

CITY OF PORT ARANSAS, TEXAS

**ANNUAL FINANCIAL REPORT
For the Fiscal Year Ended
SEPTEMBER 30, 2010**

CITY OF PORT ARANSAS, TEXAS
Annual Financial Report
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2010

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FINANCIAL SECTION

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INDEPENDENT AUDITOR'S REPORT

To the City Council
City of Port Aransas, Texas

I have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Port Aransas, Texas, as of and for the year ended September 30, 2010, which collectively comprise the City of Port Aransas, Texas's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Port Aransas, Texas's management. My responsibility is to express opinions on these financial statements based on my audit.

I conducted my audit in accordance with auditing standards generally accepted in the United States of America, the Uniform Grant Management Standards (UGMS), 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 I 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 the significant estimates made by management, as well as evaluating the overall financial statement presentation. I believe that my audit provides a reasonable basis for my opinions.

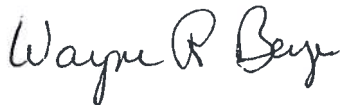
In my opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Port Aransas, Texas, as of September 30, 2010, and the respective changes in financial position and, where applicable, cash flows thereof, and the respective budgetary comparison for the General Fund, the Advertising Fund, the Beach Cleaning Fund, the Recreational Development Fund, the Nature Preserve Fund, and the Construction 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, I have also issued my report dated February 9, 2011, on my consideration of the City of Port Aransas, Texas's internal control over financial reporting and on my 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 my 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 the Uniform Grant Management Standards (UGMS) and should be considered in assessing the results of my audit.

The management's discussion and analysis and the schedule of funding progress for the Public Employees Retirement System on pages 3 through 11, and 59 respectively, 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. I 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, I did not audit the information and express no opinion on it.

My audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Port Aransas, Texas's basic financial statements. The combining and individual non-major fund financial statements on pages 61 through 69 are presented for purposes of additional analysis and are not a required part of the basic financial statements. The accompanying schedule of expenditures of state awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, and is also not a required part of the basic financial statements of the City of Port Aransas, Texas. The combining and individual non-major fund financial statements of expenditures of state awards have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in my opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Respectfully submitted,

A handwritten signature in cursive script that reads "Wayne R. Beyer".

WAYNE R. BEYER
Certified Public Accountant
Pleasanton, Texas
February 13, 2011

MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of the City of Port Aransas' (the City) annual financial report presents an overview, through management's discussion and analysis (MD&A), of the City's financial activities and performance during the fiscal year ended September 30, 2010. Please read it in conjunction with the independent auditors' report and the City's financial statements and disclosures, which follow this section.

FINANCIAL HIGHLIGHTS

- The assets of the City of Port Aransas exceeded its liabilities at the close of the most recent fiscal year by \$26,777,309 (net assets). Of this amount, \$5,985,092 (unrestricted net assets) may be used to meet the government's ongoing obligation to citizens and creditors.
- Total net assets for the City of Port Aransas increased by \$1,642,867 during the fiscal year.
- As of the close of the current fiscal year, the City of Port Aransas governmental funds reported combined ending fund balances of \$8,396,094. Approximately 67.1% of this amount, \$5,632,780 is available for spending at the government's discretion (unreserved fund balance).
- At the end of the current fiscal year, unreserved fund balance for the general fund was \$3,103,450 or 40.7% of General Fund expenditures.
- The City of Port Aransas' total debt had an addition of \$924,350 during the current fiscal year. The key factor in this increase was the issuance of a capital lease for a fire truck.

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 of Port Aransas' 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, including information on individual funds.

Government-wide financial statements. The government-wide financial statements include the Statement of Net Assets and the Statement of Activities. These statements are designed to provide readers with a broad overview of the City of Port Aransas 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, including capital assets and long-term obligations. The difference between the two is 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. Other indicators of the City's financial position should also be taken into consideration, such as the change in the City's property tax base and condition of the City's infrastructure (i.e. roads and drainage systems), in order to more accurately assess the overall financial condition of the City.

The statement of activities presents information showing how the City's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the

change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

Both of the government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (governmental activities) from other 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 of Port Aransas include general administration, legal, financial administration, public facilities, public safety, public transportation, culture and recreation, and interest and fiscal charges. The business-type activities include the gas, sanitation, and harbor.

Fund financial statements. The fund financial statements are designed to report information about groupings of related accounts which are used to maintain control over resources that have been segregated for specific activities or objectives. The City of Port Aransas, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance, related legal requirements.

- Some funds are required by State law and by covenants of bonds/certificates of obligation.
- The City Council establishes other funds to control and manage money for particular purposes or to show that it is properly using certain taxes, fees and grants.

Governmental funds – Except for the operations of the Harbor, Gas, and Sanitation funds, the City’s services are included in governmental funds. These funds focus on how cash and other financial assets can readily be converted to available resources and on the available balances left at year-end. This information may be useful in determining what financial resources are available in the near future to finance the City’s programs. Other funds are referred to as non-major funds and are presented as summary data.

Because the focus of governmental fund level statements 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. In addition to the governmental fund balance sheet and the statement of revenues, expenditures, and changes in fund balance, separate statements are provided that reconcile between the government-wide and fund level statements.

Information is presented separately in the governmental fund balance sheet and in the government fund statement of revenues, expenditures, and changes in fund balances for the General Fund, Advertising Fund, Beach Cleaning Fund, Recreational Development Fund, Nature Preserve Fund, and the Construction Fund, all of which are considered to be major funds. Data for the other governmental funds are combined into a single, aggregated presentation. Individual fund data for each of the non-major governmental funds is provided in the form of combining statements elsewhere in this report.

Proprietary funds – The City accounts for the harbor, gas and sanitation operations in the Proprietary Funds.

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.

Government-wide Financial Analysis

The following table reflects a summary of Net Assets compared to prior year:

Table A-1
Summary Statement of Net Assets
September 30,

	Governmental Activities		Business-type Activities		Total	
	2010	2009	2010	2009	2010	2009
		\$11,050,02			\$10,067,59	\$11,739,66
Current and other Assets	\$9,535,693	4	\$531,897	\$689,636	0	0
Restricted Assets:	9,594	9,587	0	0	9,594	9,587
Capital Assets:	23,468,417	20,810,570	4,020,760	3,472,507	27,489,177	24,283,077
Total Assets	33,013,704	31,870,181	4,552,657	4,162,143	37,566,361	36,032,324
Long-term liabilities	9,946,181	9,464,178	32,100	12,011	9,978,281	9,476,189
Other liabilities (Payable from Restricted Assets)	0	0	135,078	118,725	135,078	118,725
Other liabilities	543,087	1,168,199	132,606	117,813	675,693	1,286,012
Total Liabilities	10,489,268	10,632,377	299,784	248,549	10,789,052	10,880,926
Invested in Capital Assets, Net of Related debt	16,524,326	16,060,846	4,020,760	3,472,507	20,545,086	19,533,353
Restricted	247,131	152,951	0	0	247,131	152,951
Unrestricted	5,752,979	5,024,007	232,113	441,087	5,985,092	5,465,094
		\$21,237,80	\$4,252,87	\$3,913,59	\$26,777,30	\$25,151,39
Total Net Assets	\$22,524,436	4	3	4	9	8

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the City of Port Aransas, assets exceeded liabilities by \$22,524,436 at the close of the most recent fiscal year for governmental activities and \$4,252,873 for business-type activities.

A large portion of the City's net assets (73.4 percent in governmental activities and 94.5 percent in business type activities) reflects its investment in capital assets (e.g., land, buildings, machinery, and equipment), less any related debt used to acquire those assets that is still outstanding. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

At the end of the current fiscal year, the City of Port Aransas is able to report positive balances in all categories of net assets, both for the government as a whole, as well as for its separate governmental activities. The same situation held true for the prior fiscal year.

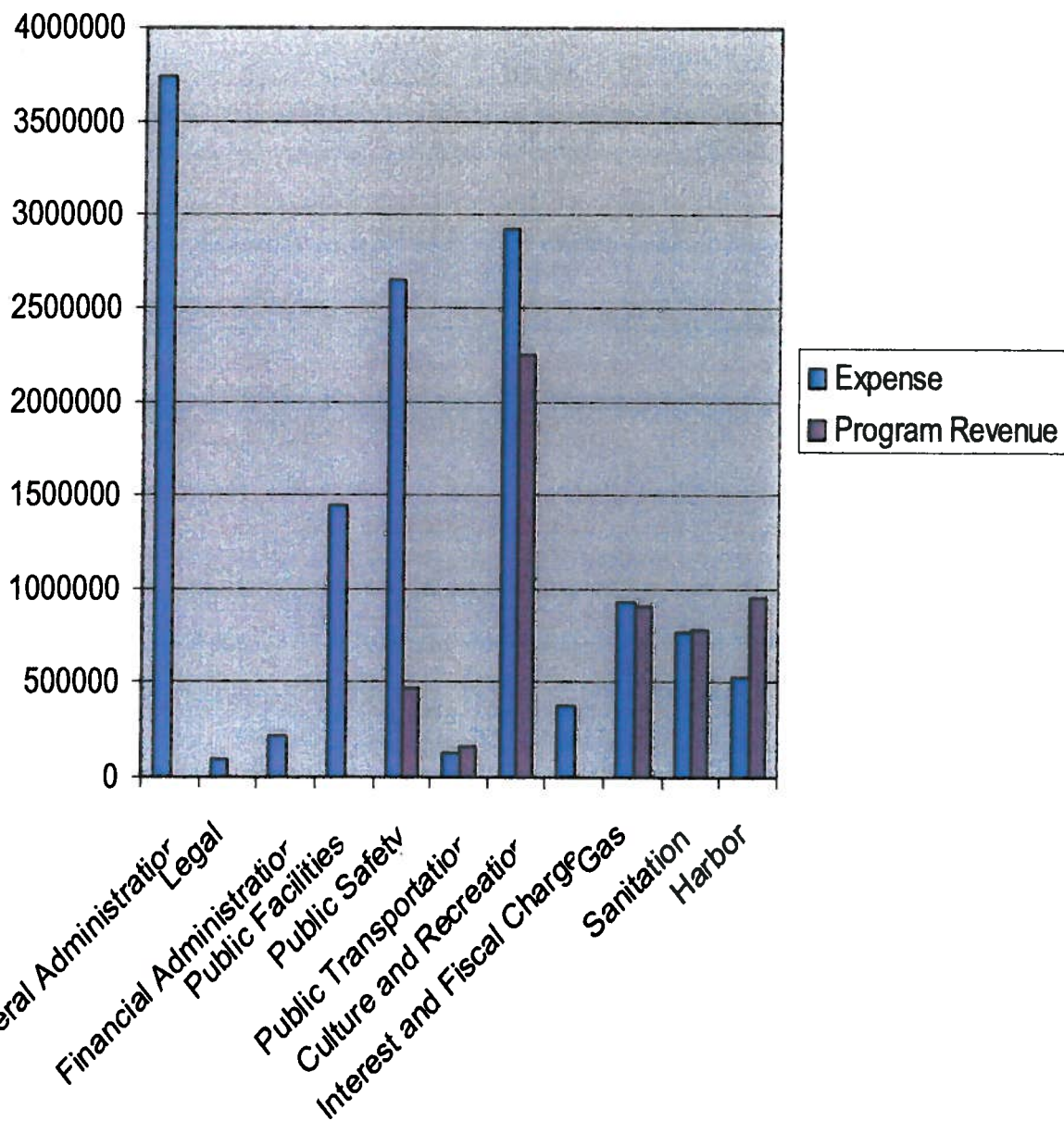
Changes in Net Assets. Governmental activities increased the City's net assets by \$1,286,632 and Business-type activities increased the City's net assets by \$356,235 for an increase of \$1,642,867.

