

CITY OF PORT ISABEL, TEXAS

ANNUAL FINANCIAL REPORT

SEPTEMBER 30, 2007

CITY OF PORT ISABEL, TEXAS
TABLE OF CONTENTS
YEAR ENDED SEPTEMBER 30, 2007

	Exhibit	Page Number
<u>Introductory Section</u>		
List of City Officials		1
<u>Financial Section</u>		
Independent Auditors' Report		2 - 3
Management's Discussion and Analysis		4 - 9
<i>Basic Financial Statements:</i>		
Statement of Net Assets	A-1	10
Statement of Activities	B-1	11
<i>Governmental Fund Financial Statements:</i>		
Balance Sheet	C-1	12
Statement of Revenues, Expenditures, and Changes in Fund Balances	C-2	13
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities	C-3	14
Statement of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual - General Fund	C-4	15
<i>Proprietary Fund Financial Statements:</i>		
Statement of Net Assets	D-1	16
Statement of Revenues, Expenses, and Changes in Fund Net Assets	D-2	17
Statement of Cash Flows	D-3	18
<i>Fiduciary Fund Financial Statement:</i>		
Statement of Fiduciary Net Assets	E-1	19
Notes to Financial Statements		20 - 38
<u>Combining Statements and Schedules</u>		
Schedule of Expenditures - Budget and Actual	G-1	39
<i>Debt Service Fund:</i>		
Schedule of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual	G-2	40

CITY OF PORT ISABEL, TEXAS

TABLE OF CONTENTS

(Continued)

YEAR ENDED SEPTEMBER 30, 2007

	<u>Exhibit</u>	<u>Page Number</u>
<u>Combining Statements and Schedules</u> (Continued)		
<i>Nonmajor Governmental Funds:</i>		
Combining Balance Sheet	H-1	41
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances	H-2	42
<i>Fiduciary Funds:</i>		
Combining Statement of Fiduciary Assets & Liabilities	H-3	43
Statement of Changes in Fiduciary Assets & Liabilities	H-4	44
<u>Compliance Section</u>		
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		45 - 46
<u>Unaudited Statistical Section</u>		
Expenditures by Function - All Governmental Fund Types - Last Ten Fiscal Years		47
Revenue by Source - All Governmental Fund Types - Last Ten Fiscal Years		48
Property Tax Levies and Collections - Last Ten Fiscal Years		49
Ratio of Annual Debt Service Expenditures for General Bonded Debt to Total General Expenditures		50
Ratio of Net General Bonded Debt to Assessed Value and Net Bonded Debt Per Capita - Last Ten Fiscal Years		51
Computation of Legal Debt Margin		52
Property Values and Construction Value		53
Ten Principal Taxpayers		54

CITY OF PORT ISABEL, TEXAS

LIST OF CITY OFFICIALS

SEPTEMBER 30, 2007

Mayor.....Patrick H. Marchan
City Commissioner Place 1.....Juan Jose “JJ” Zamora
City Commissioner Place 2.....Joe E. Vega
City Commissioner Place 3.....Martin C. Cantu
City Commissioner Place 4.....Jesus R. Garza
City Manager.....Robert H. Garcia
City Secretary.....Susan Alcocer
Finance Director.....Pete F. Capistran

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, 2007, 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. 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, 2007, and the respective changes in financial position and, where applicable, cash flows thereof and the respective budgetary comparison for the General Fund 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 July 8, 2008, 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, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in conjunction with this report in considering 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 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 tables 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 tables 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.

PATTILLO, BROWN & HILL, LLP

July 8, 2008

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, 2007. 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

Due to this year's operations, the City's net assets are as follows: Net assets of business-type activities were \$426,271 and net assets of governmental activities were \$12,069,886.

- The current year's expense total was \$4,957,646 as compared to the \$5,335,256 generated in tax and other revenues for governmental programs.
- For business-type activities, City revenues were \$165,557. Expenses were \$289,375.
- The yearly cost for all City programs was \$5,247,021.
- Increase (decrease) in net assets for Governmental Activities was \$377,610 and Business Activities (\$123,818), for a net total of \$253,792.

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 \$12,496,157 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 \$12,069,886 this year. Unrestricted net assets were \$1,190,020 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 \$426,271 this year.

City revenues (excluding special items) for the current year were \$5,202,913. The total yearly cost of all programs and services was \$5,247,021.

GOVERNMENTAL ACTIVITIES

This year's governmental activities revenues were \$5,335,256. The year's governmental activities cost was \$4,957,646.

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 \$165,557. This year's expenses were \$289,375.

Table 1 - Net Assets

	Governmental Activities <u>2007</u>	Business-type Activities <u>2007</u>	Combined Total <u>2007</u>	Combined Total <u>2006</u>	Increase (Decrease)
Assets:					
Current and other assets	\$ 2,282,837	\$ (123,159)	\$ 2,159,678	\$ 2,094,296	\$ 65,382
Capital assets, net	<u>10,763,350</u>	<u>571,691</u>	<u>11,335,041</u>	<u>11,131,076</u>	<u>203,965</u>
Total assets	<u>13,046,187</u>	<u>448,532</u>	<u>13,494,719</u>	<u>13,225,372</u>	<u>269,347</u>
Liabilities:					
Long-term debt	522,704	-	522,704	194,286	328,418
Other liabilities	<u>453,597</u>	<u>22,261</u>	<u>475,858</u>	<u>738,497</u>	<u>(262,639)</u>
Total liabilities	<u>976,301</u>	<u>22,261</u>	<u>998,562</u>	<u>932,783</u>	<u>65,779</u>
Net assets:					
Invested in capital assets, net of related debt	10,740,191	571,691	11,311,882	11,038,949	272,933
Restricted	139,675	-	139,675	129,965	9,710
Unrestricted	<u>1,190,020</u>	<u>(145,420)</u>	<u>1,044,600</u>	<u>1,123,675</u>	<u>(79,075)</u>
Total net assets	<u>\$ 12,069,886</u>	<u>\$ 426,271</u>	<u>\$ 12,496,157</u>	<u>\$ 12,292,589</u>	<u>\$ 203,568</u>

