANCIAL SECTION

INDEPENDENT AUDITORS' REPORT

To the Honorable Mayor and
Member of the City of Council
City of Port Isabel, Texas

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Port Isabel, Texas, as of and for the year ended September 30, 2008, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Port Isabel, Texas' management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Port Isabel, Texas, as of September 30, 2008, and the respective changes in financial position, and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated May 28, 2009, on our consideration of the City of Port Isabel, Texas' internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and important for assessing the results of our audit.

The management's discussion and analysis and budgetary comparison information on pages 4 through 9 and 39 through 40, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Port Isabel, Texas' basic financial statements. The introductory section, combining and individual nonmajor fund financial statements, and statistical section 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 have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The introductory section and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

Pattullo, Brown & Hill, LLP

May 28, 2009

**MANAGEMENT'S
DISCUSSION AND ANALYSIS**



CITY OF PORT ISABEL

"An Equal Opportunity Employer"
305 East Maxan
Port Isabel, Texas 78578
(956) 943-2682
(956) 943-2029 Facsimilie

MANAGEMENT'S DISCUSSION AND ANALYSIS

Our discussion and analysis of the City of Port Isabel, Texas' (the "City") financial performance provides an overview of the City's financial activities for the fiscal year ending September 30, 2008. Please review in conjunction with the City's financial statements.

REVIEWING THE ANNUAL REPORT

The annual report covers multiple financial statements. The Statement of Net Assets and the Statement of Activities supply data about the activities of the City as a whole and provide thorough information regarding the City's finances. For government activities, these statements show how services were financed and what remains for future spending. Fund financial statements show City operations in more detail than government-wide statements, as they provide information about the City's most important funds. Additional statements provide financial data for activities in which the City serves as a trustee or agent for those not in government.

FINANCIAL HIGHLIGHTS

There were three events with material financial consequences which happened during this year's operations. They are Hurricane Dolly, the correction of various items from previous years, and change in accounting methods of recording some revenues and expenses so monthly financial reports could be produced to assist in the management of the city. The total effect of the last two items is shown as a Prior Period Adjustment within the General Fund column of the Statement of Revenues, Expenditures and Changes in Fund Balances, Governmental Funds on page 13 in the amount of \$346,130 and is further broken down in Note 4, page 38.

The direct financial effect of Hurricane Dolly was only separated to the extent necessary to apply for help from FEMA and submit insurance claims. The expense paid over the amount received from FEMA and Insurance was \$69,486 plus wages contributable to Dolly recovery. Wage expense from hours worked on Dolly recovery by city employees were never separated from normal wages.

Net assets of business-type activities were \$636,984 and net assets of governmental activities were \$11,259,703.

- The current year's expense total was \$5,260,400 as compared to the \$5,555,281 generated in tax and other revenues for governmental programs.
- For business-type activities, City revenues were \$142,812. Expenses were \$284,060.
- The yearly cost for all City programs was \$5,544,460.
- Increase (decrease) in net assets for Governmental Activities was \$197,812 and Business Activities (\$29,179), for a net total of \$168,633.

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 the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-wide Financial Statements – The government-wide financial statements, which begin on page 10 of this report, are designed to provide readers with a broad overview of the City's finances, in a manner similar to a private-sector business.

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

The Statement of Activities presents information showing how the City's net assets changed during the fiscal year. All changes in net assets are reported when 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 the future fiscal periods (e.g., uncollected taxes and earned but unused compensated absences).

Both of the government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (governmental activities) from functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the City include General Government, Public Safety, Public Works, Social Services, and Culture & Recreation. The business-type activities of the City include the Museum and Cemetery.

The government-wide financial statements include not only the City of Port Isabel itself (known as the primary government), but also a legally separate Economic Development Corporation. Financial information for this component unit is reported separately from the financial information presented for the primary government, itself.

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. All funds of the City can be divided into two categories – governmental funds and proprietary funds.

Governmental Funds – Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on current sources and uses 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 governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for 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 financing decisions. Both the governmental funds balance sheet and the governmental fund statements of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

Beginning on page 12 of this report, information is presented separately in the Governmental Fund Balance Sheet and in the Governmental Fund Statement of Revenues, Expenditures, and Changes in Fund Balances for the General and Capital Improvement Funds, which are considered to be major funds. Data from the other governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these non-major governmental funds is provided in the form of combining statements, which begin on page 41.

Proprietary Funds – The City maintains one type of proprietary fund. Enterprise Funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The City uses Enterprise Funds to account for the Museum and Cemetery.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The basic proprietary fund financial statements, which begin on page 16 of this report, provide separate information for the Museum Enterprise Fund since it is considered to be a major fund of the City. Data from the other enterprise funds are combined into a single, aggregated presentation.

Notes to the 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 the financial statements can be found on pages 20 – 38 of this report.

Other Information – In addition to the basic financial statements and accompanying notes, this report also presents combining fund statements and schedules that further support the information in the financial statements. The combining fund statements and schedules for nonmajor funds are presented immediately following the notes to the financial statements beginning on page 41 of this report.

CITY SERVING AS TRUSTEE

Due to trust arrangements, the City is often accountable for assets that can only be used for trust beneficiaries. All of these trustee proceedings are detailed in separate Statements of Fiduciary Net Assets and Changes in Fiduciary Net Assets. Since the City cannot use these assets to finance its operations, these activities are not included in other financial statements. However, the City must be certain the assets detailed in these funds are used for their intended purposes.

CITY AS A WHOLE

The City's combined net assets were \$11,896,687 this year. However, net assets and expenses from governmental and business-type activities must be reviewed separately. The tables on the following pages focus on the net assets (Table 1) and changes in net assets (Table 2) of the City's governmental and business-type activities.

The City's net assets for governmental activities were \$11,259,703 this year. Unrestricted net assets were \$1,299,581 this year. Unrestricted net assets are those that can be used to finance every-day operations without restrictions set by legislation, debt covenants, or other legal regulations.

The net assets of the City's business-type activities were \$636,984 this year.

City revenues (excluding special items) for the current year were \$5,630,093. The total yearly cost of all programs and services was \$5,544,460.

GOVERNMENTAL ACTIVITIES

This year's governmental activities revenues were \$5,555,281. The year's governmental activities cost was \$5,260,400.

Table 3 details the cost of the City's major programs as well as each program's net cost (total cost less revenues generated by the program). The net cost indicates the financial burden that was shifted to the City's taxpayers by each of these programs.

BUSINESS-TYPE ACTIVITIES

This year's Business-type activities revenues (see Table 2) were \$142,812. This year's expenses were \$284,060.

Table 1 - Net Assets

	Governmental Activities <u>2008</u>	Business-type Activities <u>2008</u>	Combined Total <u>2008</u>	Combined Total <u>2007</u>	Increase (Decrease)
Assets:					
Current and other assets	\$ 2,089,877	\$ 50,620	\$ 2,140,497	\$ 2,159,678	\$ (19,181)
Capital assets, net	9,949,359	598,848	10,548,207	11,335,041	(786,834)
Total assets	<u>12,039,236</u>	<u>649,468</u>	<u>12,688,704</u>	<u>13,494,719</u>	<u>(806,015)</u>
Liabilities:					
Long-term debt	133,566	-	133,566	522,704	(389,138)
Other liabilities	645,967	12,484	658,451	475,858	182,593
Total liabilities	<u>779,533</u>	<u>12,484</u>	<u>792,017</u>	<u>998,562</u>	<u>(206,545)</u>
Net assets:					
Invested in capital assets, net of related debt	9,815,793	598,848	10,414,641	11,311,882	(897,241)
Restricted	144,329	-	144,329	139,675	4,654
Unrestricted	1,299,581	38,136	1,337,717	1,044,600	293,117
Total net assets	<u>\$ 11,259,703</u>	<u>\$ 636,984</u>	<u>\$ 11,896,687</u>	<u>\$ 12,496,157</u>	<u>\$ (599,470)</u>

Table 2 Changes in Net Assets

	Governmental Activities <u>2008</u>	Business-type Activities <u>2008</u>	Combined Total <u>2008</u>	Combined Total <u>2007</u>	Increase (Decrease)
Revenues:					
Program revenues:					
Charges for services	\$ 945,986	\$ 141,589	\$ 1,087,575	\$ 1,284,874	\$ (197,299)
Operating grants and contributions	172,505	-	172,505	106,232	66,273
Capital grants and contributions	517,515	-	517,515	318,696	198,819
General revenues:					
Property taxes	1,657,197	-	1,657,197	1,477,262	179,935
Other taxes	1,816,166	-	1,816,166	1,816,925	(759)
Transfers	(97,069)	112,069	15,000	-	15,000
Miscellaneous	377,912	1,223	379,135	198,924	180,211
Special item	68,000	-	68,000	297,900	(229,900)
Total revenues	<u>5,458,212</u>	<u>254,881</u>	<u>5,713,093</u>	<u>5,500,813</u>	<u>212,280</u>
Program expenses:					
General government	1,275,287	-	1,275,287	1,919,891	(644,604)
Public safety	2,180,837	-	2,180,837	1,639,539	541,298
Public works	1,474,608	-	1,474,608	1,137,128	337,480
Social services	94,067	-	94,067	36,872	57,195
Culture and recreation	235,601	284,060	519,661	508,591	11,070
Interest on long-term debt	-	-	-	5,000	(5,000)
Total expenses	<u>5,260,400</u>	<u>284,060</u>	<u>5,544,460</u>	<u>5,247,021</u>	<u>297,439</u>

Table 3 Governmental Activities

	Total Cost of Services		Increase
	2008	2007	(Decrease)
General government	\$ 1,275,287	\$ 1,919,891	\$ (644,604)
Public safety	2,180,837	1,639,539	541,298
Public works	1,474,608	1,137,128	337,480
Social services	94,067	36,872	57,195
Culture and recreation	235,601	219,216	16,385
Interest on long-term debt	-	5,000	(5,000)

	Net Cost of Services		Increase
	2008	2007	(Decrease)
General government	\$ 260,299	\$ 1,098,565	\$ (838,266)
Public safety	1,997,981	1,423,678	574,303
Public works	1,238,276	785,081	453,195
Social services	94,067	29,751	64,316
Culture and recreation	33,771	70,001	(36,230)
Interest on long-term debt	-	5,000	(5,000)

CAPITAL ASSETS

At the close of the year, the City had invested \$10,548,207 in capital assets such as land, buildings and improvements, equipment or infrastructure (see Table 4). This amount represents a decrease of \$786,834 from FY 2007.

Table 4 - Capital Assets

	Governmental	Business-type	Combined	Combined	Increase
	Activities	Activities	Total	Total	
	2008	2008	2008	2007	(Decrease)
Land	\$ 126,328	\$ 108,088	\$ 234,416	\$ 234,416	\$ -
Buildings and improvements	3,176,819	529,607	3,706,426	3,707,009	(583)
Furniture and equipment	3,334,574	74,409	3,408,983	3,306,128	102,855
Infrastructure	7,751,328	-	7,751,328	8,082,214	(330,886)
Other	-	102,272	102,272	152,666	(50,394)
Totals at historical cost	<u>14,389,049</u>	<u>814,376</u>	<u>15,203,425</u>	<u>15,482,433</u>	<u>(279,008)</u>
Less:					
Accumulated depreciation	<u>(4,439,690)</u>	<u>(215,528)</u>	<u>(4,655,218)</u>	<u>(4,147,392)</u>	<u>(507,826)</u>
Net capital assets	<u>\$ 9,949,359</u>	<u>\$ 598,848</u>	<u>\$ 10,548,207</u>	<u>\$ 11,335,041</u>	<u>\$ (786,834)</u>

DEBT MANAGEMENT

At the close of the year, the City had \$133,566 in outstanding debt.