Table A-2
Changes in Net Assets

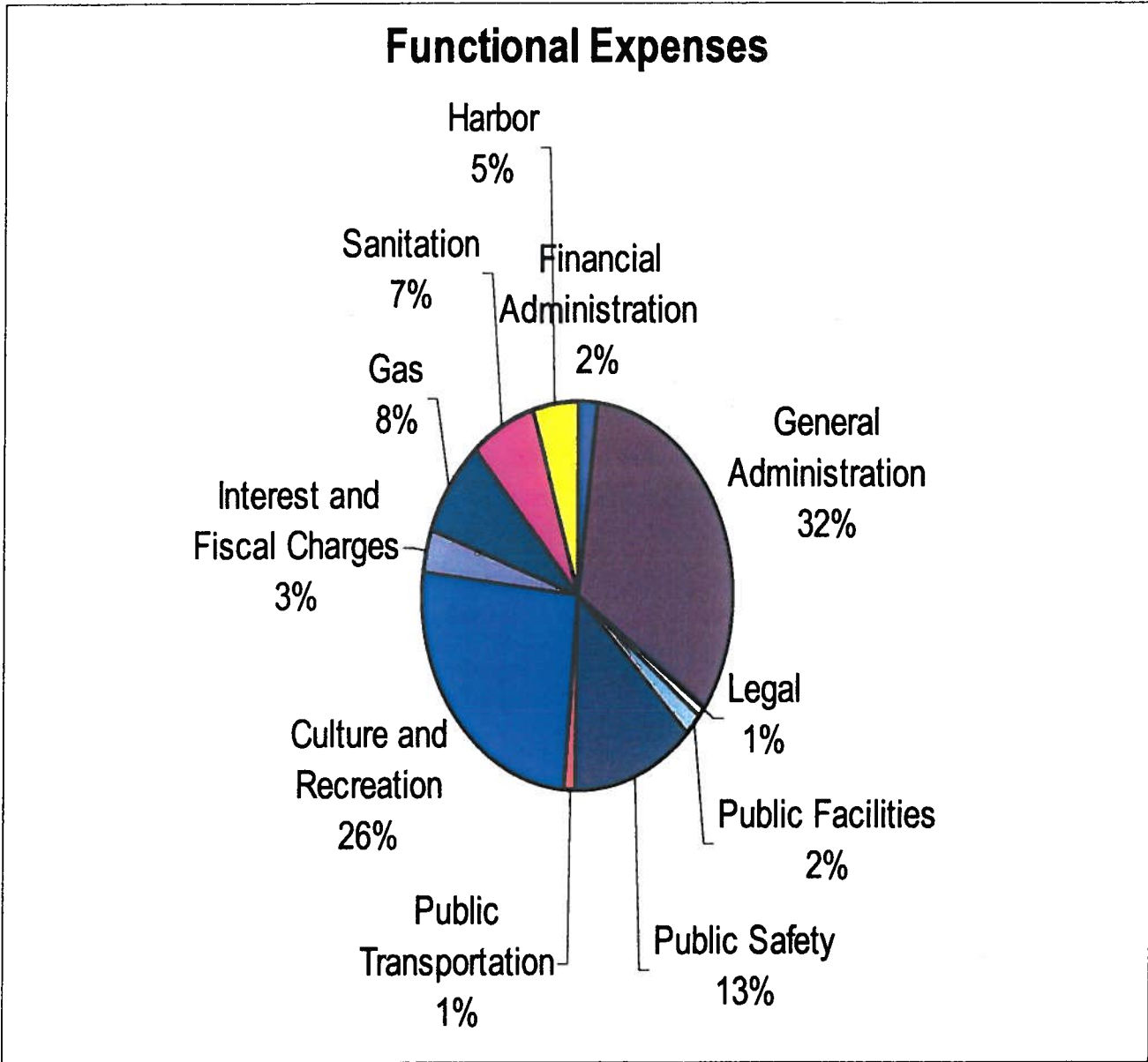
	Governmental Activities		Business-type Activities		Total	
	2010	2009	2010	2009	2010	2009
Revenues:						
Program Revenues:						
Charges for Services	\$2,010,246	\$2,138,446	\$2,639,640	\$2,046,429	\$4,649,886	\$4,184,875
Operating Grants and Contributions	445,439	271,471			445,439	271,471
Capital Grants and Contributions	424,650	342,200	0	0	424,650	342,200
General Revenues:						
Property Taxes, Levies for General Purposes	4,285,823	3,836,135			4,285,823	3,836,135
Sales Taxes	1,287,653	1,360,095			1,287,653	1,360,095
Franchise Taxes	419,170	408,886			419,170	408,886
Hotel/Motel Taxes	2,799,956	2,329,596			2,522,796	2,329,596
Licenses and Permits	829,583	796,559			1,106,743	796,559
Unrestricted investment earnings	56,231	106,631	1,359	6,271	57,814	112,902
Grants and Contributions not Restricted to Specific Programs	103,980	102,883	375	416	104,355	103,299
Miscellaneous	133,945	44,930	2,534		136,255	44,930
Total Revenue	12,796,676	11,737,832	2,643,908	2,053,116	15,440,584	13,790,948
Expenses:						
General Administration	3,734,235	3,599,273			3,734,235	3,599,273
Legal	90,826	91,118			90,826	91,118
Financial Administration	215,297	220,040			215,297	220,040
Public Facilities	1,447,735	1,522,821			1,447,735	1,522,821
Public Safety	2,652,062	2,585,993			2,652,062	2,585,993
Public Transportation	128,784	268,134			128,784	268,134
Culture and Recreation	2,922,562	2,969,829			2,922,562	2,969,829
Interest and Fiscal Charges	382,843	322,073			382,843	322,073
Gas			927,626	1,645,135	927,626	1,645,135
Sanitation			768,388	0	768,388	0
Harbor			527,359	505,900	527,359	505,900
Total Expenses	11,574,344	11,579,281	2,223,373	2,151,035	13,797,717	13,730,316
Increase in net assets before transfers and special items	1,222,332	158,551	420,535	(97,919)	1,642,867	60,632
Transfers	64,300	64,690	(64,300)	(64,690)	0	0
Increase in Net Assets	1,286,632	223,241	356,235	(162,609)	1,642,867	60,632
Net Assets at 09/30/2009 - Restated	21,237,804	21,014,563	3,896,638	4,059,247	25,134,442	25,073,810
Net Assets at 09/30/2010	\$22,524,436	\$21,237,804	\$4,252,873	\$3,896,638	\$26,777,309	\$25,134,442

The chart below illustrates the City's expense and revenues by function: general administration, legal, financial administration, public facilities, public safety, public transportation, culture and recreation, interest and fiscal charges, gas, and harbor.