Table 2 Changes in Net Assets

	Governmental Activities <u>2007</u>	Business-type Activities <u>2007</u>	Combined Total <u>2007</u>	Combined Total <u>2006</u>	Increase (Decrease)
Revenues:					
Program revenues:					
Charges for services	\$ 1,120,642	\$ 164,232	\$1,284,874	\$ 1,165,503	\$ 119,371
Operating grants and contributions	106,232	-	106,232	91,306	14,926
Capital grants and contributions	318,696	-	318,696	267,952	50,744
General revenues:					
Property taxes	1,477,262	-	1,477,262	1,504,015	(26,753)
Other taxes	1,816,925	-	1,816,925	1,621,861	195,064
Miscellaneous	197,599	1,325	198,924	178,730	20,194
Special item	<u>297,900</u>	<u>-</u>	<u>297,900</u>	<u>-</u>	<u>297,900</u>
Total revenues	<u>5,335,256</u>	<u>165,557</u>	<u>5,500,813</u>	<u>4,829,367</u>	<u>671,446</u>
Expenses:					
Program expenses:					
General government	2,261,700	-	2,261,700	1,114,169	1,147,531
Public safety	1,536,284	-	1,536,284	1,682,506	(146,222)
Public works	930,618	-	930,618	875,115	55,503
Social services	29,751	-	29,751	31,843	(2,092)
Culture and recreation	194,293	289,375	483,668	405,925	77,743
Interest on long-term debt	<u>5,000</u>	<u>-</u>	<u>5,000</u>	<u>9,399</u>	<u>(4,399)</u>
Total expenses	<u>4,957,646</u>	<u>289,375</u>	<u>5,247,021</u>	<u>4,118,957</u>	<u>1,128,064</u>
Increase (decrease) in net assets	<u>\$ 377,610</u>	<u>\$ (123,818)</u>	<u>\$ 253,792</u>	<u>\$ 710,410</u>	<u>\$ (456,618)</u>

Table 3 Governmental Activities

	Total Cost of Services		Increase
	<u>2007</u>	<u>2006</u>	<u>(Decrease)</u>
General government	\$ 1,919,891	\$ 1,114,169	\$ 805,722
Public safety	1,639,539	1,682,506	(42,967)
Public works	1,137,128	875,115	262,013
Social services	36,872	31,843	5,029
Culture and recreation	219,216	147,689	71,527
Interest on long-term debt	5,000	9,399	(4,399)

	Net Cost of Services		Increase
	<u>2007</u>	<u>2006</u>	<u>(Decrease)</u>
General government	\$ 1,098,565	\$ 70,557	\$ 1,028,008
Public safety	1,423,678	1,587,511	(163,833)
Public works	785,081	752,413	32,668
Social services	29,751	31,843	(2,092)
Culture and recreation	70,001	42,650	27,351
Interest on long-term debt	5,000	9,399	(4,399)

CAPITAL ASSETS

At the close of the year, the City had invested \$11,335,041 in capital assets such as land, buildings and improvements, equipment or infrastructure (see Table 4). This amount represents an increase of \$203,965 from FY 2006.

Table 4 - Capital Assets

	Governmental Activities <u>2007</u>	Business-type Activities <u>2007</u>	Combined Total <u>2007</u>	Combined Total <u>2006</u>	Increase <u>(Decrease)</u>
Land	\$ 126,328	\$ 108,088	\$ 234,416	\$ 234,416	\$ -
Buildings and improvements	3,177,402	529,607	3,707,009	3,706,426	583
Furniture and equipment	3,282,738	23,390	3,306,128	3,135,942	170,186
Infrastructure	8,082,214	-	8,082,214	7,751,329	330,885
Other	-	152,666	152,666	152,666	-
Totals at historical cost	<u>14,668,682</u>	<u>813,751</u>	<u>15,482,433</u>	<u>14,980,779</u>	<u>501,654</u>
Less:					
Accumulated depreciation	<u>(3,905,332)</u>	<u>(242,060)</u>	<u>(4,147,392)</u>	<u>(3,849,703)</u>	<u>(297,689)</u>
Net capital assets	<u>\$ 10,763,350</u>	<u>\$ 571,691</u>	<u>\$ 11,335,041</u>	<u>\$ 11,131,076</u>	<u>\$ 203,965</u>

DEBT MANAGEMENT

At the close of the year, the City had \$127,704 in outstanding debt.