Table 5 - Outstanding Debt

	<u>Balance</u> <u>10/1/2007</u>	<u>Additions</u>	<u>Deletions</u>	<u>Adjustments</u>	<u>Balance</u> <u>9/30/2008</u>
Capital leases	\$ 10,475	\$ -	\$ (24,699)	\$ 59,916	\$ 45,692
Judgement payable	9,887	-	(5,471)	-	4,416
Compensated absences	107,342	-	(23,884)	-	83,458
Totals	<u>\$ 127,704</u>	<u>\$ -</u>	<u>\$ (54,054)</u>	<u>\$ 59,916</u>	<u>\$ 133,566</u>

ECONOMIC ISSUES/UPCOMING YEARLY BUDGETS

City public officials considered many issues when establishing the upcoming year's budget.

CONTACT INFORMATION

This report has been created to give our citizens, taxpayers, customers, investors and creditors a summary of City finances and to show allocation of the money it receives. If you have any questions regarding this report, or if you need additional financial information, please contact:

City of Port Isabel, Texas
Finance Director / Investment Officer
305 East Maxan Street
Port Isabel, Texas 78578

Phone Number 956-943-2682
Fax Number 956-943-2029

BASIC FINANCIAL STATEMENTS

CITY OF PORT ISABEL, TEXAS

STATEMENT OF NET ASSETS

SEPTEMBER 30, 2008

	Primary Government			Component Unit
	Governmental Activities	Business-type Activities	Total	Port Isabel Economic Development Corporation
ASSETS				
Cash and investments	\$ 1,418,771	\$ 36,059	\$ 1,454,830	\$ 1,776,936
Receivables, net of allowances for uncollectibles				
Accounts	307,535	2,153	309,688	-
Property taxes	166,642	-	166,642	-
Other	-	-	-	218
Internal balances	110,101	(110,101)	-	-
Due from primary government	-	-	-	49,573
Due from component unit	3,590	-	3,590	-
Due from fiduciary	77,270	-	77,270	-
Inventories	5,968	122,509	128,477	-
Capital assets:				
Land	126,328	108,088	234,416	-
Buildings and improvements	3,176,819	529,607	3,706,426	-
Furniture and equipment	3,334,574	74,409	3,408,983	-
Infrastructure	7,751,328	-	7,751,328	-
Exhibits and artifacts	-	102,272	102,272	-
Less: accumulated depreciation	(4,439,690)	(215,528)	(4,655,218)	-
Total capital assets	<u>9,949,359</u>	<u>598,848</u>	<u>10,548,207</u>	<u>-</u>
Total assets	<u>12,039,236</u>	<u>649,468</u>	<u>12,688,704</u>	<u>1,826,727</u>
LIABILITIES				
Accounts payable	442,608	12,484	455,092	365
Accrued liabilities	129,437	-	129,437	-
Unearned revenue	24,328	-	24,328	-
Due to primary government	-	-	-	3,590
Due to component unit	49,573	-	49,573	-
Due to fiduciary	21	-	21	-
Noncurrent liabilities:				
Due within one year	14,937	-	14,937	-
Due in more than one year	<u>118,629</u>	<u>-</u>	<u>118,629</u>	<u>-</u>
Total liabilities	<u>779,533</u>	<u>12,484</u>	<u>792,017</u>	<u>3,955</u>
NET ASSETS				
Invested in capital assets, net of related debt	9,815,793	598,848	10,414,641	-
Restricted for:				
Debt service	138,361	-	138,361	-
Other purposes	5,968	-	5,968	1,822,772
Unrestricted	<u>1,299,581</u>	<u>38,136</u>	<u>1,337,717</u>	<u>-</u>
Total net assets	<u>\$ 11,259,703</u>	<u>\$ 636,984</u>	<u>\$ 11,896,687</u>	<u>\$ 1,822,772</u>

The notes to the financial statements are an integral part of this statement.

CITY OF PORT ISABEL, TEXAS

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED SEPTEMBER 30, 2008

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary Government:				
Governmental activities:				
General government	\$ 1,275,287	\$ 945,986	\$ 69,002	\$ -
Public safety	2,180,837	-	27,601	155,255
Public works	1,474,608	-	29,326	207,006
Social services	94,067	-	-	-
Culture and recreation	235,601	-	46,576	155,254
Interest and fiscal charges on long-term debt	-	-	-	-
Total governmental activities	<u>5,260,400</u>	<u>945,986</u>	<u>172,505</u>	<u>517,515</u>
Business-type activities:				
Enterprise funds	<u>284,060</u>	<u>141,589</u>	<u>-</u>	<u>-</u>
Total business-type activities	<u>284,060</u>	<u>141,589</u>	<u>-</u>	<u>-</u>
Total primary government	<u>\$ 5,544,460</u>	<u>\$ 1,087,575</u>	<u>\$ 172,505</u>	<u>\$ 517,515</u>
Component Units:				
Port Isabel Economic Development Corporation	<u>\$ 268,303</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Total component unit	<u>\$ 268,303</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

General revenues:

Taxes:

Property taxes, levied for general purposes

Property taxes, levied for debt service

Hotel/motel taxes

Sales taxes

Franchise taxes

Other taxes

Investment earnings

Transfers

Miscellaneous

Special item

Total general revenues and transfers

Change in net assets

Net assets, beginning

Prior period adjustment

Net assets, ending

The notes to the financial statements are an integral part of this statement.

Net (Expenses) Revenues and Changes in Net Assets			
Primary Government			Component Unit
Governmental Activities	Business-type Activities	Total	Port Isabel Economic Development Corporation
\$(260,299)	\$ -	\$(260,299)	\$ -
(1,997,981)	-	(1,997,981)	-
(1,238,276)	-	(1,238,276)	-
(94,067)	-	(94,067)	-
(33,771)	-	(33,771)	-
-	-	-	-
<u>(3,624,394)</u>	<u>-</u>	<u>(3,624,394)</u>	<u>-</u>
-	(142,471)	(142,471)	-
-	(142,471)	(142,471)	-
<u>(3,624,394)</u>	<u>(142,471)</u>	<u>(3,766,865)</u>	<u>-</u>
-	-	-	(268,303)
-	-	-	(268,303)
1,654,451	-	1,654,451	-
2,746	-	2,746	-
59,764	-	59,764	-
1,448,366	-	1,448,366	481,449
288,559	-	288,559	-
19,477	-	19,477	-
40,197	1,223	41,420	44,673
(97,069)	112,069	15,000	(15,000)
337,715	-	337,715	-
68,000	-	68,000	-
<u>3,822,206</u>	<u>113,292</u>	<u>3,935,498</u>	<u>511,122</u>
197,812	(29,179)	168,633	242,819
12,069,886	426,271	12,496,157	1,660,563
<u>(1,007,995)</u>	<u>239,892</u>	<u>(768,103)</u>	<u>(80,610)</u>
<u>\$ 11,259,703</u>	<u>\$ 636,984</u>	<u>\$ 11,896,687</u>	<u>\$ 1,822,772</u>

CITY OF PORT ISABEL, TEXAS

BALANCE SHEET

GOVERNMENTAL FUNDS

SEPTEMBER 30, 2008

	General	Police Forfeiture Fund	Street Improvements Fund
ASSETS			
Cash and investments	\$ 302,220	\$ 290,868	\$ 111,365
Receivables, net of allowances for uncollectibles			
Accounts	272,854	-	-
Property taxes	157,805	-	-
Sales taxes	-	-	-
Prepaid items	-	-	-
Due from other funds	468,574	-	85,613
Due from other governments	-	-	-
Inventories	5,968	-	-
Total assets	\$ 1,207,421	\$ 290,868	\$ 196,978
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts payable	\$ 436,218	\$ 5,097	\$ 1,260
Accrued liabilities	129,437	-	-
Deferred revenue	168,283	-	-
Due to other funds	662,861	54,630	-
Loan payable	-	-	-
Total liabilities	1,396,799	59,727	1,260
Fund balances:			
Reserved for:			
Inventories	5,968	-	-
Debt service	-	-	-
Unreserved, reported in:			
General fund	(195,346)	-	-
Special revenue funds	-	231,141	-
Capital projects funds	-	-	195,718
Total fund balances	(189,378)	231,141	195,718
Total liabilities and fund balances	\$ 1,207,421	\$ 290,868	\$ 196,978

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

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.

Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the funds.

Long term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported in the funds.

Net assets of governmental activities

The notes to the financial statements are an integral part of this statement.

EXHIBIT C-1

Other Nonmajor Governmental Funds	Total Governmental Funds
\$ 714,318	\$ 1,418,771
34,681	307,535
8,837	166,642
-	-
-	-
378,041	932,228
-	-
-	5,968
\$ 1,135,877	\$ 2,831,144
\$ 33	\$ 442,608
-	129,437
8,135	176,418
73,370	790,861
-	-
81,538	1,539,324
-	5,968
138,361	138,361
-	(195,346)
138,614	369,755
777,364	973,082
1,054,339	1,291,820
\$ 1,135,877	
	9,949,359
	152,090
	(133,566)
	\$ 11,259,703

CITY OF PORT ISABEL, TEXAS
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES

GOVERNMENTAL FUNDS

FOR THE YEAR ENDED SEPTEMBER 30, 2008

	General	Police Forfeiture Fund	Street Improvements Fund
REVENUES			
Taxes:			
Property	\$ 1,646,247	\$ -	\$ -
Hotel/motel taxes	-	-	-
Sales taxes	966,917	-	150,000
Mixed beverage	19,477	-	-
Franchise	288,559	-	-
Licenses and permits	126,697	-	-
Fines and forfeitures	249,350	-	-
Charges for services	569,939	-	-
Intergovernmental	503,391	180,921	-
Investment earnings	19,642	4,202	9,313
Miscellaneous revenue	52,238	-	-
Total revenues	<u>4,442,457</u>	<u>185,123</u>	<u>159,313</u>
EXPENDITURES			
Current:			
General government	1,246,455	-	4,250
Public safety	2,098,417	3,261	-
Public works	894,342	-	60,729
Social services	51,216	-	-
Culture and recreation	206,128	-	-
Capital outlay	16,243	-	-
Debt service:			
Principal	-	-	-
Interest and fiscal charges	-	-	-
Total expenditures	<u>4,512,801</u>	<u>3,261</u>	<u>64,979</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>(70,344)</u>	<u>181,862</u>	<u>94,334</u>
OTHER FINANCING SOURCES (USES)			
Transfers in	54,630	-	-
Transfers out	(112,137)	(54,630)	(7,288)
Sale of land proceeds	-	-	68,000
Total other financing sources and (uses)	<u>(57,507)</u>	<u>(54,630)</u>	<u>60,712</u>
NET CHANGE IN FUND BALANCES	(127,851)	127,232	155,046
FUND BALANCES, BEGINNING	284,603	103,909	40,672
PRIOR PERIOD ADJUSTMENT	<u>(346,130)</u>	<u>-</u>	<u>-</u>
FUND BALANCES, ENDING	<u>\$ (189,378)</u>	<u>\$ 231,141</u>	<u>\$ 195,718</u>

The notes to the financial statements are an integral part of this statement.