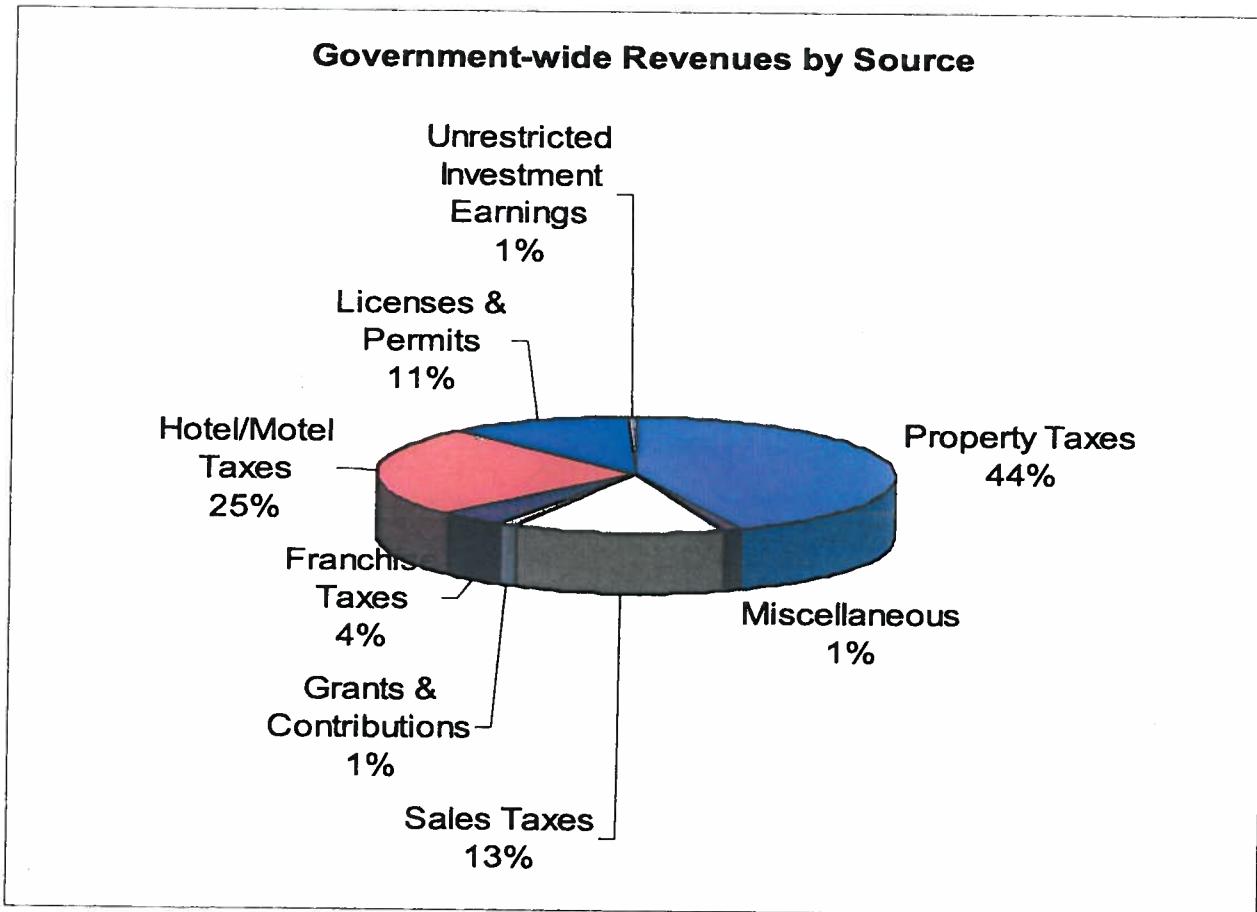
Government-wide Program Expenses and Revenues



Expenses are broken down by governmental function and are presented below.



General revenues such as property taxes, sales taxes and franchise fees are not shown by program, but are used to support all governmental activities. Property taxes are the largest source of general governmental revenues, followed by hotel/motel tax and sales tax.



Financial Analysis of the Government's Funds

In comparison to the government-wide statements, the fund level statements focus on the key funds of the City. The City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental funds. The focus of the City of Port Aransas' governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the City's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the City of Port Aransas' governmental funds reported combined ending fund balances of \$8,396,094, a decrease of \$1,043,497 in comparison with the prior year. Approximately 67.1%, or \$5,632,780, constitutes unreserved fund balance, which is available for spending at the government's discretion. The remainder of the fund balance is reserved and is not available for new spending because it has already been committed to pay for street construction (\$2,507,918), debt service (\$52,537), reserved for street maintenance (\$85,000), prepaid items (\$8,265), public service (\$9,594), RDC recreation (\$100,000).

The General Fund is the chief operating fund of the City. At the end of the current fiscal year, unreserved fund balance of the General Fund was \$3,103,450, while total fund balance reached \$3,121,309. As a measure of the general fund's liquidity, it may be useful to compare both unreserved fund balance and total fund balance to total fund expenditures. Unreserved fund balance represents 40.7% of total general fund expenditures, while total fund balance represents 45.7% of that same amount.

The fund balance of the City General Fund increased by \$657,566 during the current fiscal year. Key factors in this increase are as follows:

- Licenses and Permits increased by \$66,172.
- Charges for Services increased by \$61,646.
- Expenditures were under budgeted amounts greatly due to shortage of key personnel during the fiscal year which provided a savings in personnel costs.

Budgetary Highlights

The City's budget was amended one time. The General Fund, Hotel Motel Special, Facility Fund, Airport Fund, Harbor Fund and Sanitation Fund had a net change of \$0 (amounts were either shifted between departments or had excess revenue to cover expenses); the Beach Fund had an increase of \$27,000 for expenses for the purchase of a restroom pump truck. Budget variances are "Favorable" if actual revenues exceed budgeted amounts and if actual expenditures are under budgeted amounts. Variances are "Unfavorable" if actual revenues are under budgeted amounts and if actual expenditures are over budgeted amounts. Favorable variances are indicated by showing amounts without brackets and unfavorable variances are indicated by bracketed amounts.

In the General Fund, during the year, the revenues were \$64,368 higher than budgeted. An increase in licenses and permits, charges for services, and miscellaneous revenues were the main reason for this increase but there was a decrease in property tax, intergovernmental revenues, and interest revenue that offset this amount.

Capital Asset and Debt Administration

Capital assets. The City's investment in capital assets for all activities as of September 30, 2010 amount to \$27,489,177 (net of accumulated depreciation). This investment in capital assets includes both governmental activities and business type activities such as land, construction in progress, buildings, equipment, fleet, streets, and other infrastructure. Additional information on capital assets can be found in Note C. Capital asset balances are as follows:

Capital Assets, Net of Accumulated Depreciation

30-Sep

	Total Activities	Total Activities
	2010	2009
<i>Governmental Activities:</i>		
Land	3,440,036	3,440,036
Construction in Progress	179,580	1,037,955
Infrastructure	15,504,689	13,022,846
Buildings	1,477,491	1,393,340

Machinery & Equipment	1,188,423	1,186,935
Vehicles	1,678,198	729,458
Total Governmental Activities	<u>23,468,417</u>	<u>20,810,570</u>
<i>Business-type Activities:</i>		
Construction in Progress	0	0
Infrastructure	3,821,009	3,247,411
Buildings	58,356	64,293
Machinery & Equipment	100,817	104,908
Vehicles	40,578	55,895
Total Business-type Activities	<u>4,020,760</u>	<u>3,472,507</u>
Total net assets	<u><u>27,489,177</u></u>	<u><u>24,283,077</u></u>

Long-term debt. At the end of the current fiscal year, the City had total bonded debt outstanding of \$9,540,227. The table below reflects the outstanding debt at September 30. Additional information can be found in Note F.

	Outstanding Debt	
	September 30	
	Total Governmental Activities	Total Governmental Activities
	<u>2010</u>	<u>2009</u>
General Obligation Bonds	8,475,000	8,875,000
Bond Premium - Series 2009	140,877	150,940
Capital Lease for Fire Truck	924,350	0
Total Bonds Payable	<u><u>9,540,227</u></u>	<u><u>9,025,940</u></u>

The City's total outstanding debt increased by \$489,801 during the current fiscal year. The key factor in this increase was the issuance of \$924,350 in a capital lease which will be used for a new fire truck.

Economic Factors and Next Year's Budgets and Rates

All of these factors were considered in preparing the City's budget for the 2010-2011 fiscal year.

The tax rate for the year has been increased to 33.2023 cents per hundred. The tax rate has been split with .274856 for maintenance and operations and .057167 for interest and sinking for the retirement of the bonds.

Overall, the General Fund is budgeted to end the fiscal year 2010-2011 with an estimated fund balance of \$3,000,693. This is approximately 43.1% of General Fund operating expenditures.

Requests for Information

This financial report is designed to provide a general overview of the City's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Office of the Finance Director, 710 W. Avenue A., Port Aransas, TX 78373 or call 361-749-4111. Information is also available on the City's web-site at www.cityofportaransas.org.

BASIC FINANCIAL STATEMENTS

GOVERNMENT-WIDE FINANCIAL STATEMENTS

CITY OF PORT ARANSAS, TEXAS
STATEMENT OF NET ASSETS
SEPTEMBER 30, 2010

	Primary Government		
	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash and Cash Equivalents	\$8,621,094	\$515,232	\$9,136,326
Receivables (net of allowance for uncollectibles)	633,737	16,665	650,402
Inventories	15,612		15,612
Prepaid Items	58,417		58,417
Unamortized Bond Issuance Cost	206,833		206,833
Restricted Assets:			
Cash and Cash Equivalents	9,594		9,594
Capital assets not being depreciated:			
Land	3,440,036		3,440,036
Construction in Progress	179,580		179,580
Total Capital assets being depreciated, net			
Infrastructure	15,504,689	3,821,009	19,325,698
Buildings	1,477,491	58,356	1,535,847
Machinery and Equipment	1,188,423	100,817	1,289,240
Vehicles	1,678,198	40,578	1,718,776
Total Assets	\$33,013,704	\$4,552,657	\$37,566,361
LIABILITIES:			
Accounts Payable	\$419,889	\$123,606	\$543,495
Accrued Wages Payable	79,317	9,000	88,317
Bank Overdraft			0
Matured Bonds and Interest Payable			0
Accrued Interest Payable	43,881		43,881
Consumer Meter Deposits		135,078	135,078
Noncurrent Liabilities:			
Due within one year	820,997	15,144	836,141
Due in more than one year	9,125,184	16,956	9,142,140
Total Liabilities	10,489,268	299,784	10,789,052
NET ASSETS			
Invested in Capital Assets, Net of Related Debt	16,524,326	4,020,760	20,545,086
Restricted for:			
Debt Service	52,537		52,537
Street Maintenance	85,000		85,000
Public Service	9,594		9,594
Recreation	100,000		100,000
Unrestricted	5,752,979	232,113	5,985,092
Total Net Assets	\$22,524,436	\$4,252,873	\$26,777,309

The accompanying notes are an integral part of this statement.