Table 5 - Outstanding Debt

	Balance <u>10/1/2006</u>	Principal <u>Issued</u>	Principal <u>Retired</u>	Balance <u>9/30/2007</u>
General obligation bonds	\$ -	\$ -	\$ -	\$ -
Revenue bonds	-	-	-	-
Other debt	<u>194,286</u>	<u>13,999</u>	<u>(80,581)</u>	<u>127,704</u>
Totals	<u>\$ 194,286</u>	<u>\$ 13,999</u>	<u>\$ (80,581)</u>	<u>\$ 127,704</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

CITY OF PORT ISABEL, TEXAS
STATEMENT OF NET ASSETS
SEPTEMBER 30, 2007

	Primary Government			Component Unit
	Governmental Activities	Business-type Activities	Total	Port Isabel Economic Development Corporation
ASSETS				
Cash and investments	\$ 860,402	\$ 29,815	\$ 890,217	\$ 1,568,374
Receivables, net of allowances for uncollectibles				
Accounts	257,079	2,226	259,305	-
Property taxes	168,493	-	168,493	-
Sales tax	161,221	-	161,221	80,610
Interest	-	-	-	11,589
Other	-	-	-	218
Internal balances	291,912	(291,912)	-	-
Due from primary government	-	-	-	3,018
Due from component unit	2,458	-	2,458	-
Due from fiduciary	300,927	-	300,927	-
Due from other governments	164,647	-	164,647	-
Inventories	7,182	122,180	129,362	-
Deferred charges	68,516	14,532	83,048	-
Capital assets:				
Land	126,328	108,088	234,416	-
Buildings and improvements	3,177,402	529,607	3,707,009	-
Furniture and equipment	3,282,738	23,390	3,306,128	-
Infrastructure	8,082,214	-	8,082,214	-
Exhibits and artifacts	-	152,666	152,666	-
Less: accumulated depreciation	(3,905,332)	(242,060)	(4,147,392)	-
Total capital assets	<u>10,763,350</u>	<u>571,691</u>	<u>11,335,041</u>	<u>-</u>
Total assets	<u>13,046,187</u>	<u>448,532</u>	<u>13,494,719</u>	<u>1,663,809</u>
LIABILITIES				
Accounts payable	326,079	16,713	342,792	788
Bank overdraft	2,804	5,548	8,352	-
Accrued liabilities	69,405	-	69,405	-
Unearned revenue	51,451	-	51,451	-
Due to primary government	-	-	-	2,458
Due to component unit	3,018	-	3,018	-
Due to fiduciary	840	-	840	-
Noncurrent liabilities:				
Due within one year	405,475	-	405,475	-
Due in more than one year	117,229	-	117,229	-
Total liabilities	<u>976,301</u>	<u>22,261</u>	<u>998,562</u>	<u>3,246</u>
NET ASSETS				
Invested in capital assets, net of related debt	10,740,191	571,691	11,311,882	-
Restricted for:				
Debt service	132,493	-	132,493	-
Other purposes	7,182	-	7,182	1,660,563
Unrestricted	<u>1,190,020</u>	<u>(145,420)</u>	<u>1,044,600</u>	<u>-</u>
Total net assets	<u>\$ 12,069,886</u>	<u>\$ 426,271</u>	<u>\$ 12,496,157</u>	<u>\$ 1,660,563</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, 2007

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary Government:				
Governmental activities:				
General government	\$ 1,919,891	\$ 1,120,642	\$ 42,493	\$ -
Public safety	1,639,539	-	16,997	95,609
Public works	1,137,128	-	18,059	127,478
Social services	36,872	-	-	-
Culture and recreation	219,216	-	28,683	95,609
Interest and fiscal charges on long-term debt	5,000	-	-	-
Total governmental activities	<u>4,957,646</u>	<u>1,120,642</u>	<u>106,232</u>	<u>318,696</u>
Business-type activities:				
Enterprise funds	289,375	164,232	-	-
Total business-type activities	<u>289,375</u>	<u>164,232</u>	<u>-</u>	<u>-</u>
Total primary government	<u>\$ 5,247,021</u>	<u>\$ 1,284,874</u>	<u>\$ 106,232</u>	<u>\$ 318,696</u>
Component Units:				
Port Isabel Economic Development Corporation	\$ 135,491	\$ -	\$ -	\$ -
Total component unit	<u>\$ 135,491</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				
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.

EXHIBIT B-1

Net (Expenses) Revenues and Changes in Net Assets			Component Unit
Primary Government			Port Isabel Economic Development Corporation
Governmental Activities	Business-type Activities	Total	
\$(756,756)	\$ -	\$(756,756)	\$ -
(1,526,933)	-	(1,526,933)	-
(991,591)	-	(991,591)	-
(36,872)	-	(36,872)	-
(94,924)	-	(94,924)	-
(5,000)	-	(5,000)	-
(3,412,076)	-	(3,412,076)	-
-	(125,143)	(125,143)	-
-	(125,143)	(125,143)	-
<u>\$(3,412,076)</u>	<u>\$(125,143)</u>	<u>\$(3,537,219)</u>	<u>\$ -</u>
\$ -	\$ -	\$ -	\$(135,491)
<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$(135,491)</u>
\$ 1,456,760	\$ -	\$ 1,456,760	\$ -
20,502	-	20,502	-
67,843	-	67,843	-
1,440,857	-	1,440,857	478,988
287,059	-	287,059	-
21,166	-	21,166	-
63,452	1,325	64,777	65,356
134,147	-	134,147	-
297,900	-	297,900	-
<u>3,789,686</u>	<u>1,325</u>	<u>3,791,011</u>	<u>544,344</u>
377,610	(123,818)	253,792	408,853
11,737,500	555,089	12,292,589	1,251,710
(45,224)	(5,000)	(50,224)	-
<u>\$ 12,069,886</u>	<u>\$ 426,271</u>	<u>\$ 12,496,157</u>	<u>\$ 1,660,563</u>