EXHIBIT C-2

Other Nonmajor Governmental Funds	Total Governmental Funds
\$ 4,731	\$ 1,650,978
59,764	59,764
331,449	1,448,366
-	19,477
-	288,559
-	126,697
-	249,350
-	569,939
5,708	690,020
7,040	40,197
<u>285,477</u>	<u>337,715</u>
<u>694,169</u>	<u>5,481,062</u>
39,774	1,290,479
22,292	2,123,970
313,964	1,269,035
36,968	88,184
6,190	212,318
18,072	34,315
-	-
-	-
<u>437,260</u>	<u>5,018,301</u>
<u>256,909</u>	<u>462,761</u>
22,356	76,986
-	(174,055)
-	<u>68,000</u>
<u>22,356</u>	<u>(29,069)</u>
279,265	433,692
859,185	1,288,369
<u>(84,111)</u>	<u>(430,241)</u>
<u>\$ 1,054,339</u>	<u>\$ 1,291,820</u>

CITY OF PORT ISABEL, TEXAS

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES**

FOR THE YEAR ENDED SEPTEMBER 30, 2008

Amounts reported for governmental activities in the statement of activities (page 11)
are different because:

Net change in fund balances --- total governmental funds (page 13)	\$ 433,692
Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount which capital outlays exceeded depreciation in the current period.	(296,153)
Governmental funds report long term debt principal payments as expenditures. However, in the statement of activities these payments are reductions in the long term liabilities in the statement of net assets.	54,054
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the governmental funds.	<u>6,219</u>
Change in net assets of governmental activities (page 11)	<u><u>\$ 197,812</u></u>

The notes to the financial statements are in integral part of this statement.

CITY OF PORT ISABEL, TEXAS
STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL

GENERAL FUND

FOR THE YEAR ENDED SEPTEMBER 30, 2008

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Favorable (Unfavorable)
	Original	Final		
REVENUES				
Property taxes and penalties	\$ 1,575,221	\$ 1,648,024	\$ 1,646,247	\$(1,777)
Other taxes	1,067,692	1,005,936	986,394	(19,542)
Franchise fees	301,669	297,908	288,559	(9,349)
Licenses and permits	144,657	112,382	126,697	14,315
Fines and forfeitures	326,670	241,328	249,350	8,022
Charges for services	443,484	468,006	569,939	101,933
Intergovernmental	75,500	72,019	503,391	431,372
Investment earnings	23,600	12,286	19,642	7,356
Miscellaneous revenue	59,771	285,292	52,238	(233,054)
Total revenues	<u>4,018,264</u>	<u>4,143,181</u>	<u>4,442,457</u>	<u>299,276</u>
EXPENDITURES				
Current:				
General government	1,201,095	1,238,600	1,246,455	(7,855)
Public safety	1,591,834	1,686,011	2,098,417	(412,406)
Public works	837,421	915,169	894,342	20,827
Social services	30,479	31,941	51,216	(19,275)
Culture and recreation	198,530	185,798	206,128	(20,330)
Capital outlay	52,811	19,513	16,243	3,270
Total expenditures	<u>3,912,170</u>	<u>4,077,032</u>	<u>4,512,801</u>	<u>(435,769)</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>106,094</u>	<u>66,149</u>	<u>(70,344)</u>	<u>(136,493)</u>
OTHER FINANCING SOURCES (USES)				
Transfers in	-	-	54,630	54,630
Transfers out	-	-	(112,137)	(112,137)
Total other financing sources and (uses)	<u>-</u>	<u>-</u>	<u>(57,507)</u>	<u>(57,507)</u>
NET CHANGE IN FUND BALANCES	106,094	66,149	(127,851)	(194,000)
FUND BALANCES, BEGINNING	284,603	284,603	284,603	-
PRIOR PERIOD ADJUSTMENT	-	-	(346,130)	(346,130)
FUND BALANCES, ENDING	<u>\$ 496,791</u>	<u>\$ 416,901</u>	<u>\$(189,378)</u>	<u>\$(540,130)</u>

The notes to the financial statements are an integral part of this statement.

CITY OF PORT ISABEL, TEXAS

STATEMENT OF NET ASSETS

PROPRIETARY FUNDS

SEPTEMBER 30, 2008

ASSETS	Museum	Cemetery	Total Proprietary Funds
Current assets:			
Cash and investments	\$ 821	\$ 35,238	\$ 36,059
Accounts receivable	653	1,500	2,153
Due from other funds	4,735	4,800	9,535
Inventory	25,107	97,402	122,509
Prepaid items	-	-	-
Total current assets	<u>31,316</u>	<u>138,940</u>	<u>170,256</u>
Noncurrent assets:			
Capital assets:			
Land	108,088	-	108,088
Buildings and improvements	471,223	-	471,223
Furniture and equipment	74,409	-	74,409
Other improvements	58,384	-	58,384
Exhibits and artifacts	102,272	-	102,272
Less: accumulated depreciation	(215,528)	-	(215,528)
Total capital assets	<u>598,848</u>	<u>-</u>	<u>598,848</u>
Total assets	<u>630,164</u>	<u>138,940</u>	<u>769,104</u>
LIABILITIES			
Current liabilities:			
Accounts payable	10,984	1,500	12,484
Due to other funds	14,160	105,476	119,636
Total current liabilities	<u>25,144</u>	<u>106,976</u>	<u>132,120</u>
Total liabilities	<u>25,144</u>	<u>106,976</u>	<u>132,120</u>
NET ASSETS			
Invested in capital assets, net of related debt	598,848	-	598,848
Unrestricted	<u>6,172</u>	<u>31,964</u>	<u>38,136</u>
Total net assets	<u>\$ 605,020</u>	<u>\$ 31,964</u>	<u>\$ 636,984</u>

The notes to the financial statements are an integral part of this statement.

CITY OF PORT ISABEL, TEXAS

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS

PROPRIETARY FUNDS

FOR THE YEAR ENDED SEPTEMBER 30, 2008

	Museum	Cemetery	Total Proprietary Funds
OPERATING REVENUES			
Charges for services	\$ 62,717	\$ -	\$ 62,717
Other income	57,762	21,110	78,872
Total operating revenues	<u>120,479</u>	<u>21,110</u>	<u>141,589</u>
OPERATING EXPENSES			
Salaries and wages	105,316	-	105,316
Employee benefits	21,632	-	21,632
Supplies	4,974	-	4,974
Repairs and maintenance	15,318	-	15,318
Contracted services	61,169	6,155	67,324
Insurance expense	15,143	-	15,143
Other expenses	33,429	5,921	39,350
Depreciation	15,003	-	15,003
Total operating expenses	<u>271,984</u>	<u>12,076</u>	<u>284,060</u>
OPERATING INCOME(LOSS)	<u>(151,505)</u>	<u>9,034</u>	<u>(142,471)</u>
NONOPERATING REVENUES			
Investment earnings	382	841	1,223
Total nonoperating revenues	<u>382</u>	<u>841</u>	<u>1,223</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENSES	<u>(151,123)</u>	<u>9,875</u>	<u>(141,248)</u>
OTHER FINANCING SOURCES (USES)			
Transfers in	112,069	-	112,069
Transfers out	-	-	-
Total other financing sources and (uses)	<u>112,069</u>	<u>-</u>	<u>112,069</u>
NET CHANGE IN FUND BALANCES	<u>(39,054)</u>	<u>9,875</u>	<u>(29,179)</u>
TOTAL NET ASSETS, BEGINNING	404,182	22,089	426,271
PRIOR PERIOD ADJUSTMENT	<u>239,892</u>	<u>-</u>	<u>239,892</u>
TOTAL NET ASSETS, ENDING	<u>\$ 605,020</u>	<u>\$ 31,964</u>	<u>\$ 636,984</u>

The notes to the financial statements are an integral part of this statement.

CITY OF PORT ISABEL, TEXAS
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2008

	<u>Museum</u>	<u>Cemetary</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from customers	\$ 68,425	\$ 30,000
Cash received from other sources	290,043	841
Cash paid to suppliers for goods and services	(130,032)	(15,406)
Cash paid to employees for services	(126,948)	-
Net cash provided (used) by operating activities	101,488	15,435
CASH FLOWS FROM (TO) NONCAPITAL FINANCING ACTIVITIES		
Cash received from other funds	124,683	(4,712)
Cash paid to other funds	(173,987)	(15,726)
Net cash used for noncapital for financing activities	(49,304)	(20,438)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Adjustments to capital assets	(51,745)	9,585
Net cash used for capital and related financing activities	(51,745)	9,585
CASH FLOWS FROM INVESTING ACTIVITIES		
Earnings on investments	382	841
Net cash provided by investing activities	382	841
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	821	5,423
CASH AND CASH EQUIVALENTS, BEGINNING	-	29,815
CASH AND CASH EQUIVALENTS, ENDING	\$ 821	\$ 35,238
Reconciliation of operating income to net cash provided by operating activities:		
Operating income (loss)	\$ (151,505)	\$ 9,034
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	15,003	-
Prior Period Adjustment	239,892	-
Changes in assets and liabilities:		
Decrease (increase) in assets:		
Accounts receivable	373	(300)
Prepaid items	13,057	1,475
Inventory	(4,055)	3,726
Increase (decrease) in liabilities:		
Accounts payable	(5,729)	1,500
Bank overdraft	(5,548)	-
Net cash provided (used) by operating activities	\$ 101,488	\$ 15,435

The notes to the financial statements are an integral part of this statement.

Total
Proprietary
Funds

\$ 116,923

-

-

-

116,923

119,971

(189,713)

(69,742)

(42,160)

(42,160)

1,223

1,223

6,244

29,815

\$ 36,059

\$ (142,471)

15,003

239,892

73

14,532

(329)

(4,229)

(5,548)

\$ 116,923

CITY OF PORT ISABEL, TEXAS
STATEMENT OF FIDUCIARY NET ASSETS
AGENCY FUNDS
SEPTEMBER 30, 2008

ASSETS

Cash	\$	77,203
Due from other funds		21
Other assets		<u>46</u>
Total assets	\$	<u><u>77,270</u></u>

LIABILITIES

Due to other funds	\$	77,270
Other payables		<u>-</u>
Total liabilities	\$	<u><u>77,270</u></u>

The notes to the financial statements are an integral part of this statement.

CITY OF PORT ISABEL, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2008

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

The City of Port Isabel, Texas (the "City") was incorporated on January 21, 1928 under the provisions of the laws for the State of Texas. The City operates under a City Commission-Manager form of government and provides the following services as authorized by its charter: public safety (police and fire), public works, streets, sanitation, health and social services, culture-recreation, public improvements, planning and zoning, and general administrative services. Other services include emergency medical (ambulance). The City is an independent political subdivision of the State of Texas, governed by an elected mayor and four-member Commission, and is considered a primary government.