CITY OF PORT ARANSAS, TEXAS
STATEMENT OF ACTIVITIES
YEAR ENDED SEPTEMBER 30, 2010

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in		Net (Expense) Revenue and Changes in Total
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	
Primary Government							
Government Activities:							
General Administration	\$3,734,235	\$0	\$0	\$0	(\$3,734,235)		(\$3,734,235)
Legal	90,826				(90,826)		(90,826)
Financial Administration	215,297				(215,297)		(215,297)
Public Facilities	1,447,735				(1,447,735)		(1,447,735)
Public Safety	2,652,062	334,670	133,123		(2,184,269)		(2,184,269)
Public Transportation	128,784		166,178		37,394		37,394
Culture and Recreation	2,922,562	1,675,576	146,138	424,650	(676,198)		(676,198)
Interest and Fiscal Charges	382,843				(382,843)		(382,843)
Total Government Activities	11,574,344	2,010,246	445,439	424,650	(8,694,009)	0	(8,694,009)
Business-Type Activities:							
Gas	927,626	909,248				(18,378)	(18,378)
Harbor	527,359	950,470				423,111	423,111
Sanitation	768,388	779,922				11,534	11,534
Total Business-Type Activities	2,223,373	2,639,640	0	0		416,267	416,267
Total Primary Government	\$13,797,717	\$4,649,886	\$445,439	\$424,650	(8,694,009)	416,267	(8,277,742)
General Revenues							
Property Taxes, Levies for General Purposes					4,285,823		4,285,823
Sales Taxes					1,287,653		1,287,653
Franchise Taxes					419,170		419,170
Hotel/Motel Taxes					2,799,956		2,799,956
Licenses and Permits					829,583		829,583
Unrestricted Investment Earnings					56,231	1,359	57,590
Grants and Contributions not Restricted to Specific Programs					103,980	375	104,355
Miscellaneous					133,945	2,534	136,479
Transfers					64,300	(64,300)	0
Total General Revenues and Transfers					9,980,641	(60,032)	9,920,609
Change in Net assets					1,286,632	356,235	1,642,867
Net Assets - Beginning - Restated					21,237,804	3,896,638	25,134,442
Net Assets - Ending					\$22,524,436	\$4,252,873	\$26,777,309

The accompanying notes are an integral part of this statement.

FUND FINANCIAL STATEMENTS

CITY OF PORT ARANSAS, TEXAS
BALANCE SHEET - GOVERNMENTAL FUNDS
SEPTEMBER 30, 2010

	General Fund	Advertising Fund	Beach Cleaning Funds	Recreational Development Fund	Nature Preserve Funds	Construction Funds	Other Governmental Funds	Total Governmental Funds
ASSETS								
Cash and Cash Equivalents	\$3,129,080	\$284,911	\$601,156	\$600,339	\$687,674	\$2,822,286	\$495,648	\$8,621,094
Receivables (net of allowance for uncollectibles)	336,972		51,582				74,846	463,400
Restricted Assets:								
Cash and Cash Equivalents	9,594							9,594
Inventories							15,612	15,612
Prepaid Items	8,265							8,265
Total Assets	\$3,483,911	\$284,911	\$652,738	\$600,339	\$687,674	\$2,822,286	\$586,106	\$9,117,965
LIABILITIES AND FUND BALANCES:								
Accounts Payable	\$94,171		\$4,320	\$500	\$270	\$314,368	\$6,260	\$419,889
Accrued Wages	75,768			264			3,285	79,317
Bank Overdraft								0
Matured Bonds and Interest Payable								0
Unearned Revenues	192,663						30,002	222,665
Total Liabilities	362,602	0	4,320	764	270	314,368	39,547	721,871
Fund Balances:								
Reserved for Construction						2,507,918		2,507,918
Reserved for Debt Service							52,537	52,537
Reserved for Street Maintenance							85,000	85,000
Reserved for Prepaid Items	8,265							8,265
Reserved for Public Service	9,594							9,594
Reserved for Recreation				100,000				100,000
Unreserved, Reported in General Fund	3,103,450							3,103,450
Special Revenue Funds		284,911	648,418	499,575	687,404		409,022	2,529,330
Total Fund Balance	3,121,309	284,911	648,418	599,575	687,404	2,507,918	546,559	8,396,094
Total Liabilities and Fund Balances	\$3,483,911	\$284,911	\$652,738	\$600,339	\$687,674	\$2,822,286	\$586,106	\$9,117,965

The accompanying notes are an integral part of this statement.

CITY OF PORT ARANSAS, TEXAS
 RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
 TO THE STATEMENT OF NET ASSETS
 SEPTEMBER 30, 2010

Total Fund Balances - governmental funds balance sheet

Amounts reported for governmental activities in the statement of net assets ("SNA") are different because:	\$8,396,094
Capital assets used in governmental activities are not reported in the funds.	23,468,417
Bond Issuance Costs are expenditures in the funds but are recorded as assets in the governmental activities.	206,833
Some expenses are not expensed in the current period but rather are deferred in the funds.	50,152
Property taxes receivable unavailable to pay for current period expenditures are deferred in the funds (net of allowance for uncollectibles).	222,665
Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the funds.	170,337
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.	(9,990,062)
Net assets of governmental activities - statement of net assets	<u>\$22,524,436</u>

The accompanying notes are an integral part of this statement.

CITY OF PORT ARANSAS, TEXAS
 STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
 IN FUND BALANCES - GOVERNMENTAL FUNDS
 YEAR ENDED SEPTEMBER 30, 2010

	General Fund	Advertising Fund	Beach Cleaning Funds	Recreational Development Fund	Nature Preserve Funds	Construction Funds	Other Governmental Funds	Total Governmental Funds
REVENUES								
Taxes								
Property	\$3,434,957				\$0		\$712,299	\$4,147,256
Sales	858,435						429,218	1,287,653
Franchise	419,170							419,170
Hotel/Motel		1,171,298	1,178,159	450,499				2,799,956
Intergovernmental	424,529		103,165		424,650		21,725	974,069
Licenses and Permits	299,372		530,211					829,583
Charges for Services	1,598,898						226,804	1,825,702
Fines and Forfeitures	258,849						7,264	266,113
Interest	8,257	434	905	576	2,152	9,798	34,109	56,231
Miscellaneous	133,145			800				133,945
Total Revenues	7,435,612	1,171,732	1,812,440	451,875	426,802	9,798	1,431,419	12,739,678
EXPENDITURES								
Current:								
General Administration	1,520,732	1,067,858						2,588,590
Legal	90,826							90,826
Financial Administration	214,956							214,956
Public Facilities	1,498,331							1,498,331
Public Safety	3,542,374						6,477	3,548,851
Public Transportation	127,226							127,226
Culture and Recreation	602,655		1,668,539	48,237			933,498	3,252,929
Capital Projects -								
Capital Outlay and Other				82,252	586,422	1,855,241		2,523,915
Debt Service								
Principal Retirement	24,485			140,000			260,000	424,485
Interest and Fiscal Charges	3,811			54,387			443,518	501,716
Total Expenditures	7,625,396	1,067,858	1,668,539	324,876	586,422	1,855,241	1,643,493	14,771,825
Excess (Deficiency) of Revenues Over (Under)								
Expenditures	(189,784)	103,874	143,901	126,999	(159,620)	(1,845,443)	(212,074)	(2,032,147)
OTHER FINANCING SOURCES (USES):								
Other Financing Sources - Capital Lease	924,350							924,350
Operating Transfers In	8,000						302,300	310,300
Operating Transfers Out	(85,000)			(130,000)	(8,000)		(23,000)	(246,000)
Total Other Financing Sources (Uses)	847,350	0	0	(130,000)	(8,000)	0	279,300	988,650
Net Changes in Fund Balances	657,566	103,874	143,901	(3,001)	(167,620)	(1,845,443)	67,226	(1,043,497)
Fund Balances - Beginning	2,463,743	181,037	504,517	602,576	855,024	4,353,361	479,333	9,439,591
Fund Balances - Ending	\$3,121,309	\$284,911	\$648,418	\$599,575	\$687,404	\$2,507,918	\$546,559	\$8,396,094

The accompanying notes are an integral part of this statement.

CITY OF PORT ARANSAS, TEXAS
 RECONCILIATION OF THE STATEMENT OF REVENUES,
 EXPENDITURES, AND CHANGES IN FUND BALANCES OF
 GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
 SEPTEMBER 30, 2010

Net Changes in Fund Balances - total governmental funds	(\$1,043,497)
Amounts reported for governmental activities in the statement of net assets ("SNA") are different because:	
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 by which capital outlays exceeded depreciation in the current period.	2,657,847
Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the funds. This is the change in these amounts this year.	(81,569)
Certain property tax revenues are deferred in the funds. This is the change in these amounts this year.	138,567
Repayment of loan principal is an expenditure in the funds but not an expense in the SOA.	424,486
Increase (decrease) in inventory from beginning of period to end of period.	
Increase in loan principal including bond premium of \$150,940 are receipts in the funds but not revenue in the SOA.	(924,350)
Increase in debt due to the implementation of GASB 45 - Other Post Employment Benefits	0
(Increase) decrease in accrued interest payable from beginning of period to end of period.	123,978
(Increase) decrease in compensated absences payable from beginning of period to end of period.	7,798
(Increase) decrease in bond premium payable from beginning of period to end of period.	10,063
(Decrease) increase in bond issuance costs from beginning of period to end of period.	(15,169)
(Decrease) increase in prepaid items from beginning of period to end of period.	(11,522)
Change in net assets of governmental activities - statement of activities	<u>\$1,286,632</u>

The accompanying notes are an integral part of this statement.