CITY OF PORT ISABEL, TEXAS

BALANCE SHEET

GOVERNMENTAL FUNDS

SEPTEMBER 30, 2007

	General	Capital Improvements Fund	Street Improvements Fund
ASSETS			
Cash and investments	\$ 327,483	\$ 309,735	\$ -
Receivables, net of allowances for uncollectibles			
Accounts	169,908	80,611	-
Property taxes	156,337	-	-
Sales taxes	161,221	-	-
Prepaid items	68,516	-	-
Due from other funds	577,131	400,573	375,632
Due from other governments	7,051	-	-
Inventories	7,182	-	-
Total assets	\$ 1,474,829	\$ 790,919	\$ 375,632
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts payable	\$ 257,395	\$ 47,250	\$ 1,548
Bank overdraft	-	-	1,505
Accrued liabilities	69,405	-	-
Deferred revenue	183,039	-	-
Due to other funds	500,553	36,128	116,741
Loan payable	179,834	-	215,166
Total liabilities	1,190,226	83,378	334,960
Fund balances:			
Reserved for:			
Inventories	7,182	-	-
Debt service	-	-	-
Unreserved, reported in:			
General fund	277,421	-	-
Special revenue funds	-	-	-
Capital projects funds	-	707,541	40,672
Total fund balances	284,603	707,541	40,672
Total liabilities and fund balances	\$ 1,474,829	\$ 790,919	\$ 375,632

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
\$ 223,184	\$ 860,402
6,560	257,079
12,156	168,493
-	161,221
-	68,516
80,723	1,434,059
157,596	164,647
-	7,182
\$ 480,219	\$ 3,121,599

\$ 19,886	\$ 326,079
1,299	2,804
-	69,405
14,283	197,322
189,198	842,620
-	395,000
224,666	1,833,230

-	7,182
132,493	132,493
-	277,421
195,090	195,090
(72,030)	676,183
255,553	1,288,369
\$ 480,219	

10,763,350
145,871
(127,704)
\$ 12,069,886

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

GOVERNMENTAL FUNDS

FOR THE YEAR ENDED SEPTEMBER 30, 2007

	General	Capital Improvements Fund	Street Improvements Fund
REVENUES			
Taxes:			
Property	\$ 1,467,442	\$ -	\$ -
Hotel/motel taxes	-	-	-
Sales	961,869	328,988	150,000
Mixed beverage	21,166	-	-
Franchise	287,059	-	-
Licenses and permits	134,254	-	-
Fines and forfeitures	336,359	-	-
Charges for services	650,029	-	-
Intergovernmental	87,888	24,276	-
Investment earnings	34,025	10,467	6,531
Other income	123,747	4,550	5,000
Total revenues	4,103,838	368,281	161,531
EXPENDITURES			
Current:			
General government	1,549,010	34,893	282,192
Public safety	1,665,471	88,517	-
Public works	812,685	112,366	136
Social services	29,592	-	-
Culture and recreation	201,796	-	-
Capital outlay	99,540	-	-
Debt service:			
Principal	-	-	-
Interest and fiscal charges	-	-	-
Total expenditures	4,358,094	235,776	282,328
EXCESS (DEFICIENCY) OF REVENUES			
OVER (UNDER) EXPENDITURES			
	(254,256)	132,505	(120,797)
OTHER FINANCING SOURCES (USES)			
Transfers in	23,686	-	-
Transfers out	(23,686)	-	-
Sale of land proceeds	-	-	297,900
Total other financing sources and (uses)	-	-	297,900
NET CHANGE IN FUND BALANCES	(254,256)	132,505	177,103
FUND BALANCES, BEGINNING	546,665	575,036	(136,431)
PRIOR PERIOD ADJUSTMENT	(7,806)	-	-
FUND BALANCES, ENDING	\$ 284,603	\$ 707,541	\$ 40,672

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

EXHIBIT C-2

Other Nonmajor Governmental Funds	Total Governmental Funds
\$ 12,476	\$ 1,479,918
67,843	67,843
-	1,440,857
-	21,166
-	287,059
-	134,254
-	336,359
-	650,029
312,764	424,928
12,429	63,452
850	134,147
<u>406,362</u>	<u>5,040,012</u>
45,145	1,911,240
1,958	1,755,946
4,489	929,676
-	29,592
-	201,796
353,428	452,968
-	-
<u>5,000</u>	<u>5,000</u>
<u>410,020</u>	<u>5,286,218</u>
<u>(3,658)</u>	<u>(246,206)</u>
-	23,686
-	(23,686)
-	297,900
<u>-</u>	<u>297,900</u>
(3,658)	51,694
259,211	1,244,481
<u>-</u>	<u>(7,806)</u>
<u>\$ 255,553</u>	<u>\$ 1,288,369</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, 2007

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)	\$ 51,694
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.	261,990
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.	79,266
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the governmental funds.	<u>(15,340)</u>
Change in net assets of governmental activities (page 11)	<u><u>\$ 377,610</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, 2007