In evaluating how to define the government for financial reporting purposes, 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 GAAP. The basic, but not the only, criterion for including a potential component unit within the reporting entity is the governing body's ability to exercise financial accountability. The most significant manifestation of this ability is fiscal dependency. Other manifestations of the ability to exercise financial accountability include, but are not limited to, the selection of a voting majority of the organization's governing body, the ability to remove appointed members of the organization's governing board at will, the ability to modify or approve the budget of the organization, and the designation of management. A second criterion used in evaluating potential component units is the ability to provide a financial benefit to, or impose a financial burden on the City. Application of this criterion involves considering whether the City is legally entitled to or can otherwise access the organization's resources, or is obligated in some manner for the debt of the organization. A third criterion used to evaluate potential component units for inclusion or exclusion from the reporting entity is the existence of fiscal dependency, regardless of whether the government is able to exercise financial accountability.

Blended Component Units - Blended component units, although legally separate entities are in substance part of the government's operations; therefore, data from these units are combined with data of the primary government. The City does not include any blended component units.

Discretely Presented Component Units - Discretely presented component unit, on the other hand, are reported in a separate column in the combined financial statements to emphasize that they are legally separate from the City.

The accompanying financial statements present the government and its component unit, an entity for which the government is considered to be financially accountable. The discretely presented component unit is reported in a separate column in the government-wide financial statements (see note below for description) to emphasize that it is legally separate from the government.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

A. Reporting Entity (Continued)

The Port Isabel Economic Development Corporation (the "Corporation") is a non-profit industrial development corporation governed by a seven-member board appointed by the City. The Corporation is funded through a sales tax levy of one half of one percent. The purpose of the Corporation is to promote economic development within the City. The City has a voting majority, imposition of will, financial benefit and financial accountability over the Corporation. The Corporation also maintains a September 30th fiscal year end.

Complete financial statements for the component unit may be obtained from the administrative office at 305 East Maxan, Port Isabel, Texas 78578.

B. Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and inter-governmental revenue, are reported separately from *business-like activities*, which rely to a significant extent on fees and charges for support. Likewise, the *primary government* is reported separately from certain legally separate *component units* for which the primary government is financially accountable.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenue. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenue* includes 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 properly included among program revenue are reported instead as *general revenue*.

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.

The fund financial statements provide reports on the financial condition and results of operations for three fund categories - governmental, proprietary, and fiduciary. Since the resources in the fiduciary funds cannot be used for City operations, they are not included in the government-wide statements. The City considers some governmental funds major and reports their financial condition and results of operations in a separate column.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. All other revenues and expenses are nonoperating.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue 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.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be *available* when it is collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenue to be available if 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.

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

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. The City also has the *option* of following subsequent private-sector guidance for their business-like activities and Enterprise Funds, subject to this same limitation. The City has elected not to follow subsequent private-sector guidance.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are charges between the City's enterprise funds, fiduciary funds and various other functions of the government. Elimination of these charges would distort the direct costs and program revenue reported for the various functions concerned.

Amounts reported as *program revenues* include: 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as *general revenues* rather than as program revenue. Likewise, general revenue includes all taxes.

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 and Internal Service Funds are charges to customers for sales and services. Operating expenses for Enterprise Funds and Internal Service Funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenue and expenses not meeting this definition are reported as nonoperating revenue and expenses.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Basis of Presentation – Fund Accounting

The City reports the following major governmental funds:

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

The *Police Forfeiture Fund* is used to account for the proceeds of specific revenue sources that are legally restricted to expenditures for specified purposes.

The *Street Improvements Fund* is used to account for the financial resources used for the acquisition or construction of major capital facilities.

The City reports the following major proprietary funds:

The *Museum Fund* accounts for the activities to operate the Museum.

The *Cemetery Fund* accounts for the activities to operate the Cemetery.

Additionally, the City reports the following fund type(s):

Governmental funds are used to account for all or most of the government's general activities. The City utilizes the following governmental fund types:

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

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

Capital Projects Funds - are used to account for financial resources used for the acquisition or construction of major capital facilities.

Proprietary Funds are accounted for on a flow of economic resources measurement focus. All assets and all liabilities (whether current or noncurrent) associated with their activity are included on their balance sheets. Their reported fund equity (net total assets) is segregated into contributed capital and retained earnings components. Proprietary fund measurement focus is upon determination of net income, financial position and changes in financial position. Proprietary funds include the following fund type:

Enterprise 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 cost (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 revenue earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Basis of Presentation – Fund Accounting (Continued)

Fiduciary funds are used to account for assets held on behalf of outside parties, including other governments, or on behalf of other funds within the government. When these assets are held under the terms of a formal trust agreement, a pension trust fund, a nonexpendable trust fund or an expendable trust fund is used. The terms “nonexpendable” and “expendable” refer to whether or not the government is under an obligation to maintain the trust principal. Agency funds generally are used to account for assets that the City holds on behalf of others as their agent.

E. Assets, Liabilities and Net Assets or Equity

Cash and Investments

Cash and investments consist of amounts in interest-bearing demand deposits, petty cash funds, and short-term certificate of deposits (inclusive of restricted assets) with maturity dates within 180 days of the date initially acquired.

The City has adopted the provisions of GASB Statement No. 31, “*Accounting and Financial Reporting for Certain Investments and for External Investments Pools*” (“Statement”). Those provisions require that certain investments be reported at fair value, rather than at cost or amortized cost, and that the changes in the fair value of investments be recognized as investment revenue. The Statement further provides that the City has the option of continuing to report certain investments at cost or amortized cost but must disclose its policy in this regard. In accordance with GASB Statement No. 31, the City’s general policy is to report all investments at market value.

Receivables and Payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as “due to/from other funds” (i.e., the current portion of interfund loans). Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as “internal balances.”

Trade receivables are shown net of an allowance for uncollectibles. The City calculates its allowances for uncollectible accounts using historical collection data, specific account analysis and management’s judgment.

Property taxes are levied October 1st and are due upon receipt of the City’s tax bill and become delinquent on February 1st of the following year, at which time penalty and interest charges are applicable. On January 1 of each year, a tax lien is attached to the property to secure the payment of all taxes, penalties and interest. The lien exists in the favor of the State and each taxing unit. Appraised values are established by the Cameron County Appraisal District (CCAD) of Cameron County, Texas, through procedures established by the Texas Legislature. The Point Isabel Independent School District tax office bills and collects the City’s property tax.

A penalty of 7% is added to delinquent taxes on February 1 and increases 2% each month through September. An additional penalty of 15% is added on July for attorney costs. There are no discounts allowed for taxes.

1. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

E. Assets, Liabilities and Net Assets or Equity (Continued)

Receivables and Payables (Continued)

The City is permitted, by Article XI, Section 5, of the State of Texas Constitution and the City Charter, to levy property taxes up to \$1.50 per \$100 of assessed valuation for general governmental services. Statutes require that all assessments be made on 100% of fair market value. With the \$1.50 maximum levy, there is no legal limit upon the amount of property taxes, which can be levied for debt service. The property tax rates to finance general governmental services and debt service for the 2007-2008 tax year were \$.626327 and \$.00000, respectively, per \$100 of assessed valuation. The 2008 assessed value and total tax levy as adjusted through September 30, 2008, were \$264,747,076 and \$1,658,013, respectively.

Inventories

Inventories are valued at cost using the first-in, first-out method. The costs of these inventories are recorded as expenditures when consumed.

Prepaid Items

Expenditures made to third party vendors for goods and services that will benefit periods beyond September 30, 2008 are recorded as prepaid items.

Capital Assets

Capital assets, which include property, plant, equipment and infrastructure, are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. The City defines capital assets as assets with an initial, individual cost of more than \$500 (amount not rounded) and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market 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 assets' lives are not capitalized.

GASB Statement 34 requires the City to report and depreciate new infrastructure assets. Infrastructure assets include roads, bridges, underground pipe (other than related to utilities), traffic signals, etc. These infrastructure assets are likely to be the largest asset class of the City. Neither their historical cost nor related depreciation has historically been reported in the financial statements. The retroactive reporting of infrastructure is subject to an extended implementation period and is first required for the fiscal year ending in 2008. The City has implemented both the general and retroactive infrastructure provisions of GASB Statement No. 34.

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

Buildings and improvements	20-40 years
Furniture and equipment	5 years

1. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

E. **Assets, Liabilities and Net Assets or Equity** (Continued)

Encumbrances

Encumbrance accounting, under which purchase orders, contracts and other commitments for the expenditures of monies are recorded in order to reserve that portion of the applicable appropriation, is not employed by the City.

Compensated Absences

Vacation allowance for eligible employees for each vacation year is based upon length of service according to the following schedule:

1 year of completed service	1 week vacation
2-15 years of completed service	2 weeks vacation
15-20 years of completed service	3 weeks vacation
21+ years of completed service	4 weeks vacation

Vacation will be forfeited if not used before the succeeding vacation year and cannot be accumulated from year to year.

Sick leave accumulates at the rate of ten days per year. The maximum number of days of sick leave that an employee may accumulate is sixty; however upon voluntary separation from the City, employees will be entitled to be paid for a maximum of thirty days.

Vacation and sick benefits are accrued when incurred in the government-wide and proprietary fund financial statements. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations or retirements.

Long-Term Obligations

In the government-wide financial statements and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the straight-line method, which approximates the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

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.

Fund Equity

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

E. Assets, Liabilities and Net Assets or Equity (Continued)

Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction or improvements of those assets, and adding back unspent proceeds. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislations adopted by the City or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

Estimates

The preparation of financial statements, in conformity with generally accepted accounting principles, requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual amounts could differ from those estimates.

2. RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

Explanation of certain differences between the governmental fund balance statement of revenues, expenditures, and changes in fund balances and government-wide statement of activities

The governmental fund statement of revenue, expenditures, and change in fund balance includes a reconciliation between *net changes in fund balance – total governmental funds* and *changes in net assets of governmental activities* as reported in the government-wide statement of activities. One element of that reconciliation indicates, “Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.” The details of this \$ difference are as follows:

Capital outlay	\$ 70,161
Depreciation expense	(366,314)
Net adjustment to increase <i>net changes in fund balances - total governmental funds</i> to arrive at <i>changes in net assets of governmental activities (Exhibit C-3)</i>	\$(296,153)

Another element of that reconciliation states, “The net effect of various transactions involving debt principal payment to increase net assets.” The details of this \$ difference are as follows:

Principal repayments - General obligation debt	\$ 54,054
Net adjustment to increase <i>net changes in fund balances - total governmental funds</i> to arrive at <i>changes in net assets of governmental activities (Exhibit C-3)</i>	\$ 54,054

3. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budgetary Information

Budgets are adopted on a basis consistent with generally accepted accounting principles. Annual appropriated budgets are adopted for the general and debt service funds.

The City follows these procedures in establishing the budgetary data reflected in the financial statements:

- a. City Management establishes the amount of estimated revenues and other resources available for appropriation for the succeeding budget year.
- b. City Management submits to the City Commission a proposed operating budget for the fiscal year commencing the following October 1st. The operating budget includes proposed expenditures and the means of financing them.
- c. Public hearings are conducted at City Hall to obtain taxpayer comments.
- d. Prior to October 1st, the budget is adopted by the City Commission
- e. Revisions that alter individual expenditure category or department totals within a fund must be approved by the City Commission. The final annual amended appropriated budgets are used in this report.
- f. Formal budgetary integration is employed as a management control device during the year for the General Fund and the Debt Service Fund.
- g. Budgets for the General and Debt Service Funds were adopted on the modified accrual basis.
- h. Appropriations lapse at the end of each fiscal year.

Expenditures may not legally exceed budgeted appropriations. During the year, several supplementary appropriations were necessary, none were significant.