CITY OF PORT ARANSAS, TEXAS
GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
FOR THE YEAR ENDED SEPTEMBER 30, 2010

	Budgeted Amounts		Actual	Variance with
	Original	Final		Final Budget - Positive (Negative)
REVENUES				
Taxes				
Property	\$3,514,360	\$3,514,360	\$3,434,957	(\$79,403)
Sales	872,000	872,000	858,435	(13,565)
Franchise	402,000	402,000	419,170	17,170
Intergovernmental	467,432	467,432	424,529	(42,903)
Licenses and Permits	218,200	233,200	299,372	66,172
Charges for Services	1,537,252	1,537,252	1,598,898	61,646
Fines and Forfeitures	246,000	246,000	258,849	12,849
Interest	25,000	25,000	8,257	(16,743)
Miscellaneous	74,000	74,000	133,145	59,145
Total Revenues	7,356,244	7,371,244	7,435,612	64,368
EXPENDITURES				
Current:				
General Administration				
Administration	234,276	234,276	208,119	26,157
Central Operating	930,275	930,275	899,856	30,419
City Secretary	228,865	228,865	231,206	(2,341)
Mayor and Council	74,400	74,400	44,605	29,795
Planning	155,530	155,530	136,946	18,584
Legal				
City Attorney	85,750	100,750	90,826	9,924
Financial Administration				
Finance Department	217,668	217,668	214,956	2,712
Public Facilities				
Public Buildings	389,404	389,404	337,486	51,918
Public Works	1,246,686	1,246,686	1,160,845	85,841
Public Safety				
EMS	569,200	569,200	562,359	6,841
Fire Department	221,175	221,175	156,258	64,917
Inspection	218,616	218,616	204,749	13,867
Municipal Court	99,146	99,146	101,529	(2,383)
Police	1,678,553	1,678,553	1,593,129	85,424
Public Transportation				
Regional Transit	193,733	193,733	127,226	66,507
Culture and Recreation				
Beach Services	94,570	94,570	67,626	26,944
Library	214,500	214,500	203,060	11,440
Parks and Recreation	396,704	396,704	331,969	64,735
Debt Service				
Principal Retirement	24,485	24,485	24,485	0
Interest Retirement	3,815	3,815	3,811	4
Total Expenditures	7,277,351	7,292,351	6,701,046	591,305
Excess (Deficiency) of Revenues Over (Under)				
Expenditures	78,893	78,893	734,566	655,673
OTHER FINANCING SOURCES (USES):				
Operating Transfers In	8,000	8,000	8,000	0
Operating Transfers Out	(85,000)	(85,000)	(85,000)	0
Total Other Financing Sources (Uses)	(77,000)	(77,000)	(77,000)	0
Net Changes in Fund Balances	1,893	1,893	657,566	655,673
Fund Balances - Beginning	2,463,743	2,463,743	2,463,743	
Fund Balances - Ending	\$2,465,636	\$2,465,636	\$3,121,309	\$655,673

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

CITY OF PORT ARANSAS, TEXAS
 ADVERTISING FUND
 STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
 FOR THE YEAR ENDED SEPTEMBER 30, 2010

	Budgeted Amounts		Actual	Variance with Final Budget - Positive (Negative)
	Original	Final		
REVENUES				
Taxes				
Hotel/Motel	\$1,067,858	\$1,067,858	\$1,171,298	\$103,440
Interest	2,500	2,500	434	(2,066)
Total Revenues	1,070,358	1,070,358	1,171,732	101,374
EXPENDITURES				
General Administration				
Mayor and Council	1,067,858	1,067,858	1,067,858	0
Total Expenditures	1,067,858	1,067,858	1,067,858	0
Excess (Deficiency) of Revenues Over (Under)				
Expenditures	2,500	2,500	103,874	101,374
OTHER FINANCING SOURCES (USES):				
Operating Transfers Out				0
Total Other Financing Sources (Uses)	0	0	0	0
Net Changes in Fund Balances	2,500	2,500	103,874	101,374
Fund Balances - Beginning	181,037	181,037	181,037	
Fund Balances - Ending	\$183,537	\$183,537	\$284,911	\$101,374

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

CITY OF PORT ARANSAS, TEXAS
 BEACH FUND
 STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
 FOR THE YEAR ENDED SEPTEMBER 30, 2010

	Budgeted Amounts		Actual	Variance with Final Budget - Positive (Negative)
	Original	Final		
REVENUES				
Taxes				
Hotel/Motel	\$1,146,428	\$1,213,928	\$1,178,159	(\$35,769)
Intergovernmental	90,000	90,000	103,165	13,165
Licenses and Permits	467,500	467,500	530,211	62,711
Interest	5,000	5,000	905	(4,095)
Total Revenues	1,708,928	1,776,428	1,812,440	36,012
EXPENDITURES				
Culture and Recreation				
Beach	1,699,252	1,793,752	1,668,539	125,213
Total Expenditures	1,699,252	1,793,752	1,668,539	125,213
Excess (Deficiency) of Revenues Over (Under) Expenditures	9,676	(17,324)	143,901	161,225
OTHER FINANCING SOURCES (USES):				
Operating Transfers Out				0
Total Other Financing Sources (Uses)	0	0	0	0
Net Changes in Fund Balances	9,676	(17,324)	143,901	161,225
Fund Balances - Beginning	504,517	504,517	504,517	
Fund Balances - Ending	\$514,193	\$487,193	\$648,418	\$161,225

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

CITY OF PORT ARANSAS, TEXAS
RECREATIONAL DEVELOPMENT FUND
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
FOR THE YEAR ENDED SEPTEMBER 30, 2010

	Budgeted Amounts		Actual	Variance with Final Budget - Positive (Negative)
	Original	Final		
REVENUES				
Taxes				
Hotel/Motel	\$410,714	\$435,714	\$450,499	\$14,785
Interest	4,200	4,200	576	(3,624)
Miscellaneous	0	0	800	800
Total Revenues	414,914	439,914	451,875	11,961
EXPENDITURES				
General Administration				
Administration	87,397	87,397	48,237	39,160
Capital Projects -				
Capital Outlay and Other	57,000	82,000	82,252	(252)
Debt Service				
Principal Retirement	140,000	140,000	140,000	0
Interest Retirement	51,513	51,513	54,387	(2,874)
Total Expenditures	335,910	360,910	324,876	36,034
Excess (Deficiency) of Revenues Over (Under)				
Expenditures	79,004	79,004	126,999	47,995
OTHER FINANCING SOURCES (USES):				
Operating Transfers Out	(403,000)	(403,000)	(130,000)	273,000
Total Other Financing Sources (Uses)	(403,000)	(403,000)	(130,000)	273,000
Net Changes in Fund Balances	(323,996)	(323,996)	(3,001)	320,995
Fund Balances - Beginning	602,576	602,576	602,576	
Fund Balances - Ending	\$278,580	\$278,580	\$599,575	\$320,995

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

CITY OF PORT ARANSAS, TEXAS
 NATURE PRESERVE PROJECT
 STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
 FOR THE YEAR ENDED SEPTEMBER 30, 2010

	Budgeted Amounts		Actual	Variance with Final Budget - Positive (Negative)
	Original	Final		
REVENUES				
Intergovernmental	\$380,711	\$380,711	\$424,650	\$43,939
Interest	4,800	4,800	2,152	(2,648)
Total Revenues	<u>385,511</u>	<u>385,511</u>	<u>426,802</u>	<u>41,291</u>
EXPENDITURES				
Capital Projects -				
Capital Outlay and Other	1,138,736	1,138,736	586,422	552,314
Total Expenditures	<u>1,138,736</u>	<u>1,138,736</u>	<u>586,422</u>	<u>552,314</u>
Excess (Deficiency) of Revenues Over (Under)				
Expenditures	(753,225)	(753,225)	(159,620)	593,605
OTHER FINANCING SOURCES (USES):				
Operating Transfers In	0	0	0	0
Operating Transfers Out	0	0	(8,000)	(8,000)
Total Other Financing Sources (Uses)	<u>0</u>	<u>0</u>	<u>(8,000)</u>	<u>(8,000)</u>
Net Changes in Fund Balances	(753,225)	(753,225)	(167,620)	585,605
Fund Balances - Beginning	855,024	855,024	855,024	
Fund Balances - Ending	<u>\$101,799</u>	<u>\$101,799</u>	<u>\$687,404</u>	<u>\$585,605</u>

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

CITY OF PORT ARANSAS, TEXAS
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
SEPTEMBER 30, 2010

BUSINESS TYPE ACTIVITIES
- ENTERPRISE FUNDS

	GAS CURRENT YEAR	GAS PRIOR YEAR	SANITATION CURRENT YEAR	HARBOR CURRENT YEAR	HARBOR PRIOR YEAR	TOTALS CURRENT YEAR
ASSETS						
Current Assets						
Cash and Cash Equivalents	\$306,497	\$310,869	\$53,518	\$155,217	\$374,416	\$515,232
Accounts Receivables (net of allowance for uncollectibles)	2,302	4,151	14,363	0	200	16,665
Total Current Assets	308,799	315,020	67,881	155,217	374,616	531,897
Noncurrent Assets						
Capital Assets						
Construction in Progress			0	0	0	0
Infrastructure	571,036	544,873		6,419,009	5,668,326	6,990,045
Buildings	51,404	59,629	8,225	23,683	23,683	83,312
Machinery and Equipment	169,839	212,634	14,276	66,133	42,669	250,248
Vehicles	134,212	134,212		33,571	33,571	167,783
Total Capital Assets	926,491	951,348	22,501	6,542,396	5,768,249	7,491,388
Less Accumulated Depreciation	(708,504)	(692,020)	(9,935)	(2,752,189)	(2,555,070)	(3,470,628)
Total Capital Assets (net of accumulated depreciation)	217,987	259,328	12,566	3,790,207	3,213,179	4,020,760
Total Noncurrent Assets	217,987	259,328	12,566	3,790,207	3,213,179	4,020,760
TOTAL ASSETS	\$526,786	\$574,348	\$80,447	\$3,945,424	\$3,587,795	\$4,552,657

(continued)

(continued)