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	Variance with Final Budget - Favorable <u>(Unfavorable)</u>
	<u>Original</u>	<u>Final</u>		
REVENUES				
Property taxes and penalties	\$ 1,481,015	\$ 1,456,501	\$ 1,467,442	\$ 10,941
Other taxes	904,561	962,236	983,035	20,799
Franchise fees	322,965	303,834	287,059	(16,775)
Licenses and permits	69,300	137,527	134,254	(3,273)
Fines and forfeitures	320,582	305,343	336,359	31,016
Charges for services	426,505	434,841	650,029	215,188
Intergovernmental	86,400	147,034	87,888	(59,146)
Investment earnings	62,900	60,255	34,025	(26,230)
Other income	<u>22,755</u>	<u>22,945</u>	<u>123,747</u>	<u>100,802</u>
Total revenues	<u>3,696,983</u>	<u>3,830,516</u>	<u>4,103,838</u>	<u>273,322</u>
EXPENDITURES				
Current:				
General government	1,281,356	1,423,177	1,549,010	(125,833)
Public safety	1,399,704	1,667,226	1,665,471	1,755
Public works	749,055	849,949	812,685	37,264
Social services	25,110	29,420	29,592	(172)
Culture and recreation	201,958	198,063	201,796	(3,733)
Capital outlay	<u>36,800</u>	<u>109,574</u>	<u>99,540</u>	<u>10,034</u>
Total expenditures	<u>3,693,983</u>	<u>4,277,409</u>	<u>4,358,094</u>	<u>(80,685)</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>3,000</u>	<u>(446,893)</u>	<u>(254,256)</u>	<u>192,637</u>
OTHER FINANCING SOURCES (USES)				
Transfers in	-	-	23,686	23,686
Transfers out	<u>(64,976)</u>	<u>-</u>	<u>(23,686)</u>	<u>(23,686)</u>
Total other financing sources and (uses)	<u>(64,976)</u>	<u>-</u>	<u>-</u>	<u>-</u>
NET CHANGE IN FUND BALANCES	(61,976)	(446,893)	(254,256)	192,637
FUND BALANCES, BEGINNING	546,665	546,665	546,665	-
PRIOR PERIOD ADJUSTMENT	<u>-</u>	<u>-</u>	<u>(7,806)</u>	<u>(7,806)</u>
FUND BALANCES, ENDING	<u>\$ 357,737</u>	<u>\$ (347,121)</u>	<u>\$ 284,603</u>	<u>\$ 184,831</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, 2007

	<u>Museum</u>	<u>Cemetery</u>	<u>Total Proprietary Funds</u>
ASSETS			
Current assets:			
Cash and investments	\$ -	\$ 29,815	\$ 29,815
Accounts receivable	1,026	1,200	2,226
Due from other funds	17,349	88	17,437
Inventory	21,052	101,128	122,180
Prepaid items	<u>13,057</u>	<u>1,475</u>	<u>14,532</u>
Total current assets	<u>52,484</u>	<u>133,706</u>	<u>186,190</u>
Noncurrent assets:			
Capital assets:			
Land	108,088	-	108,088
Buildings and improvements	471,223	-	471,223
Furniture and equipment	13,805	9,585	23,390
Other improvements	58,384	-	58,384
Exhibits and artifacts	152,666	-	152,666
Less: accumulated depreciation	<u>(242,060)</u>	<u>-</u>	<u>(242,060)</u>
Total capital assets	<u>562,106</u>	<u>9,585</u>	<u>571,691</u>
Total assets	<u>614,590</u>	<u>143,291</u>	<u>757,881</u>
LIABILITIES			
Current liabilities:			
Accounts payable	16,713	-	16,713
Bank overdraft	5,548	-	5,548
Due to other funds	<u>188,147</u>	<u>121,202</u>	<u>309,349</u>
Total current liabilities	<u>210,408</u>	<u>121,202</u>	<u>331,610</u>
Total liabilities	<u>210,408</u>	<u>121,202</u>	<u>331,610</u>
NET ASSETS			
Invested in capital assets, net of related debt	562,106	9,585	571,691
Unrestricted	<u>(157,924)</u>	<u>12,504</u>	<u>(145,420)</u>
Total net assets	<u>\$ 404,182</u>	<u>\$ 22,089</u>	<u>\$ 426,271</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, 2007

	Museum	Cemetery	Total Proprietary Funds
OPERATING REVENUES			
Charges for services	\$ 91,254	\$ -	\$ 91,254
Other income	59,768	13,210	72,978
Total operating revenues	<u>151,022</u>	<u>13,210</u>	<u>164,232</u>
OPERATING EXPENSES			
Salaries and wages	101,669	-	101,669
Employee benefits	23,314	-	23,314
Supplies	4,504	-	4,504
Repairs and maintenance	36,379	18	36,397
Contracted services	47,209	2,553	49,762
Insurance expense	16,926	-	16,926
Other expenses	33,599	2,597	36,196
Depreciation	20,607	-	20,607
Total operating expenses	<u>284,207</u>	<u>5,168</u>	<u>289,375</u>
OPERATING INCOME(LOSS)	<u>(133,185)</u>	<u>8,042</u>	<u>(125,143)</u>
NONOPERATING REVENUES			
Investment earnings	236	1,089	1,325
Total nonoperating revenues	<u>236</u>	<u>1,089</u>	<u>1,325</u>
CHANGES IN NET ASSETS	<u>(132,949)</u>	<u>9,131</u>	<u>(123,818)</u>
TOTAL NET ASSETS, BEGINNING	542,131	12,958	555,089
PRIOR PERIOD ADJUSTMENT	<u>(5,000)</u>	<u>-</u>	<u>(5,000)</u>
TOTAL NET ASSETS, ENDING	<u>\$ 404,182</u>	<u>\$ 22,089</u>	<u>\$ 426,271</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, 2007