4. DETAILED NOTES ON ALL FUNDS

Cash and Investments

The City's cash and investments are classified as cash and cash equivalents and investments. The cash and cash equivalents include deposits with financial institutions and other investments whose maturities at purchase date was less than three months.

The funds of the Corporation must be deposited and invested under the terms of a contract, contents of which are set out in the **Depository Contract Law**. The depository bank places approved pledged securities for safekeeping and trust with counterparty's trust department in the Corporation's name in an amount sufficient to protect the Corporation funds on a day-to-day basis during the period of the contract. The pledge of approved securities is waived only to the extent of the depository bank's dollar amount of Federal Deposit Insurance Corporation ("FDIC") insurance.

4. DETAILED NOTES ON ALL FUNDS (Continued)

Cash and Investments (Continued)

At September 30, 2008, the carrying amounts of the City and Corporation deposits were \$1,291,029 and \$904,294, respectively. The bank balance for the City and Corporation was \$1,267,563 and \$908,774, respectively. The City's and Corporation's cash deposits at September 30, 2008 and during the year were covered by FDIC insurance or by pledged collateral held by the City's agent bank in the City's name. The City monitors cash flows regularly when funds are received to ensure that the bank pledges sufficient collateral.

In addition, the following is disclosed regarding coverage of combined balances on the date of highest deposit:

Primary Government:

- a. Depository: First National Bank
- b. The market value of securities pledged as of the date of the highest combined balance on deposit was \$4,052,908.
- c. The highest combined balances of cash, savings, and time deposit accounts amounted to \$1,999,037 and occurred during the month of May 2008.
- d. Total amount of FDIC coverage at the time of the highest combined balance was \$100,000.

Component Unit:

- a. Depository: First National Bank
- b. The market value of securities pledged as of the date of the highest combined balance on deposit was \$3,867,021.
- c. The highest combined balances of cash, saving and time deposit accounts amounted to \$908,774 and occurred during the month of September 2008.
- d. Total amount of FDIC coverage at the time of the highest combined balance was \$100,000.

City Policies and Legal Contractual Provisions Governing Deposits

Custodial Credit Risk for Deposits – State law requires governmental entities to contract with financial institutions in which funds will be deposited to secure on deposit at the end of each business day. The pledged securities must be in the name of the governmental entity and held by the entity or its agent. Since the City complies with this law, it has no custodial risk for deposits.

Foreign Currency Risk for Deposits – The City limits the risk that changes in exchange rates will adversely affect the fair value of a deposit. At year-end, the City was not exposed to foreign currency risk.

4. **DETAILED NOTES ON ALL FUNDS** (Continued)

Cash and Investments (Continued)

City Policies and Legal Contractual Provisions Governing Investments

The **Public Funds Investment Act** (Government Code Chapter 2256) contains specific provisions in the areas of investment practices, management reports and establishment of appropriate policies. Among other things, it requires the City to adopt, implement, and publicize an investment policy. The policy must address the following areas: (1) safety of principal and liquidity, (2) portfolio diversification, (3) allowable investments, (4) acceptable risk levels, (5) expected rates of return, (6) maximum allowable stated maturity of portfolio investments, (7) maximum average dollar-weighted maturity allowed based on the stated maturity date for the portfolio, (8) investment staff quality and capabilities, (9) and bid solicitation preferences for certificates of deposit. The Statutes authorize the City to invest in (1) obligations of the U.S. Treasury, certain U.S. agencies, and the State of Texas; (2) certificates of deposit, (3) certain municipal securities, (4) money market savings accounts, (5) repurchase agreements, (6) bankers acceptances, (7) Mutual Funds, (8) Investment pools, (9) guaranteed investment contracts, (10) and common trust funds. The Act also requires the City to have independent auditors perform test procedures related to investment practices as provided by the Act. The City is in substantial compliance with the requirements of the Act and with local policies.

The City's temporary investments at September 30, 2008, are shown below:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Investment Maturities (in years)</u>			
		<u>Less Than 1</u>	<u>1 to 5</u>	<u>6 to 10</u>	<u>More Than 10</u>
<i>Primary Government:</i>					
Certificates of Deposit	\$ 127,742	\$ 127,742	\$ -	\$ -	\$ -
<i>Component Unit:</i>					
Certificates of Deposit	872,642	872,642	-	-	-
Total	<u>\$ 1,000,384</u>	<u>\$ 1,000,384</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

Additional policies and contractual provisions governing deposits and investments for the City are specified below:

Credit Risk – In accordance with state law, investments in mutual funds and investment pools must be rated at least AAA or have an equivalent rating, commercial paper must be rated at least A-1, P-1 or have an equivalent rating, and obligations of states, agencies, counties, and cities must be at least A or its equivalent. As of September 30, 2008, the City had no investments in mutual funds and investment pools.

Custodial Risk for 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. All investments held by third parties were fully collateralized and held in the City's name.

Concentration of Credit Risk – The investment portfolio is diversified in terms of investment instruments and maturity scheduling to reduce risk of loss resulting from over concentration of assets in specific class of investments, specific maturity or specific issuer. As of September 30, 2008, the District had 100% of its investments in certificates of deposits in its depository bank, First National Bank. These certificates of deposit were fully covered by eligible pledged securities.

4. **DETAILED NOTES ON ALL FUNDS** (Continued)

Cash and Investments (Continued)

Interest Rate Risk – In accordance with state law, the City does not purchase any investments greater than five (5) years for its operating funds.

Foreign Currency Risk for Investments – The City limits the risk that changes in exchange rates will adversely affect the fair value of an investment. At year-end, the City was not exposed to foreign currency risk.

Receivables

Receivables as of year-end for the government’s individual major funds and nonmajor funds in the aggregate, including the applicable allowances for uncollectible accounts, are as follows:

	<u>General</u>	Nonmajor <u>Governmental</u>	<u>Enterprise</u>	<u>Total</u>
Receivables:				
Accounts	\$ 1,177,703	\$ 34,681	\$ 2,153	\$ 1,214,537
Property taxes	<u>236,463</u>	<u>24,629</u>	<u>-</u>	<u>261,092</u>
Gross receivables	1,414,166	59,310	2,153	1,475,629
Less: allowance for uncollectibles	<u>(983,507)</u>	<u>(15,792)</u>	<u>-</u>	<u>(999,299)</u>
Net total receivables	<u>\$ 430,659</u>	<u>\$ 43,518</u>	<u>\$ 2,153</u>	<u>\$ 476,330</u>

Deferred Revenue

Governmental funds report *deferred revenue* in connection with receivables for revenue that is not considered to be available to liquidate liabilities of the current period. 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 *deferred revenue* and *unearned revenue* reported in the governmental funds were as follows:

General fund:	
Delinquent property taxes receivable	\$ 143,955
Other	24,328
Nonmajor governmental:	
Delinquent property taxes receivable	<u>8,135</u>
Governmental Funds	<u>\$ 176,418</u>

4. DETAILED NOTES ON ALL FUNDS (Continued)

Capital Assets

Capital asset activity for the year ended September 30, 2008, was as follows:

Primary Government

	Balance 10/01/2007	Changes During Year			Balance 9/30/2008
		Additions	Retirements	Adjustments/ Reclassifications	
Governmental Activities:					
Capital assets not being depreciated					
Land	\$ 126,328	\$ -	\$ -	\$ -	\$ 126,328
Total capital assets not being depreciated	<u>126,328</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>126,328</u>
Capital assets being depreciated					
Buildings and improvements	1,823,890	-	-	(583)	1,823,307
Parks and improvements	1,353,512	-	-	-	1,353,512
Furniture and equipment	860,762	33,194	-	(67,850)	826,106
Vehicles	1,409,141	36,967	-	-	1,446,108
Streets, sidewalks and curbs	8,082,214	-	-	(330,886)	7,751,328
Library books	1,012,835	-	-	49,525	1,062,360
Total capital assets being depreciated	<u>14,542,354</u>	<u>70,161</u>	<u>-</u>	<u>(349,794)</u>	<u>14,262,721</u>
Less accumulated depreciation	<u>(3,905,332)</u>	<u>(366,314)</u>	<u>-</u>	<u>(168,044)</u>	<u>(4,439,690)</u>
Total capital assets being depreciated, net	<u>10,637,022</u>	<u>(296,153)</u>	<u>-</u>	<u>(517,838)</u>	<u>9,823,031</u>
Governmental activities capital assets, net	<u>\$ 10,763,350</u>	<u>\$ (296,153)</u>	<u>\$ -</u>	<u>\$ (517,838)</u>	<u>\$ 9,949,359</u>
Business-type Activities:					
Capital assets not being depreciated					
Land	\$ 108,088	\$ -	\$ -	\$ -	\$ 108,088
Total capital assets not being depreciated	<u>108,088</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>108,088</u>
Capital assets being depreciated					
Buildings and improvements	471,223	-	-	-	471,223
Other improvements	58,384	-	-	-	58,384
Furniture and equipment	23,390	-	-	51,019	74,409
Exhibits and artifacts	152,666	-	-	(50,394)	102,272
Total capital assets being depreciated	<u>705,663</u>	<u>-</u>	<u>-</u>	<u>625</u>	<u>706,288</u>
Less accumulated depreciation	<u>(242,060)</u>	<u>(15,003)</u>	<u>-</u>	<u>41,535</u>	<u>(215,528)</u>
Total capital assets being depreciated, net	<u>463,603</u>	<u>(15,003)</u>	<u>-</u>	<u>42,160</u>	<u>490,760</u>
Business-type activities capital assets, net	<u>\$ 571,691</u>	<u>\$ (15,003)</u>	<u>\$ -</u>	<u>\$ 42,160</u>	<u>\$ 598,848</u>

4. DETAILED NOTES ON ALL FUNDS (Continued)

Capital Assets (Continued)

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

Governmental Activities:	
General government	\$ 15,385
Public safety	106,231
Public works	211,730
Social services	6,960
Culture and recreation	<u>26,008</u>
Total depreciation expense - Governmental Activities	<u>\$ 366,314</u>
Business-type Activities:	
Museum	<u>\$ 15,003</u>
Total depreciation expense - Business-type Activities	<u>\$ 15,003</u>

Capital Leases

Capital leases at September 30, 2008 consist of the following:

Series	Original Amount	Interest Rate	Balance			Adjustments	Balance	
			Outstanding 10/01/2007	Principal Issued	Principal Retired		Outstanding 9/30/2008	Due Within One Year
Capital Lease 4815009 - 2006 Ford Truck	\$ 26,911	5.90%	\$ 3,523	\$ -	\$ (3,523)	\$ -	\$ -	\$ -
Capital Lease 4815010 - 2006 Crown Victoria	22,954	6.15%	6,952	-	(6,952)	-	-	-
Key Government Finance, Inc. Cisco Telephone System	73,457		<u>-</u>	<u>-</u>	<u>(14,224)</u>	<u>59,916</u>	<u>45,692</u>	<u>14,937</u>
Total capital leases			<u>\$ 10,475</u>	<u>\$ -</u>	<u>\$ (24,699)</u>	<u>\$ 59,916</u>	<u>\$ 45,692</u>	<u>\$ 14,937</u>

Lease payable to Ford Motor Credit Company, due in twenty-four monthly installments of \$1,186 for a total of \$28,456 including interest at 5.9% through December 2007.

Lease payable to Ford Motor Credit Company, due in twenty-four monthly installments of \$1,013 for a total of \$24,329 including interest at 6.15% through April 2008.