BUSINESS TYPE ACTIVITIES
- ENTERPRISE FUNDS

	GAS CURRENT YEAR	GAS PRIOR YEAR	SANITATION CURRENT YEAR	HARBOR CURRENT YEAR	HARBOR PRIOR YEAR	TOTALS CURRENT YEAR
LIABILITIES, FUND EQUITY AND OTHER CREDITS						
Liabilities						
Current Liabilities (Payable from Current Assets)						
Accounts Payable	\$27,425	\$70,690	\$68,246	\$27,935	\$41,215	\$123,606
Compensated Absences	12,489	9,595	26	2,629	2,416	15,144
Accrued Wages Payable	6,116	4,125	517	2,367	1,783	9,000
Total Current Liabilities (Payable from Current Assets)	46,030	84,410	68,789	32,931	45,414	147,750
Current Liabilities (Payable from Restricted Assets)						
Consumer Meter Deposits	112,628	107,114		22,450	11,611	135,078
Total Current Liabilities Payable from Restricted Assets	112,628	107,114	0	22,450	11,611	135,078
Total Current Liabilities	158,658	191,524	68,789	55,381	57,025	282,828
Noncurrent Liabilities						
Accrued Other Post Employment Benefits	16,956	16,956	0	0	0	16,956
Total Noncurrent Liabilities	16,956	16,956	0	0	0	16,956
Total Liabilities	175,614	208,480	68,789	55,381	57,025	299,784
Invested in Capital Assets, Net of Related Debt	217,987	259,328	12,566	3,790,207	3,213,179	4,020,760
Unrestricted	133,185	106,540	(908)	99,836	317,591	232,113
Total Net Assets	\$351,172	\$365,868	\$11,658	\$3,890,043	\$3,530,770	\$4,252,873

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

CITY OF PORT ARANSAS, TEXAS
 STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS
 PROPRIETARY FUNDS
 FOR THE YEAR ENDED SEPTEMBER 30, 2010

BUSINESS TYPE ACTIVITIES
 - ENTERPRISE FUNDS

	GAS CURRENT YEAR	GAS PRIOR YEAR	SANITATION CURRENT YEAR	HARBOR CURRENT YEAR	HARBOR PRIOR YEAR	TOTALS CURRENT YEAR
OPERATING REVENUES:						
Charges for Services	\$909,248	\$1,537,699	\$779,922	\$950,470	\$508,730	\$2,639,640
Total Operating Revenues	909,248	1,537,699	779,922	950,470	508,730	2,639,640
OPERATING EXPENSES:						
Personal Services	356,478	392,453	34,000	163,888	161,548	554,366
Supplies and Other Services and Charges	524,167	1,198,984	730,233	166,351	132,358	1,420,751
Depreciation	46,981	53,698	4,155	197,120	211,994	248,256
Total Operating Expenses	927,626	1,645,135	768,388	527,359	505,900	2,223,373
Operating Income (Loss)	(18,378)	(107,436)	11,534	423,111	2,830	416,267
NON-OPERATING REVENUES (EXPENSES):						
Interest Income	773	2,844	124	462	3,427	1,359
Sale of Fixed Assets	2,534					2,534
Federal and State Grants	375	416				375
Total Non-Operating Revenues (Expenses)	3,682	3,260	124	462	3,427	4,268
Income Before Transfers	(14,696)	(104,176)	11,658	423,573	6,257	420,535
Transfers In (Out) - Net	0	0	0	(64,300)	(64,690)	(64,300)
Change in Net Assets	(14,696)	(104,176)	11,658	359,273	(58,433)	356,235
Total Net Assets - Beginning - Restated	365,868	470,044		3,530,770	3,589,203	3,896,638
Total Net Assets - Ending	\$351,172	\$365,868	\$11,658	\$3,890,043	\$3,530,770	\$4,252,873

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

CITY OF PORT ARANSAS, TEXAS
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2010

BUSINESS TYPE ACTIVITIES
- ENTERPRISE FUNDS

	GAS CURRENT YEAR	GAS PRIOR YEAR	SANITATION CURRENT YEAR	HARBOR CURRENT YEAR	HARBOR PRIOR YEAR	TOTALS CURRENT YEAR
Cash Flows from Operating Activities						
Receipts from Customers and Users	\$916,611	\$1,543,725	\$765,559	\$961,509	\$490,015	\$2,643,679
Payments to Suppliers	(567,432)	(1,285,517)	(661,987)	(179,631)	(133,842)	(1,409,050)
Payments to Employees	(351,593)	(389,248)	(33,457)	(163,092)	(161,410)	(548,142)
Net Cash Provided (Used) By Operating Activities	(2,414)	(131,040)	70,115	618,786	194,763	686,487
Cash Flows from Non-Capital and Related Financing Activities						
Transfers In (Out) - Net	0	0	0	(64,300)	(64,690)	(64,300)
Sale of Fixed Assets	2,534	0	0	0	0	2,534
Federal Grants and Contributions	375	416	0	0	0	375
Net Cash Provided (Used) by Non-Capital and Related Financing Activities	2,909	416	0	(64,300)	(64,690)	(61,391)
Cash Flows from Capital and Related Financing Activities						
Purchases of Capital Assets	(5,640)	(6,208)	(16,721)	(774,147)	(113,541)	(796,508)
Interest and Fiscal Charges	773	2,844	124	462	3,427	1,359
Net Cash Provided (Used) By Capital and Related Financing Activities	(4,867)	(3,364)	(16,597)	(773,685)	(110,114)	(795,149)
Cash Flows from Investing Activities						
Interest Received	0	0	0	0	0	0
Net Cash Provided (Used) by Investment Activities	0	0	0	0	0	0
Net Increase (Decrease) in Cash Equivalents	(4,372)	(133,988)	53,518	(219,199)	19,959	(170,053)
Cash and Cash Equivalents at Beginning of Year	310,869	444,857	0	374,416	354,457	685,285
Cash and Cash Equivalents at End of Year	\$306,497	\$310,869	\$53,518	\$155,217	\$374,416	\$515,232

(continued)

(continued)

BUSINESS TYPE ACTIVITIES
- ENTERPRISE FUNDS

	GAS CURRENT YEAR	GAS PRIOR YEAR	SANITATION CURRENT YEAR	HARBOR CURRENT YEAR	HARBOR PRIOR YEAR	TOTALS CURRENT YEAR
Reconciliation of operating income to net cash provided (used) by operating activities:						
Operating Income (Loss)	(\$18,378)	(\$107,436)	\$11,534	\$423,111	\$2,830	\$404,733
Adjustments to Reconcile to Net Cash Flow						
Non-Cash Items Included in Net Income						
Depreciation	46,981	53,698	4,155	197,120	211,994	248,256
Changes in Current Items						
Decrease (Increase) in Accounts Receivable	1,849	894	(14,363)	200	0	(12,314)
Increase (Decrease) in Accounts Payable	(43,265)	(103,489)	68,246	(13,280)	(1,484)	11,701
Increase (Decrease) Compensated Absences	2,894	2,651	26	212	(10)	3,132
Increase (Decrease) Accrued Wages Payable	1,991	554	517	584	148	3,092
Increase (Decrease) in Consumer Meter Deposits	5,514	5,132	0	10,839	(18,715)	16,353
Increase (Decrease) in Accrued Other Post Employment Benefits	0	16,956	0	0		0
Net Cash Provided (Used) By Operating Activities	(\$2,414)	(\$131,040)	\$70,115	\$618,786	\$194,763	\$674,953

Noncash Investing, Capital, and Financing Activities: None

Note: The above funds are all Enterprise Funds.

Note: There are no prior year amounts for the Sanitation Fund are combined with the prior year amounts for the Harbor Fund. The notes to the financial statements are an integral part of this statement.

City of Port Aransas, Texas
Notes to the Financial Statements
September 30, 2010

I. Summary of significant accounting policies

A. Reporting entity

The City of Port Aransas, Texas (the “City”) was incorporated as a general law city in November 1955. In August 1978 the City adopted the Mayor-Council-Manager form of government. The principal services accounted for as general governmental functions include public safety, health, streets, sanitation, park and recreation, planning, zoning and general administrative services.

The financial statements of the City have been prepared in accordance with accounting principles generally accepted in the United State of America (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the standard setting body for governmental accounting and financial reporting. The GASB periodically updates its codification of the existing Governmental Accounting and Financial Reporting Standards, which along with subsequent GASB pronouncements (Statements and Interpretations), constitutes GAAP for governmental units. The more significant accounting principles and practices are discussed in subsequent sections of these Notes.

The Port Aransas Recreational Development Corporation (PARDC) was chartered on November 27, 1995. The public purposes for which the Corporation is organized and for which it may issue bonds are as follows: construction, development, expansion, maintenance, operation and promotion of recreational and sports fields and stadiums, swimming pool, sports complexes, and related facilities and improvements. The Board of Directors consisting of seven members is appointed by the City Council. PARDC’s main source of revenue is the additional one-half cent sales tax approved by voters.

B. Government-wide and fund financial statements

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the nonfiduciary activities of the primary government. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support.

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

Separate financial statements are provided for governmental funds and proprietary funds.

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

C. Measurement focus, basis of accounting, and financial statement presentation

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as is the proprietary fund financial statements. Revenues are 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 revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

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

Property taxes, sales taxes, franchise taxes, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the government.

The government reports the following major governmental funds:

The *general fund* is the government'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 Advertising Fund accounts for the portion of occupancy taxes that are required to be spent for advertising and promoting the City.

The Beach Fund accounts for the portion of sales taxes required to provide beach cleaning and safety.

The Recreational Development Fund accounts for the portion of sales taxes that the Council requires to be set aside for recreational development.

The Nature Preserve Capital Projects Fund was established to account for the proceeds of the Certificates of Obligation that were issued during the year ended September 30, 2004. Certificates of Obligation will be used to provide a nature preserve.

The Construction Fund accounts for bond proceeds, grant from other governmental agencies and transfers from the General Fund that are used for streets, miscellaneous projects and land acquisitions other than for the Nature Preserve.

The government reports the following major proprietary funds:

The Gas Fund accounts for the activities of the gas distribution system.

The Sanitation Fund accounts for the garbage collection activities of the City.

The Harbor Fund accounts for activities associated with harbor rental and maintenance.

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. Governments also have the *option* of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The government 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 payments-in-lieu of taxes where the amounts are reasonably equivalent in value to the interfund services provided. Elimination of these charges would distort the direct costs and program revenues 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 revenues. Likewise, general revenues include 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 gas, garbage and harbor fund are charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the government's policy to use restricted resources first, then unrestricted resources as they are needed.