	<u>Museum</u>
CASH FLOWS FROM OPERATING ACTIVITIES	
Cash received from customers	\$ 91,096
Cash received from other sources	59,768
Cash paid to suppliers for goods and services	(151,837)
Cash paid to employees for services	<u>(124,983)</u>
Net cash provided (used) by operating activities	<u>(125,956)</u>
CASH FLOWS FROM (TO) NONCAPITAL FINANCING ACTIVITIES	
Cash received from other funds	34,749
Cash paid to other funds	<u>83,331</u>
Net cash used for noncapital for financing activities	<u>118,080</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Acquisition and construction of capital assets	<u>-</u>
Net cash used for capital and related financing activities	<u>-</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Earnings on investments	<u>236</u>
Net cash provided by investing activities	<u>236</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(7,640)
CASH AND CASH EQUIVALENTS, BEGINNING	<u>7,640</u>
CASH AND CASH EQUIVALENTS, ENDING	<u><u>\$ -</u></u>
Reconciliation of operating income to net cash provided by operating activities:	
Operating income (loss)	\$ (133,185)
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation	20,607
Prior Period Adjustment	(5,000)
Changes in assets and liabilities:	
Decrease (increase) in assets:	
Accounts receivable	4,842
Prepaid items	(12,289)
Inventory	(3,452)
Increase (decrease) in liabilities:	
Accounts payable	(3,027)
Bank overdraft	<u>5,548</u>
Net cash provided (used) by operating activities	<u><u>\$ (125,956)</u></u>

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

EXHIBIT D-3

<u>Cemetery</u>	<u>Total Proprietary Funds</u>
\$ -	\$ 91,096
13,210	72,978
(4,159)	(155,996)
-	(124,983)
<u>9,051</u>	<u>(116,905)</u>
(1)	34,748
<u>18</u>	<u>83,349</u>
<u>17</u>	<u>118,097</u>
-	-
-	-
<u>1,089</u>	<u>1,325</u>
<u>1,089</u>	<u>1,325</u>
10,157	2,517
<u>19,658</u>	<u>27,298</u>
<u>\$ 29,815</u>	<u>\$ 29,815</u>
\$ 8,042	\$ (125,143)
-	20,607
-	(5,000)
-	4,842
(2)	(12,291)
2,484	(968)
(1,473)	(4,500)
-	5,548
<u>\$ 9,051</u>	<u>\$ (116,905)</u>

CITY OF PORT ISABEL, TEXAS
STATEMENT OF FIDUCIARY NET ASSETS
AGENCY FUNDS
SEPTEMBER 30, 2007

ASSETS

Cash	\$ 302,453
Due from other funds	<u>840</u>
Total assets	<u><u>\$ 303,293</u></u>

LIABILITIES

Due to other funds	\$ 300,927
Other payables	<u>2,366</u>
Total liabilities	<u><u>\$ 303,293</u></u>

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

CITY OF PORT ISABEL, TEXAS

SCHEDULE OF EXPENDITURES - BUDGET AND ACTUAL

GENERAL FUND

YEAR ENDED SEPTEMBER 30, 2007

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
GENERAL GOVERNMENT				
Mayor and commissioners	\$ 22,692	\$ 25,163	\$ 21,726	\$ 3,437
Administration	1,030,256	1,112,126	1,283,902	(171,776)
Building department	101,444	102,331	102,483	(152)
Municipal court	126,964	183,557	140,899	42,658
Capital outlay	<u>12,500</u>	<u>22,771</u>	<u>20,550</u>	<u>2,221</u>
Total general government	<u>1,293,856</u>	<u>1,445,948</u>	<u>1,569,560</u>	<u>(123,612)</u>
PUBLIC SAFETY				
Police	967,177	1,189,615	1,180,314	9,301
Fire and health	75,456	85,324	90,551	(5,227)
Emergency medical services	303,865	333,024	339,184	(6,160)
Animal control	53,206	59,263	55,422	3,841
Capital outlay	<u>13,300</u>	<u>16,690</u>	<u>11,172</u>	<u>5,518</u>
Total public safety	<u>1,413,004</u>	<u>1,683,916</u>	<u>1,676,643</u>	<u>7,273</u>
PUBLIC WORKS				
Streets, health and sanitation	749,055	849,949	812,685	37,264
Capital outlay	<u>6,000</u>	<u>8,981</u>	<u>6,736</u>	<u>2,245</u>
Total public works	<u>755,055</u>	<u>858,930</u>	<u>819,421</u>	<u>39,509</u>
SOCIAL SERVICES				
Social services	<u>25,110</u>	<u>29,420</u>	<u>29,592</u>	<u>(172)</u>
Total social services	<u>25,110</u>	<u>29,420</u>	<u>29,592</u>	<u>(172)</u>
CULTURE AND RECREATION				
Library	185,362	172,709	175,630	(2,921)
Community center	16,596	25,354	26,166	(812)
Capital outlay	<u>5,000</u>	<u>61,132</u>	<u>61,082</u>	<u>50</u>
Total culture and recreation	<u>206,958</u>	<u>259,195</u>	<u>262,878</u>	<u>(3,683)</u>
Total expenditures	<u>\$ 3,693,983</u>	<u>\$ 4,277,409</u>	<u>\$ 4,358,094</u>	<u>\$ (80,685)</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, 2007

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
REVENUES				
Property taxes	\$ -	\$ 10,233	\$ 12,476	\$ 2,243
Investment earnings	2,500	1,886	2,202	316
Total revenues	<u>2,500</u>	<u>12,119</u>	<u>14,678</u>	<u>2,559</u>
EXPENDITURES				
Debt service:				
Principal	95,000	140,000	-	140,000
Interest and fiscal charges	2,995	5,923	5,000	923
Total expenditures	<u>97,995</u>	<u>145,923</u>	<u>5,000</u>	<u>140,923</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>(95,495)</u>	<u>(133,804)</u>	<u>9,678</u>	<u>143,482</u>
FUND BALANCES, BEGINNING	<u>122,815</u>	<u>122,815</u>	<u>122,815</u>	<u>-</u>
FUND BALANCES, ENDING	<u>\$ 27,320</u>	<u>\$(10,989)</u>	<u>\$ 132,493</u>	<u>\$ 143,482</u>