Lease payable to Key Government Finance Inc., due in sixty monthly installments of \$1,404 for a total of \$73,457 including interest at 4.90% through August 2011.

Debt service requirements to maturity are as follows:

Year Ending September 30,	Capital Leases		
	Principal	Interest	Total
2009	\$ 14,937	\$ 1,906	\$ 16,843
2010	15,687	1,158	16,845
2011	<u>15,068</u>	<u>372</u>	<u>15,440</u>
Totals	<u>\$ 45,692</u>	<u>\$ 3,436</u>	<u>\$ 49,128</u>

4. **DETAILED NOTES ON ALL FUNDS (Continued)**

Primary Government:

Changes in Long-term Liabilities

During the year ended September 30, 2008, the following changes occurred in long-term liabilities:

	Balance					Balance
	<u>10/01/2007</u>	<u>Additions</u>	<u>Deletions</u>	<u>Adjustments</u>		<u>09/30/2008</u>
Capital leases	\$ 10,475	\$ -	\$ (24,699)	\$ 59,916	\$	45,692
Judgement payable	9,887	-	(5,471)	-		4,416
Compensated absences*	107,342	-	(23,884)	-		83,458
Totals	<u>\$ 127,704</u>	<u>\$ -</u>	<u>\$ (54,054)</u>	<u>\$ 59,916</u>	<u>\$</u>	<u>133,566</u>

*Net additions/deletions are reported for purposes of this schedule.

Contingent Liabilities

Amounts received or receivable from grant agencies are subject to audit and adjustment by grantor agencies, principally the federal government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures that may be disallowed by the grantor cannot be determined at this time, although the government expects such amounts, if any, to be immaterial.

The City is a defendant in various lawsuits. Although the outcome of these lawsuits is not presently determinable, in the opinion of the City's counsel, the resolution of these matters will not have a material adverse effect on the financial condition of the City.

4. DETAILED NOTES ON ALL FUNDS (Continued)

Interfund Receivables and Payables

The composition of interfund balances as of September 30, 2008, is as follows:

	<u>Due from Other Funds</u>	<u>Due to Other Funds</u>
<u>General Fund</u>		
General fund	\$ 385,170	\$ 385,170
Special revenue fund	55,135	-
Capital projects fund	10,452	218,562
Enterprise fund	14,160	9,535
Internal service fund	3,590	49,573
Trust fund	67	21
Total general fund	<u>468,574</u>	<u>662,861</u>
<u>Special Revenue Fund</u>		
General fund	-	55,135
Trust fund	1,651	-
Total special revenue fund	<u>1,651</u>	<u>55,135</u>
<u>Capital Projects Fund</u>		
General fund	218,562	10,452
Capital projects fund	62,413	62,413
Enterprise fund	105,476	-
Trust fund	75,552	-
Total capital projects fund	<u>462,003</u>	<u>72,865</u>
<u>Enterprise Fund</u>		
General fund	9,535	14,160
Capital projects fund	-	105,476
Total enterprise fund	<u>9,535</u>	<u>119,636</u>
<u>Internal Service Fund</u>		
General fund	49,573	3,590
Total internal service fund	<u>49,573</u>	<u>3,590</u>
<u>Trust & Agency Fund</u>		
General fund	21	67
Special revenue fund	-	1,651
Capital projects fund	-	75,552
Total trust & agency fund	<u>21</u>	<u>77,270</u>
Totals	<u>\$ 991,357</u>	<u>\$ 991,357</u>

All remaining balances resulted from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made.

4. DETAILED NOTES ON ALL FUNDS (Continued)

Pension Plan – Primary Government

Plan Description

The City provides pension benefits for all of its full-time employees through a non-traditional, joint contributory, hybrid defined benefit plan in the state-wide Texas Municipal Retirement System (TMRS), one of 821 currently administered by TMRS, an agent multiple-employer public employee retirement system.

Benefits

Benefits depend upon the sum of the employee's contributions to the plan, with interest, and the City-financed monetary credits, with interest. At the date the plan began, the City granted monetary credits for service rendered before the plan began of a theoretical amount at least equal to two times what would have been contributed by the employee, with interest, prior to establishment of the plan. Monetary credits for service since the plan began are a percent (100%, 150%, or 200%) of the employee's accumulated contributions. In addition, the City can grant, as often as annually, another type of monetary credit referred to as an updated service credit which is a theoretical amount which, when added to the employee's accumulated contributions and the monetary credits for service since the plan began, would be the total monetary credits and employee contributions accumulated with interest if the current employee contribution rate and City matching percent had always been in existence and if the employee's salary had always been the average of his/her salary in the last three years that are one year before the effective date. At retirement, the benefit is calculated as if the sum of the employee's accumulated contributions with interest and the employer-financed monetary credits with interest were used to purchase an annuity.

The plan provisions are adopted by the governing body of the City, within the options available in the state statutes governing TMRS. Plan provisions for the City were as follows (as of 5/13/08):

Deposit Rate:	5%
Matching Ratio (City to Employee):	1.5 to 1
A member is vested after:	5 years

Members can retire at certain ages, based on the years of service with the City. The Service Retirement Eligibilities for the City are 5 years/age 60 and 25 years/any age.

Contributions

Under the state law governing TMRS, the actuary annually determines the City contribution rate. This rate consists of the normal cost contribution rate and the prior service cost contribution rate, both of which are calculated to be a level percent of payroll from year to year. The normal cost contribution rate finances the currently accruing monetary credits due to the City matching percent, which are the obligation of the City as of an employee's retirement date, not at the time the employee's contributions are made. The normal cost contribution rate is the actuarially determined percent of payroll necessary to satisfy the obligation of the City to each employee at the time his/her retirement becomes effective. The prior service contribution rate amortizes the unfunded (overfunded) actuarial liability (asset) over the remainder of the plan's 25-year amortization period. The unit credit actuarial cost method is used for determining the City contribution rate. Both the employees and the City make contributions monthly. Since the City needs to know its contribution rate in advance for budgetary purposes, there is a one-year delay between the actuarial valuation that serves as the basis for the rate and the calendar year when the rate goes into effect (i.e. December 31, 2006 valuation is effective for rates beginning January 2008).

4. **DETAILED NOTES ON ALL FUNDS** (Continued)

Pension Plan – Primary Government (Continued)

City of Port Isabel
Schedule of Actuarial Liabilities and Funding Progress

Actuarial Valuation Date		12/31/07
Actuarial Value of Assets		\$ 2,300,369
Actuarial Accrued Liability		\$ 2,414,800
Percentage Funded		95.3%
Unfunded (Over-funded) Actuarial Accrued Liability (UAAL)		\$ 114,431
Annual Covered Payroll		\$ 1,871,125
UAAL as a Percentage of Covered Payroll		6.1%
Net Pension Obligation (NPO) at the Beginning of the Period		\$ -
Annual Pension Cost:		
Annual required contribution (ARC)	\$ 63,161	
Interest on NPO	-	
Adjustment to the ARC	-	\$ 63,161
Contributions Made		-
Increase in NPO		-
NPO at the end of the period		<u>\$ 63,161</u>

Workers' Compensation

The City is a member of the Texas Municipal League (TML) Workers' Compensation Intergovernmental Risk Pool, an unincorporated association of political subdivisions of the State of Texas. The fund contracts with a third-party administrator for administration, investigation, and adjustment services in the handling of claims. Premiums are based on the estimated City payroll by risk factor and rates. The premiums are adjusted by the City's experience modifier. All loss contingencies, including claims incurred, but not reported, if any, are recorded and accounted for by the TML Pool. The City's liability is limited to the payment of premiums as assessed by TML.

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. The City's risk management program mainly encompasses obtaining property and liability insurance through Texas Municipal League (TML-IRP), an Intergovernmental Risk-Pool and through commercial insurance carriers. The City purchases commercial general insurance through the Texas Municipal League, an unincorporated association of political subdivisions of the State of Texas. This policy encompasses general liability, incidental, medical malpractice, automobile liability, law enforcement liability, errors and omissions liability, property, automobile vehicle liability, and damages with limits of liability for each occurrence. The City has not had any significant reduction in insurance coverage, and the amounts of insurance settlements have not exceeded insurance coverage for any of the last three years. The participation of the City in the TML-IRP is limited to payment of premiums. At year-end, the City did not have any significant claims pending.

4. **DETAILED NOTES ON ALL FUNDS (Continued)**

Increase (Decrease) in Fund Balances

Adjustments to the fund balance during the 2007-2008 fiscal year consisted of the following:

<u>Description</u>	<u>General</u>	<u>Capital Projects</u>	<u>Enterprise Funds</u>	<u>Total</u>
Reclassification of interfund payable	\$ (188,147)	\$ -	\$ 188,147	\$ -
Adjustment to accumulated depreciation	-	-	51,745	51,745
Reversal of prior year sales tax revenue accrual	<u>(157,983)</u>	<u>(84,111)</u>	<u>-</u>	<u>(242,094)</u>
Totals	<u>\$ (346,130)</u>	<u>\$ (84,111)</u>	<u>\$ 239,892</u>	<u>\$ (190,349)</u>

Deficit Fund Balance

The General Fund, the major governmental fund, has a deficit fund balance of \$189,378. The City changed its' method of recording Sales Tax Revenue from an accrual basis to cash basis. Consequently, this resulted in a prior period adjustment to reverse the prior year accrual, which then resulted in a deficit fund balance.

**COMBINING STATEMENTS
AND SCHEDULES**

CITY OF PORT ISABEL, TEXAS

SCHEDULE OF EXPENDITURES - BUDGET AND ACTUAL

GENERAL FUND

YEAR ENDED SEPTEMBER 30, 2008

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
GENERAL GOVERNMENT				
Mayor and commissioners	\$ 20,375	\$ 21,381	\$ 15,048	\$ 6,333
Administration	932,155	978,411	985,714	(7,303)
Building department	98,809	92,115	92,872	(757)
Municipal court	149,756	146,693	152,821	(6,128)
Capital outlay	20,000	6,941	6,235	706
Total general government	<u>1,221,095</u>	<u>1,245,541</u>	<u>1,252,690</u>	<u>(7,149)</u>
PUBLIC SAFETY				
Police	1,105,210	1,219,676	1,197,191	22,485
Fire and health	110,332	97,840	103,275	(5,435)
Emergency medical services	322,363	330,787	336,125	(5,338)
Animal control	53,929	37,708	41,739	(4,031)
Hurricane dolly	-	-	420,087	(420,087)
Capital outlay	15,711	9,610	7,787	1,823
Total public safety	<u>1,607,545</u>	<u>1,695,621</u>	<u>2,106,204</u>	<u>(410,583)</u>
PUBLIC WORKS				
Streets, health and sanitation	837,421	915,169	894,342	20,827
Capital outlay	7,600	650	-	650
Total public works	<u>845,021</u>	<u>915,819</u>	<u>894,342</u>	<u>21,477</u>
SOCIAL SERVICES				
Social services	30,479	31,941	51,216	(19,275)
Total social services	<u>30,479</u>	<u>31,941</u>	<u>51,216</u>	<u>(19,275)</u>
CULTURE AND RECREATION				
Library	172,550	162,747	178,852	(16,105)
Community center	25,980	23,051	27,276	(4,225)
Capital outlay	9,500	2,312	2,221	91
Total culture and recreation	<u>208,030</u>	<u>188,110</u>	<u>208,349</u>	<u>(20,239)</u>
Total expenditures	<u>\$ 3,912,170</u>	<u>\$ 4,077,032</u>	<u>\$ 4,512,801</u>	<u>\$ (435,769)</u>