D. Assets, liabilities, and net assets or equity

1. Deposits and investments

The government's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition.

State statutes authorize the government to invest in obligations of the U.S. Treasury, commercial paper, corporate bonds, repurchase agreements, and the State Treasurer's Investment Pool.

Investments for the government are reported at fair value. The State Treasurer's Investment Pool operates in accordance with appropriate state laws and regulations. The reported value of the pool is the same as fair value of the pool shares.

2. Receivables and payables

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

All trade and property tax receivables are shown net of an allowance for uncollectibles. Trade accounts receivable allowance in excess of 30 days is equal to 5 percent of outstanding trade accounts receivable at September 30, 2010, the trade accounts receivable allowance in excess of 60 days is equal to 10 percent of outstanding trade accounts receivable at September 30, 2010, the trade accounts receivable allowance in excess of 90 days is equal to 20 percent of outstanding trade accounts receivable at September 30, 2010, and the trade accounts receivable allowance in excess of 120 days is equal to 50 percent of outstanding trade accounts receivable at September 30, 2010. The property tax receivable allowance is equal to 5 percent of current outstanding property taxes at September 30, 2010, and 5 percent of delinquent outstanding property taxes at September 30, 2010. Property is appraised and a lien on such property becomes enforceable as of January 1, subject to certain procedures for rendition, appraisal, appraisal review and judicial review. Traditionally, property taxes are levied October 1, of the year in which assessed or as soon thereafter as practicable. Taxes are due and payable when levied since that is when the City bills the taxpayers. The City begins to collect the taxes as soon as the taxpayers are billed.

3. Inventories and prepaid items

All inventories are valued at cost using the first-in/first-out (FIFO) method. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

4. *Restricted assets*

Certain proceeds of the enterprise fund revenue bonds, as well as certain resources set aside for their repayment, are classified as restricted assets on the balance sheet because they are maintained in separate bank accounts and their use is limited by applicable bond covenants. Monies are set aside in the general fund for future projects and are maintained in a separate bank account. The restricted assets are as follows:

Type	Governmental Activities
Public Service	\$9,594
	<u>\$9,594</u>

5. *Capital assets*

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets, other than infrastructure assets, are defined by the government as assets with an initial, individual cost of more than \$1,000 (amount not rounded) and an estimated useful life in excess of two years. The government reports infrastructure assets on a network and subsystem basis. Accordingly, the amounts spent for the construction or acquisition of infrastructure assets are capitalized and reported in the government-wide financial statements regardless of their amount.

In the case of the initial capitalization of general infrastructure assets (i.e., those reported by governmental activities) the government chose to include all such items regardless of their acquisition date or amount. The government was able to estimate the historical cost for the initial reporting of these assets through backtrending (i.e., estimating the current replacement cost of the infrastructure to be capitalized and using an appropriate price-level index to deflate the cost to the acquisition year or estimated acquisition year). As the government constructs or acquires additional capital assets each period, including infrastructure assets, they are capitalized and reported at historical cost. The reported value excludes normal maintenance and repairs which are essentially amounts spent in relation to capital assets that do not increase the capacity or efficiency of the item or extend its useful life beyond the original estimate. In the case of donations the government values these capital assets at the estimated fair value of the item at the date of its donation.

Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed. The total interest expense incurred by the City during the current fiscal year was \$497,138. Of this amount, \$-0- was included as part of the cost of capital assets. Significant construction activity during the year was for street and drainage projects in the Construction fund of \$1,823,485 and park construction of \$569,937 in the Nature Preserve fund.

Property, plant, and equipment of the primary government, is depreciated using the straight line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Buildings	30 to 40
Improvements other than	
Buildings	10 to 20
Gas Pipelines	50
Infrastructure	30 to 50
Runways and Related	
Improvements	15 to 20
Vehicles	5
Machinery and Equipment	5 to 15
Office Furniture	7

6. Compensated absences

It is the government's policy to permit employees to accumulate earned but unused vacation and sick pay benefits. There is no liability for unpaid accumulated sick leave since the government does not have a policy to pay any amounts when employees separate from service with the government. All vacation pay is accrued when incurred in the government-wide, governmental funds and proprietary financial statements.

7. 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 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.

8. 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.

9. Comparative data/reclassifications

Comparative total data for the prior year have been presented only for individual enterprise funds in the fund financial statements in order to provide an understanding of the changes in the financial position and operations of these funds. Also, certain amounts presented in the prior year data have been reclassified in order to be consistent with the current year's presentation.

II. Reconciliation of government-wide and fund financial statements

A. Explanation of certain differences between the governmental fund balance sheet and the government-wide statement of net assets

The governmental fund balance sheet includes a reconciliation between *fund balance - total governmental funds* and *net assets - governmental activities* as reported in the government-wide statement of net assets. One element of that reconciliation explains that long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds. The details of this \$9,990,062 difference are as follows:

Capital Lease	\$977,009
Bonds Payable	8,475,000
Bond Premium	140,877
Other Post Employment Benefits	223,244
Accrued Interest Payable	43,881
Compensated Absences	130,051
	<u>\$9,990,062</u>

The governmental fund statement of revenues, expenditures, and changes in fund balances includes a reconciliation between net changes in fund balances - 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 explains that "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 \$23,468,417 difference are as follows:

Capital assets not being depreciated	\$3,619,616
Capital assets being depreciated	32,434,653
Depreciation expense	(12,585,852)
Net adjustment to increase net changes in fund balances - total governmental funds to arrive at changes in net assets of governmental activities	<u>\$23,468,417</u>

The governmental fund balance sheet includes reconciliation between fund balance - total governmental funds and net assets - governmental activities as reported in the government-wide statement of net assets. One element of that reconciliation explains that "Property taxes receivable unavailable to pay for current period expenditures are deferred in the funds (net of allowance for uncollectibles.)" The details of this \$222,665 difference are as follows:

Property Taxes Receivable	\$234,385
Allowance for Doubtful Accounts	<u>(11,720)</u>
Net	<u>\$222,665</u>

The governmental fund balance sheet includes reconciliation between fund balance - total governmental funds and net assets - governmental activities as reported in the government-wide statement of net assets. One element of that reconciliation explains that "Municipal fines and fees receivable unavailable to pay for current period expenditures are deferred in the funds (net of allowance for uncollectibles.)" The details of this \$170,337 difference are as follows:

Fines and Fees Receivable	\$399,778
Allowance for Doubtful Accounts	<u>(229,441)</u>
Net	<u>\$170,337</u>

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

The governmental fund statement of revenues, expenditures, and changes in fund balances includes reconciliation between *net changes in fund balances - 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 explains that 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 \$2,657,847 difference are as follows:

Capital Outlay - Additions - Not Being Depreciated	(\$858,375)
Capital Outlay - Additions - Being Depreciated	5,310,703
Capital Outlay - Deletions	(12,090)
Depreciation Expense	(1,782,391)
Net Adjustment to Increase Net Changes in Fund Balances - Total Governmental Funds to Arrive at Changes in Net Assets of Governmental Activities	<u>\$2,657,847</u>

III. Stewardship, compliance, and accountability

A. Budgetary information

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for all governmental funds except for the Construction fund, the Library fund, and Street Maintenance fund. All annual appropriations lapse at fiscal year end.

The appropriated budget is prepared by fund, function, and department. The government's department heads may make transfers of appropriations within a department. Transfers of appropriations between departments require the approval of the city council. The legal level of budgetary control is the fund; whereby budgeted expenditures may not exceed budgeted revenues plus beginning unrestricted equity. The supplemental budgetary appropriations made in the general fund were not material.

Encumbrance accounting is employed in governmental funds. Encumbrances (e.g., purchase orders, contracts) outstanding at year end are reported as reservations of fund balances and do not constitute expenditures or liabilities because the commitments will be re-appropriated and honored during the subsequent year.

B. Excess of expenditures over appropriations

For the year ended September 30, 2010, expenditures did not exceed appropriations of any fund.

C. Deficit fund equity

There were no deficit fund balances for any fund at September 30, 2010.

IV. Detailed notes on all funds

A. Deposits and investments

Legal and Contractual Provisions Governing Deposits and 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. That 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. 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.

Policies Governing Deposits and Investments:

In compliance with the Public Funds Investment Act, the City has adopted a deposit and investment policy. That policy does address the following risks:

Custodial credit risk - deposits. In the case of deposits, this is the risk that in the event of a bank failure, the government's deposits may not be returned to it. The government has a deposit policy for custodial credit risk. As of September 30, 2010, the government's bank balance of \$2,142,590 in the City depository (American Bank) was not exposed to custodial credit risk because it was fully insured and collateralized with securities held by the pledging financial institution's trust department or agent, in the government's name. The fair market value of the securities pledged is \$9,556,640 and the FDIC coverage is \$250,000. The City also had a bank balance of \$121,147 in Value Bank at September 30, 2010. There were no securities pledged on behalf of this money and the FDIC coverage is \$250,000; therefore the bank balance was not exposed to custodial credit risk. The book balance of the City's bank balances at September 30, 2010 is \$1,853,017.

Interest rate risk: In accordance with its investment policy, the government manages its exposure to declines in fair values by limiting the weighted average maturity of its investment portfolio to less than twelve months.

Credit risk: State law limits investments in commercial paper and corporate bonds to the top two rating issued by nationally recognized statistical rating organizations (NRSROs). It is the government's policy to limit its investments in these investment types to the top rating issued by NRSROs. As of September 30, 2010 the local investment pool Texpool (100% of portfolio) were rated AAAM by Standard and Poor's.

Concentration of credit risk: The City places no limit on the amount the City may invest in any one issuer. 100 percent of the City's investments are in an insured Texpool account.

Custodial credit risk – investments: For an investment, this is the risk that, in the event of the failure of the counterparty, the government will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. As of September 30, 2010, the City had \$7,292,903 in investments in an insured TexPool account.