CITY OF PORT ISABEL, TEXAS
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
SEPTEMBER 30, 2007

	Special Revenue		
ASSETS	Hotel/ Motel Tax	Police Forfeiture	T.E.C.L.O.S.E.
Cash and investments	\$ 104,613	\$ 59,986	\$ 3,825
Accounts receivable	6,560	-	-
Property taxes receivable	-	-	-
Due from other funds	836	1,336	20
Due from other governments	-	43,500	-
Total assets	\$ 112,009	\$ 104,822	\$ 3,845
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts payable	\$ -	\$ -	\$ -
Bank overdraft	-	-	-
Accrued liabilities	-	-	-
Deferred revenue	-	-	2,472
Due to other funds	21,182	913	1,019
Total liabilities	21,182	913	3,491
Fund balances:			
Reserved for:			
Debt service	-	-	-
Unreserved, reported in:			
Special revenue funds	90,827	103,909	354
Capital projects fund	-	-	-
Total fund balances	90,827	103,909	354
Total liabilities and fund balances	\$ 112,009	\$ 104,822	\$ 3,845

EXHIBIT H-1

Debt Service	Nonmajor Capital Projects Funds	Total Nonmajor Governmental Funds
\$ 53,617	\$ 1,143	\$ 223,184
-	-	6,560
12,156	-	12,156
78,531	-	80,723
-	114,096	157,596
<u>\$ 144,304</u>	<u>\$ 115,239</u>	<u>\$ 480,219</u>
\$ -	\$ 19,886	\$ 19,886
-	1,299	1,299
-	-	-
11,811	-	14,283
-	166,084	189,198
<u>11,811</u>	<u>187,269</u>	<u>224,666</u>
132,493	-	132,493
-	-	195,090
-	(72,030)	(72,030)
<u>132,493</u>	<u>(72,030)</u>	<u>255,553</u>
<u>\$ 144,304</u>	<u>\$ 115,239</u>	<u>\$ 480,219</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, 2007

	Special Revenue		
	Hotel/ Motel Tax	Police Forfeiture	T.E.C.L.O.S.E.
REVENUES			
Property taxes	\$ -	\$ -	\$ -
Hotel/motel taxes	67,843	-	-
Intergovernmental	-	101,820	1,958
Investment earnings	4,354	4,792	175
Other income	-	850	-
Total revenues	72,197	107,462	2,133
EXPENDITURES			
Current:			
General government	45,145	-	-
Public safety	-	-	1,958
Public works	-	4,489	-
Culture and recreation	-	-	-
Capital outlay	-	124,220	-
Debt service:			
Principal	-	-	-
Interest and fiscal charges	-	-	-
Total expenditures	45,145	128,709	1,958
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	27,052	(21,247)	175
FUND BALANCES, BEGINNING	63,775	125,156	179
FUND BALANCES, ENDING	\$ 90,827	\$ 103,909	\$ 354

EXHIBIT H-2

Debt Service	Nonmajor Capital Projects Funds	Total Nonmajor Governmental Funds
\$ 12,476	\$ -	\$ 12,476
-	-	67,843
-	208,986	312,764
2,202	906	12,429
-	-	850
<u>14,678</u>	<u>209,892</u>	<u>406,362</u>
-	-	45,145
-	-	1,958
-	-	4,489
-	-	-
-	229,208	353,428
-	-	-
<u>5,000</u>	<u>-</u>	<u>5,000</u>
<u>5,000</u>	<u>229,208</u>	<u>410,020</u>
<u>9,678</u>	<u>(19,316)</u>	<u>(3,658)</u>
<u>122,815</u>	<u>(52,714)</u>	<u>259,211</u>
<u>\$ 132,493</u>	<u>\$(72,030)</u>	<u>\$ 255,553</u>

CITY OF PORT ISABEL, TEXAS

COMBINING STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES

AGENCY FUNDS

SEPTEMBER 30, 2007

	Restricted Cash Trust	Cash Bonds Held	Total Agency Funds
ASSETS			
Cash	\$ 302,453	\$ -	\$ 302,453
Due from other funds	13	827	840
Total assets	<u>\$ 302,466</u>	<u>\$ 827</u>	<u>\$ 303,293</u>
LIABILITIES			
Due to other funds	\$ 300,860	\$ 67	\$ 300,927
Other payables	1,606	760	2,366
Total liabilities	<u>\$ 302,466</u>	<u>\$ 827</u>	<u>\$ 303,293</u>