CITY OF PORT ISABEL, TEXAS
SCHEDULE OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
DEBT SERVICE FUND
FOR THE YEAR ENDED SEPTEMBER 30, 2008

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
REVENUES				
Property taxes	\$ 10,000	\$ 3,749	\$ 4,731	\$ 982
Investment earnings	<u>1,766</u>	<u>1,365</u>	<u>1,137</u>	<u>(228)</u>
Total revenues	<u>11,766</u>	<u>5,114</u>	<u>5,868</u>	<u>754</u>
EXPENDITURES				
Debt service:				
Principal	-	-	-	-
Interest and fiscal charges	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total expenditures	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>11,766</u>	<u>5,114</u>	<u>5,868</u>	<u>754</u>
FUND BALANCES, BEGINNING	<u>132,493</u>	<u>132,493</u>	<u>132,493</u>	<u>-</u>
FUND BALANCES, ENDING	<u>\$ 144,259</u>	<u>\$ 137,607</u>	<u>\$ 138,361</u>	<u>\$ 754</u>

CITY OF PORT ISABEL, TEXAS

COMBINING BALANCE SHEET

NONMAJOR GOVERNMENTAL FUNDS

SEPTEMBER 30, 2008

	Special Revenue			
	Hotel/ Motel Tax	T.E.C.L.O.S.E.	Beautification	Veterans Memorial
ASSETS				
Cash and investments	\$ 119,234	\$ 5,498	\$ 8,970	\$ 3,799
Accounts receivable	-	-	-	-
Property taxes receivable	-	-	-	-
Due from other funds	-	-	1,651	-
Due from other governments	-	-	-	-
Total assets	\$ 119,234	\$ 5,498	\$ 10,621	\$ 3,799
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable	\$ -	\$ -	\$ 33	\$ -
Bank overdraft	-	-	-	-
Accrued liabilities	-	-	-	-
Deferred revenue	-	-	-	-
Due to other funds	500	-	-	5
Total liabilities	500	-	33	5
Fund balances:				
Reserved for:				
Debt service	-	-	-	-
Unreserved, reported in:				
Special revenue funds	118,734	5,498	10,588	3,794
Capital projects fund	-	-	-	-
Total fund balances	118,734	5,498	10,588	3,794
Total liabilities and fund balances	\$ 119,234	\$ 5,498	\$ 10,621	\$ 3,799

EXHIBIT H-1

Debt Service	Capital Projects			Total Nonmajor Governmental Funds
	Capital Improvements	TCDP Grant	Modern Venice	
\$ 137,659	\$ 439,153	\$ -	\$ 5	\$ 714,318
-	34,681	-	-	34,681
8,837	-	-	-	8,837
-	376,390	-	-	378,041
-	-	-	-	-
<u>\$ 146,496</u>	<u>\$ 850,224</u>	<u>\$ -</u>	<u>\$ 5</u>	<u>\$ 1,135,877</u>
\$ -	\$ -	\$ -	\$ -	\$ 33
-	-	-	-	-
-	-	-	-	-
8,135	-	-	-	8,135
-	51	-	72,814	73,370
<u>8,135</u>	<u>51</u>	<u>-</u>	<u>72,814</u>	<u>81,538</u>
138,361	-	-	-	138,361
-	-	-	-	138,614
-	850,173	-	(72,809)	777,364
<u>138,361</u>	<u>850,173</u>	<u>-</u>	<u>(72,809)</u>	<u>1,054,339</u>
<u>\$ 146,496</u>	<u>\$ 850,224</u>	<u>\$ -</u>	<u>\$ 5</u>	<u>\$ 1,135,877</u>

CITY OF PORT ISABEL, TEXAS

**COMBINING STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES**

NONMAJOR GOVERNMENTAL FUNDS

FOR THE YEAR ENDED SEPTEMBER 30, 2008

	Special Revenue			
	Hotel/ Motel Tax	T.E.C.L.O.S.E.	Beautification	Veterans Memorial
REVENUES				
Property taxes	\$ -	\$ -	\$ -	\$ -
Hotel/motel taxes	59,764	-	-	-
Sales taxes	-	-	-	-
Intergovernmental	-	4,436	-	3,779
Investment earnings	2,602	108	7	15
Miscellaneous revenue	25	-	1,771	-
Total revenues	<u>62,391</u>	<u>4,544</u>	<u>1,778</u>	<u>3,794</u>
EXPENDITURES				
Current:				
General government	34,484	-	-	-
Public safety	-	(600)	-	-
Public works	-	-	-	-
Social services	-	-	-	-
Culture and recreation	-	-	6,190	-
Capital outlay	-	-	-	-
Debt service:				
Principal	-	-	-	-
Interest and fiscal charges	-	-	-	-
Total expenditures	<u>34,484</u>	<u>(600)</u>	<u>6,190</u>	<u>-</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>27,907</u>	<u>5,144</u>	<u>(4,412)</u>	<u>3,794</u>
OTHER FINANCING SOURCES (USES)				
Transfers in	-	-	15,000	-
Transfers out	-	-	-	-
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>15,000</u>	<u>-</u>
NET CHANGE IN FUND BALANCES	27,907	5,144	10,588	3,794
FUND BALANCES, BEGINNING	90,827	354	-	-
PRIOR PERIOD ADJUSTMENT	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
FUND BALANCES, ENDING	<u>\$ 118,734</u>	<u>\$ 5,498</u>	<u>\$ 10,588</u>	<u>\$ 3,794</u>

EXHIBIT H-2

	Capital Projects				Total Nonmajor Governmental Funds
	Debt Service	Capital Improvements	TCDP Grant	Modern Venice	
\$ 4,731	\$ -	\$ -	\$ -	\$ 4,731	
-	-	-	-	59,764	
-	331,449	-	-	331,449	
-	-	(2,507)	-	5,708	
1,137	2,813	206	152	7,040	
-	283,681	-	-	285,477	
<u>5,868</u>	<u>617,943</u>	<u>(2,301)</u>	<u>152</u>	<u>694,169</u>	
-	5,290	-	-	39,774	
-	22,892	-	-	22,292	
-	307,978	5,986	-	313,964	
-	36,968	-	-	36,968	
-	-	-	-	6,190	
-	18,072	-	-	18,072	
-	-	-	-	-	
-	-	-	-	-	
<u>-</u>	<u>391,200</u>	<u>5,986</u>	<u>-</u>	<u>437,260</u>	
<u>5,868</u>	<u>226,743</u>	<u>(8,287)</u>	<u>152</u>	<u>256,909</u>	
-	-	7,356	-	22,356	
-	-	-	-	-	
<u>-</u>	<u>-</u>	<u>7,356</u>	<u>-</u>	<u>22,356</u>	
- 5,868	226,743	(931)	152	279,265	
132,493	707,541	931	(72,961)	859,185	
-	(84,111)	-	-	(84,111)	
<u>\$ 138,361</u>	<u>\$ 850,173</u>	<u>\$ -</u>	<u>\$ (72,809)</u>	<u>\$ 1,054,339</u>	

CITY OF PORT ISABEL, TEXAS

COMBINING STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES

AGENCY FUNDS

SEPTEMBER 30, 2008

	Restricted Cash Trust	Cash Bonds Held	Total Agency Funds
ASSETS			
Cash	\$ 77,203	\$ -	\$ 77,203
Due from other funds	-	21	21
Other assets	-	46	46
Total assets	<u>\$ 77,203</u>	<u>\$ 67</u>	<u>\$ 77,270</u>
LIABILITIES			
Due to other funds	\$ 77,203	\$ 67	\$ 77,270
Other payables	-	-	-
Total liabilities	<u>\$ 77,203</u>	<u>\$ 67</u>	<u>\$ 77,270</u>

CITY OF PORT ISABEL, TEXAS

STATEMENT OF CHANGES IN FIDUCIARY ASSETS & LIABILITIES

AGENCY FUNDS

SEPTEMBER 30, 2008

	Balance October 1, 2007	Additions	Deletions	Balance September 30, 2008
RESTRICTED CASH TRUST				
ASSETS				
Cash	\$ 302,453	\$ -	\$ 225,250	\$ 77,203
Due from other funds	<u>14</u>	<u>-</u>	<u>14</u>	<u>-</u>
Total assets	<u>\$ 302,467</u>	<u>\$ -</u>	<u>\$ 225,264</u>	<u>\$ 77,203</u>
LIABILITIES				
Due to other funds	\$ 300,860	\$ -	\$ 223,657	\$ 77,203
Other payables	<u>1,607</u>	<u>-</u>	<u>1,607</u>	<u>-</u>
Total liabilities	<u>\$ 302,467</u>	<u>\$ -</u>	<u>\$ 225,264</u>	<u>\$ 77,203</u>
CASH BONDS HELD				
ASSETS				
Due from other funds	\$ 826	\$ -	\$ 805	\$ 21
Other assets	<u>-</u>	<u>46</u>	<u>-</u>	<u>46</u>
Total assets	<u>\$ 826</u>	<u>\$ 46</u>	<u>\$ 805</u>	<u>\$ 67</u>
LIABILITIES				
Due to other funds	\$ 67	\$ -	\$ -	\$ 67
Other payables	<u>759</u>	<u>2,416</u>	<u>3,175</u>	<u>-</u>
Total liabilities	<u>\$ 826</u>	<u>\$ 2,416</u>	<u>\$ 3,175</u>	<u>\$ 67</u>
TOTAL AGENCY FUNDS				
ASSETS				
Cash	\$ 302,453	\$ -	\$ 225,250	\$ 77,203
Due from other funds	840	-	819	21
Other assets	<u>-</u>	<u>46</u>	<u>-</u>	<u>46</u>
Total assets	<u>\$ 303,293</u>	<u>\$ 46</u>	<u>\$ 226,069</u>	<u>\$ 77,270</u>
LIABILITIES				
Due to other funds	\$ 300,927	\$ -	\$ 223,657	\$ 77,270
Other payables	<u>2,366</u>	<u>2,416</u>	<u>4,782</u>	<u>-</u>
Total liabilities	<u>\$ 303,293</u>	<u>\$ 2,416</u>	<u>\$ 228,439</u>	<u>\$ 77,270</u>

COMPLIANCE SECTION



PATTILLO, BROWN & HILL, L.L.P.
CERTIFIED PUBLIC ACCOUNTANTS ■ BUSINESS CONSULTANTS

**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 Commission
City of Port Isabel, Texas

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Port Isabel (“City”) as of and for the year ended September 30, 2008, which collectively comprise the City’s basic financial statements and have issued our report thereon dated May 28, 2009. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

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

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we noted other matters involving the internal control over financial reporting, which we have reported to management of the City in a separate letter dated May 28, 2009.