CITY OF PORT ISABEL, TEXAS

STATEMENT OF CHANGES IN FIDUCIARY ASSETS & LIABILITIES

AGENCY FUNDS

SEPTEMBER 30, 2007

	Balance October 1, 2006	Additions	Deletions	Balance September 30, 2007
RESTRICTED CASH TRUST				
ASSETS				
Cash	\$ 86	\$ 303,318	\$ 951	\$ 302,453
Due from other funds	-	50,785	50,771	14
Total assets	<u>\$ 86</u>	<u>\$ 354,103</u>	<u>\$ 51,722</u>	<u>\$ 302,467</u>
LIABILITIES				
Accounts payable	\$ -	\$ 325	\$ 325	\$ -
Due to other funds	86	351,860	51,086	300,860
Other payables	-	351,677	350,070	1,607
Total liabilities	<u>\$ 86</u>	<u>\$ 703,862</u>	<u>\$ 401,481</u>	<u>\$ 302,467</u>
CASH BONDS HELD				
ASSETS				
Cash	\$ 38,468	\$ 6,418	\$ 44,886	\$ -
Due from other funds	18,681	92,934	110,789	826
Total assets	<u>\$ 57,149</u>	<u>\$ 99,352</u>	<u>\$ 155,675</u>	<u>\$ 826</u>
LIABILITIES				
Due to other funds	\$ 57,149	\$ 6,740	\$ 63,822	\$ 67
Other payables	-	3,945	3,186	759
Total liabilities	<u>\$ 57,149</u>	<u>\$ 10,685</u>	<u>\$ 67,008</u>	<u>\$ 826</u>
TOTAL AGENCY FUNDS				
ASSETS				
Cash	\$ 38,554	\$ 309,736	\$ 45,837	\$ 302,453
Due from other funds	18,681	143,719	161,560	840
Total assets	<u>\$ 57,235</u>	<u>\$ 453,455</u>	<u>\$ 207,397</u>	<u>\$ 303,293</u>
LIABILITIES				
Accounts payable	\$ -	\$ 325	\$ 325	\$ -
Due to other funds	57,235	358,600	114,908	300,927
Other payables	-	355,622	353,256	2,366
Total liabilities	<u>\$ 57,235</u>	<u>\$ 714,547</u>	<u>\$ 468,489</u>	<u>\$ 303,293</u>



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, 2007, which collectively comprise the City’s basic financial statements and have issued our report thereon dated July 8, 2008. 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 July 8, 2008.

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

July 8, 2008

CITY OF PORT ISABEL, TEXAS

EXPENDITURES BY FUNCTION (1)

ALL GOVERNMENTAL FUND TYPES

LAST TEN FISCAL YEARS

(Unaudited)

<u>Year Ended</u> <u>September 30,</u>	<u>General</u> <u>Government</u>	<u>Public</u> <u>Safety</u>	<u>Public</u> <u>Works</u>	<u>Social</u> <u>Services</u>	<u>Culture and</u> <u>Recreation</u>	<u>Capital</u> <u>Outlay</u>	<u>Debt</u> <u>Service</u>	<u>Totals</u> <u>Primary</u> <u>Government</u>	<u>Component Unit</u> <u>Economic</u> <u>Development</u> <u>Corporation</u>	<u>Total</u> <u>Reporting</u> <u>Entity</u>
1998	\$ 462,696	\$ 1,008,050	\$ 310,158	\$ 15,786	\$ 233,183	\$ 151,204	\$ 261,512	\$ 2,442,589	\$ 375,734	\$2,818,323
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

(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>
1998	\$ 829,767	\$ 1,032,624	\$ 264,920	\$ 207,088	\$ 294,804	\$ 35,185	\$ 54,704	\$ 2,719,092	\$ 283,497	\$ 3,002,589
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

(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>
1998	\$ 116,249,843	0.65026	\$ 755,926	\$ 786,861	\$ 311,305
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

(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>
1998	\$ 135,000	\$ 30,231	\$ 165,231	\$ 1,965,357	8.41%
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%

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>
1998	5,500	\$ 116,249,843	\$ 290,000	\$ 86,267	\$ 203,733	0.0018	37.04
1999	6,000	120,307,579	955,000	119,587	835,413	0.0069	139.24
2000	6,000	125,906,417	860,000	130,631	729,369	0.0058	121.56
2001	6,000	129,436,167	745,000	147,684	597,316	0.0046	99.55
2002	6,000	137,726,790	625,000	145,798	479,202	0.0035	79.87
2003	6,000	154,023,611	500,000	152,475	347,525	0.0023	57.92
2004	6,000	175,260,258	370,000	165,006	204,994	0.0012	34.17
2005	6,000	184,086,541	235,000	166,993	68,007	0.0004	11.33
2006	6,000	208,775,694	-	122,815	(122,815)	-0.0006	(20.47)
2007	6,000	237,627,527	-	132,493	(132,493)	-0.0006	(22.08)

(1) Source: Port Isabel Chamber of Commerce

(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, 2007
(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 - 2005 tax roll for fiscal year 2006	<u>\$ 237,627,527</u>
Debt limit - by custom, a practical economic debt limit of 5% of the assessed valuation is used	\$ 11,881,376
Total bonded debt	-
Amount available in general bonded debt service fund	<u>132,493</u>
Applicable net debt	<u>(132,493)</u>
Economic debt margin	<u>\$ 12,013,869</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>
1998	\$ 116,249,843	\$ 2,780,399
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	(c) 9,565,502

(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, 2007

(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	\$ 7,031,848	4.01%
Wal-Mart Stores LP	Discount retail store	6,501,843	3.71%
H. E. Butt Grocery Co.	Grocery store chain	3,824,978	2.18%
Port Isabel Land Co.	Real estate	3,474,694	1.98%
AEP Texas Central Co.	Electrical provider	2,270,370	1.30%
H. E. Butt Grocery Co.	Grocery store chain	1,960,411	1.12%
Wal-Mart Stores #Division-Store	Discount retail store	1,827,841	1.04%
First National Bank	Financial Institution	1,582,460	0.90%
Dalor Limited Partnership	Real estate	1,451,997	0.83%
Zimmerman Brothers, Inc.	Real estate	1,370,758	0.78%

Source: Cameron County Appraisal District