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 or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the City Commission, management, appropriate federal and state awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Pattillo, Brown & Hill, LLP

May 28, 2009

STATISTICAL SECTION

CITY OF PORT ISABEL, TEXAS
EXPENDITURES BY FUNCTION (1)
ALL GOVERNMENTAL FUND TYPES

LAST TEN FISCAL YEARS
(Unaudited)

Year Ended September 30,	General Government	Public Safety	Public Works	Social Services	Culture and Recreation	Capital Outlay	Debt Service	Totals Primary Government	Component Unit	
									Economic Development Corporation	Total Reporting Entity
1999	\$ 993,623	\$ 1,024,550	\$ 474,562	\$ 14,775	\$ 153,284	\$ 265,050	\$ 321,470	\$ 3,247,314	\$ 205,823	\$3,453,137
2000	641,246	1,026,649	519,541	19,007	112,687	857,142	285,140	3,461,412	195,542	3,656,954
2001	602,153	1,231,524	998,604	21,022	153,281	336,795	286,413	3,629,792	208,401	3,838,193
2002	784,658	1,206,034	625,262	25,835	162,018	103,976	221,503	3,129,286	254,127	3,383,413
2003	997,597	1,213,267	643,134	22,707	180,937	751,904	235,009	4,044,555	237,725	4,282,280
2004	1,069,595	1,299,322	660,632	24,649	215,087	1,093,798	191,324	4,554,407	193,871	4,748,278
2005	1,494,289	1,400,671	1,286,237	26,324	190,128	156,763	149,624	4,704,036	119,022	4,823,058
2006	1,207,809	1,657,361	727,106	26,040	243,780	309,745	244,399	4,416,240	147,720	4,563,960
2007	1,911,240	1,755,946	929,676	29,592	201,796	452,968	5,000	5,286,218	135,491	5,421,709
2008	1,290,479	2,123,970	1,269,035	88,184	212,318	34,315	-	5,018,301	268,303	5,286,604

(1) Includes general, special revenue, debt service and capital projects funds

CITY OF PORT ISABEL, TEXAS

REVENUES BY SOURCE (1)

ALL GOVERNMENTAL FUND TYPES

LAST TEN FISCAL YEARS

(Unaudited)

<u>Year Ended September 30,</u>	<u>Property Taxes</u>	<u>Nonproperty Taxes</u>	<u>Charges for Services</u>	<u>Inter- governmental Revenues</u>	<u>Fines and Forfeits</u>	<u>Licenses and Permits</u>	<u>Miscellaneous Revenues</u>	<u>Totals Primary Government</u>	<u>Component Unit Economic Development Corporation</u>	<u>Total Reporting Entity</u>
1999	\$ 832,699	\$ 1,064,489	\$ 270,338	\$ 341,118	\$ 373,619	\$ 49,566	\$ 113,646	\$ 3,045,475	\$ 271,665	\$ 3,317,140
2000	891,485	1,131,375	244,989	753,150	342,903	81,952	184,640	3,630,494	299,943	3,930,437
2001	978,111	1,515,644	335,768	287,651	393,054	95,166	123,820	3,729,214	407,790	4,137,004
2002	930,356	1,250,110	346,833	221,318	264,987	65,155	158,076	3,236,835	315,153	3,551,988
2003	1,097,289	1,257,716	555,259	774,798	343,159	55,885	98,698	4,182,804	332,712	4,515,516
2004	1,237,640	1,036,481	449,569	619,230	328,241	98,312	536,801	4,306,274	352,506	4,658,780
2005	1,246,847	1,526,035	446,777	606,378	217,198	76,505	753,598	4,873,338	407,296	5,280,634
2006	1,485,113	1,621,861	631,034	359,258	309,525	66,531	177,662	4,650,984	480,264	5,131,248
2007	1,479,918	1,816,925	650,029	424,928	336,359	134,254	197,599	5,040,012	544,344	5,584,356
2008	1,650,978	1,816,166	569,939	690,020	249,350	126,697	377,912	5,481,062	526,122	6,007,184

(1) Includes general, special revenue, debt service and capital projects funds

CITY OF PORT ISABEL, TEXAS

PROPERTY TAX LEVIES AND COLLECTIONS

LAST TEN FISCAL YEARS

(Unaudited)

<u>Year Ended September 30,</u>	<u>Assessed Valuation (1)</u>	<u>Tax Rate (2)</u>	<u>Total Tax Levy (3)</u>	<u>Total Taxes Collected (4)</u>	<u>Current Taxes and Delinquent Taxes Receivable at September 30, (5)</u>
1999	\$ 120,307,579	0.68700	\$ 826,513	\$ 828,559	\$ 309,259
2000	125,906,417	0.68700	864,977	872,087	247,860
2001	129,436,167	0.68700	889,226	924,812	198,089
2002	137,726,790	0.68700	946,183	924,815	203,471
2003	154,023,611	0.68700	1,058,142	1,103,044	209,155
2004	175,260,258	0.68700	1,204,038	1,219,140	193,364
2005	184,086,541	0.68700	1,264,675	1,240,573	210,531
2006	208,775,694	0.68700	1,434,289	1,485,113	234,375
2007	237,627,527	0.62633	1,488,332	1,479,918	259,187
2008	264,747,076	0.62633	1,658,013	1,650,978	261,092

(1) Beginning with fiscal year 1983, the assessed values were established by the new county-wide appraisal district mandated by the State of Texas. Net taxable value is as reported on certification of appraisal roll to assessor each given year.

(2) As approved by ordinance by the City of Port Isabel Commission.

(3) Multiply (1) by (2) and divide by 100.

(4) Inclusive of current year and prior year base - taxes and adjustments as recorded in audited financial statements.

(5) As recorded on audited balance sheet.

CITY OF PORT ISABEL, TEXAS

**RATIO OF ANNUAL DEBT SERVICE EXPENDITURES FOR
GENERAL BONDED DEBT TO TOTAL GENERAL EXPENDITURES**

**LAST TEN FISCAL YEARS
(Unaudited)**

<u>Year Ended September 30,</u>	<u>Principal</u>	<u>Interest and Fees</u>	<u>Total Debt Service Fund Expenditures</u>	<u>Total General Fund Expenditures</u>	<u>Ratio of Debt Service to Total General Fund Expenditures</u>
1999	\$ 140,000	\$ 31,230	\$ 171,230	\$ 2,554,257	6.70%
2000	95,000	50,466	145,466	2,140,770	6.80%
2001	115,000	33,555	148,555	2,606,218	5.70%
2002	120,000	28,933	148,933	2,764,712	5.39%
2003	125,000	24,094	149,094	2,944,869	5.06%
2004	130,000	17,178	147,178	3,067,418	4.80%
2005	135,000	14,624	149,624	3,337,128	4.48%
2006	235,000	9,399	244,399	3,536,203	6.91%
2007	-	5,000	5,000	4,358,094	0.11%
2008	-	-	-	4,512,801	0.00%

CITY OF PORT ISABEL, TEXAS

**RATIO OF NET GENERAL BONDED DEBT
TO ASSESSED VALUE AND NET BONDED DEBT PER CAPITA**

**LAST TEN FISCAL YEARS
(Unaudited)**

<u>Year Ended September 30,</u>	<u>Estimated Population (1)</u>	<u>Assessed Value (2)</u>	<u>Gross Bonded Debt (3)</u>	<u>Debt Service Monies Available</u>	<u>Net Bonded Debt</u>	<u>Ratio to Assessed Value</u>	<u>Per Capita</u>
1999	4,865	\$ 120,307,579	\$ 955,000	\$ 119,587	\$ 835,413	0.0069	171.72
2000	4,865	125,906,417	860,000	130,631	729,369	0.0058	149.92
2001	4,904	129,436,167	745,000	147,684	597,316	0.0046	121.80
2002	5,045	137,726,790	625,000	145,798	479,202	0.0035	94.99
2003	5,291	154,023,611	500,000	152,475	347,525	0.0023	65.68
2004	5,246	175,260,258	370,000	165,006	204,994	0.0012	39.08
2005	5,221	184,086,541	235,000	166,993	68,007	0.0004	13.03
2006	5,250	208,775,694	-	122,815	(122,815)	-0.0006	(23.39)
2007	5,292	237,627,527	-	132,493	(132,493)	-0.0006	(25.04)
2008	5,265	264,747,076	-	138,361	(138,361)	-0.0005	(26.28)

(1) Source: Texas State Data Center Estimates

(2) Beginning with fiscal year 1983, the assessed values were established by the new county-wide appraisal district mandated by the State of Texas. Net taxable value is as reported on certification of appraisal roll to assessor.

(3) Does not include non-bonded debt.

Ratio to assessed value - Net bonded debt divided by assessed value

Per Capita - Net bonded debt divided by estimated population

CITY OF PORT ISABEL, TEXAS
COMPUTATION OF LEGAL DEBT MARGIN
YEAR ENDED SEPTEMBER 30, 2008
(Unaudited)

The City of Port Isabel does not have a legal debt limit. The City is organized as a Chapter One through Ten Town under Title Twenty-Eight of the Constitution of Texas and thus may not have a tax rate higher than \$1.50 per \$100 of assessed valuation.

Assessed valuation - 2006 tax roll for fiscal year 2007	<u>\$ 264,747,076</u>
Debt limit - by custom, a practical economic debt limit of 5% of the assessed valuation is used	\$ 13,237,354
Total bonded debt	-
Amount available in general bonded debt service fund	<u>138,361</u>
Applicable net debt	<u>(138,361)</u>
Economic debt margin	<u>\$ 13,375,715</u>

CITY OF PORT ISABEL, TEXAS

PROPERTY VALUE AND CONSTRUCTION VALUE

LAST TEN FISCAL YEARS

(Unaudited)

<u>Year Ended</u> <u>September 30,</u>	<u>Assessed</u> <u>Valuation (a)</u>	<u>Construction (b)</u>
1999	\$ 120,307,579	\$ 4,144,855
2000	125,906,417	7,673,070
2001	129,436,167	7,507,435
2002	137,726,790	5,225,576
2003	154,023,611	3,318,233
2004	175,260,258	10,143,141
2005	184,086,541	5,675,528
2006	208,775,694	5,372,120
2007	237,627,527	9,565,502
2008	264,747,076	(c) 8,013,339

(a) Beginning with fiscal year 1983, the assessed values were established by the new county-wide appraisal district mandated by the State of Texas. Net taxable value is as reported on certification of appraisal roll to assessor each given year.

(b) Residential and commercial

(c) Rio Grande Valley Partnership "Business Barometer"

Source: Cameron County Appraisal District
City of Port Isabel Building Permit Office

CITY OF PORT ISABEL, TEXAS

TEN PRINCIPAL TAXPAYERS

YEAR ENDED SEPTEMBER 30, 2008

(Unaudited)

<u>Taxpayer</u>	<u>Type of Business</u>	<u>Assessed Valuation</u>	<u>Percentage of Total Assessed Valuation</u>
Wal-Mart Stores Inc	Discount retail store	\$ 6,600,152	3.77%
Wal-Mart Real Estate Business TR	Discount retail store	5,504,078	3.14%
H. E. Butt Grocery Co.	Grocery store chain	3,701,442	2.11%
Port Isabel Land Co.	Real estate	2,111,081	1.20%
AEP Texas Central Co.	Electrical provider	2,037,470	1.16%
Dejarnette IRA Living Trust	Real estate	1,872,788	1.07%
Wal-Mart Stores #Division-Store	Discount retail store	1,831,712	1.05%
H. E. Butt Grocery Co.	Grocery store chain	1,823,871	1.04%
Gallaway Walter C	Real estate	1,793,962	1.02%
First National Bank	Financial Institution	1,514,636	0.86%

Source: Cameron County Appraisal District