As of September 30, 2010, the government had the following investments:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Maturity (Years)</u>	<u>Weighted Average</u>
TexPool Funds	\$7,292,903	Less than 1 year	Less than 1 year

The City participates in one Local Government Investment Pool: TexPool. The City invests in TexPool to provide its liquidity needs. It is a local government investment pool established in conformity with the Inter-local Cooperation Act Chapter 791 of the Texas Government Code and the Public Investment Act Chapter 2256 of the Code. TexPool is 2(a) 7 like fund meaning that it is structured similar to a money market mutual fund. Such funds allow shareholders the ability to deposit or withdraw funds on a daily basis. Interest rates are adjusted daily and the fund seeks to maintain a constant net asset value of \$1.00, although this cannot be guaranteed. The City considers the holdings in these funds to have a one day weighted average maturity. This is due to the fact that the share position can usually be redeemed each day at the discretion of the shareholder short of a significant change in value. The TexPool fund is within the Governmental Activities.

B. Receivables

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

	General	Beach	Debt Service	Airport	RECREAT- IONAL DEVELOP- MENT	Gas	Sani- tation	Total
<u>Receivables</u>								
Taxes - Ad Valorem	\$202,803	\$0	\$31,582	\$0	\$0	\$0	\$0	\$234,385
Accounts				346				346
Intergovernmental		51,582			44,498	2,302	14,363	112,745
Municipal Court Fines	144,263							144,263
EMS Fees	255,515							255,515
Other	144,309							144,309
Gross Receivables	746,890	51,582	31,582	346	44,498	2,302	14,363	891,563
Less: Allowance for Uncollectibles	239,581		1,580					241,161
Net Total Receivables	\$507,309	\$51,582	\$30,002	\$346	\$44,498	\$2,302	\$14,363	\$650,402

The receivables are expected to be collected within one year.

Governmental funds report *deferred revenue* in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. 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:

	Unavailable	Unearned
Delinquent Property Taxes Receivable (General Fund)	\$222,665	\$0
Deposits and Advances	0	0
Total Deferred/Unearned Revenue for Governmental Funds	\$222,665	\$0

C. Capital assets

Capital asset activity for the year ended September 30, 2010 was as follows:

Primary Government

	Beginning Balances	Increases	Decreases	Ending Balances
Governmental Activities:				
Capital Assets Not Being Depreciated:				
Land	\$3,440,036			\$3,440,036
Construction in Progress	1,037,955		858,375	179,580
Total Capital Assets Not Being Depreciated	4,477,991	0	858,375	3,619,616
Capital assets being depreciated:				
Infrastructure	18,601,808	3,588,110		22,189,918
Buildings	3,380,917	173,832		3,554,749
Machinery and Equipment	3,497,544	313,357	161,268	3,649,633
Vehicles	2,262,049	1,235,404	457,100	3,040,353
Total Capital Assets Being Depreciated	27,742,318	5,310,703	618,368	32,434,653
Less Accumulated Depreciation for:				
Infrastructure	5,578,962	1,106,267		6,685,229
Buildings	1,987,577	89,681		2,077,258
Machinery and Equipment	2,310,609	311,869	161,268	2,461,210
Vehicles	1,532,591	274,574	445,010	1,362,155
Total Accumulated Depreciation	11,409,739	1,782,391	606,278	12,585,852
Total Capital Assets Being Depreciated, Net	16,332,579	3,528,312	12,090	19,848,801
Governmental Activities Capital Assets, Net	\$20,810,570	\$3,528,312	\$870,465	\$23,468,417

	Beginning Balances	Increases	Decreases	Ending Balances
Business-Type Activities:				
Capital Assets Not Being Depreciated:				
Construction in Progress	\$0	\$0	\$0	\$0
Total Capital Assets Not Being Depreciated	0	0	0	0
Capital Assets Being Depreciated:				
Infrastructure	6,213,199	776,847		6,990,046
Buildings	83,312			83,312
Machinery and Equipment	255,303	23,464	28,519	250,248
Vehicles	151,252		7,800	143,452
Total Capital Assets Being Depreciated	6,703,066	800,311	36,319	7,467,058
Less Accumulated Depreciation for:				
Infrastructure	2,965,788	203,249		3,169,037
Buildings	19,019	5,937		24,956
Machinery and Equipment	150,395	23,752	24,716	149,431
Vehicles	95,357	15,317	7,800	102,874
Total Accumulated Depreciation	3,230,559	248,255	32,516	3,446,298
Total Capital Assets Being Depreciated, Net	3,472,507	552,056	3,803	4,020,760
Business-Type Activities Capital Assets, Net	\$3,472,507	\$552,056	\$3,803	\$4,020,760

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

Governmental Activities	
General Administration	\$1,176,960
Public Facilities	18,668
Public Safety	363,503
Public Transportation	459
Culture and Recreation	<u>222,801</u>
Total Depreciation Expense - Governmental Activities	<u>\$1,782,391</u>
Business-Type Activities	
Gas	\$46,981
Harbor	4,155
Sanitation	<u>197,120</u>
Total Depreciation Expense - Business-Type Activities	<u>\$248,256</u>

Construction commitments

The government has active construction projects as of September 30, 2010: Significant construction activity during the year was for street and drainage projects in the Construction fund of \$1,855,241 and park construction of \$586,422 in the Nature Preserve fund.

Discretely presented component units

The City had no discretely presented component units as of September 30, 2010.

D. Interfund receivables, payables, and transfers

There were no interfund balances as of September 30, 2010.

Inter-fund transfers:

Transfers are used to 1) move revenues from the fund with collection authorization to the debt service fund as debt service principal and interest payments become due, 2) move unrestricted general fund revenues to finance various programs that the government must account for in other funds in accordance with budgetary authorizations, including amounts provided as subsidies or matching funds for various grant programs.

In the year ended September 30, 2010, the government made the following one-time transfers:

INTER-GOVERNMENTAL	TRANSFER TO			
	GENERAL FUND	RECREATIONAL DEVELOPMENT FUND	STREET MAINTENANCE FUND	TOTAL
TRANSFER FROM				
GENERAL FUND			\$85,000	\$85,000
HARBOR FUND	8,000			8,000
FACILITY FUND		130,000		130,000
PARK DEDICATION FEES		23,000		23,000
TOTALS	\$8,000	\$153,000	\$85,000	\$246,000

INTRA-GOVERNMENTAL	TRANSFER TO	
	AIRPORT AIRPORT FUND	TOTAL
TRANSFER FROM		
HARBOR FUND	64,300	64,300
TOTALS	\$64,300	\$64,300

E. Leases

Operating Leases

The City had a land lease with the General Land Office under a noncancellable operating lease. Total costs for this lease was \$5,500 for the year ended September 30, 2010. The future minimum lease payments for this lease is as follows:

<u>Year Ending Sept. 30</u>	<u>Amount</u>
2011	\$ 5,500
2012	5,500
2013	5,500
2014	5,500
Total	<u>\$22,000</u>

F. Long-term debt

General Obligation Bonds and Revenue Bonds

The government issues Certificates of Obligation and General Obligation Bonds to provide funds for the acquisition and construction of major capital facilities. Certificates of Obligation and General Obligation bonds have been issued for governmental activities. The Certificates of Obligation bonds are direct obligations and pledge the full faith and credit of the government. The original amount of the Certificates of Obligation and General Obligation Bonds issued was \$9,835,000. Certificates of Obligation and General Obligation bonds currently outstanding are as follows:

<u>Purpose</u>	<u>Rates</u>	<u>Amount</u>
Governmental activities – Series 2004	3.00-4.00	\$1,380,000
Governmental activities – Series 2007	4.00	\$2,310,000
Governmental activities – Series 2009	3.00-4.125	\$4,785,000

Annual debt service requirements to maturity for general obligation bonds are as follows:

Year Ending September 30,	Governmental Activities	
	Principal	Interest
2011	\$580,000	\$305,850
2012	595,000	285,976
2013	615,000	265,501
2014	645,000	244,250
2015	665,000	222,263
2016-2020	3,285,000	737,065
2021-2024	2,090,000	153,883
TOTALS	<u>\$8,475,000</u>	<u>\$2,214,788</u>

Capital Leases

The government has entered into a lease agreement as lessee for financing the acquisition of a Rescue Truck and a ladder Truck. These lease agreements qualify as capital leases for accounting purposes and, therefore, have been recorded at the present value of the future minimum lease payments as of its inception date.

ASSET	Governmental Activities		TOTAL
	Rescue Truck	Ladder Truck	
COST	\$170,073	\$924,357	\$1,094,430
ACCUMULATED DEPRECIATION	(72,888)	(132,051)	(204,939)
NET ASSET	<u>\$97,185</u>	<u>\$792,306</u>	<u>\$889,491</u>

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

YEAR	Governmental Activities		Total
	Rescue Truck	Ladder Truck	
	Amount	Amount	
2011	\$28,296	\$116,876	\$145,172
2012	28,296	116,876	145,172
2013		116,876	116,876
2014		116,876	116,876
2015		116,876	116,876
2016		116,876	116,876
2017		116,876	116,876
2018		116,876	116,876
2019		116,876	116,876
2020		116,876	116,876
Total Minimum Lease Payments	56,592	1,168,760	1,225,352
Less: Amount Representing Interest	3,932	244,410	248,342
Present Value of Net Minimum Lease Payments	\$52,660	\$924,350	\$977,010

Changes in long-term liabilities

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

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year	Due After One Year
Governmental Activities:						
General Obligation Bonds	\$8,875,000		\$400,000	\$8,475,000	\$580,000	\$7,895,000
Bond Premium - Series 2009	150,940		10,063	140,877	10,063	130,814
Total Bonds Payable	9,025,940	0	410,063	8,615,877	590,063	8,025,814
Capital Lease Purchases	77,145	924,350	24,486	977,009	100,883	876,126
OPEB Liability	223,244			223,244		223,244
Compensated Absences	137,849	130,051	137,849	130,051	130,051	0
Total Other	438,238	1,054,401	162,335	1,330,304	230,934	1,099,370
Total Governmental Activities	9,464,178	1,054,401	572,398	9,946,181	820,997	9,125,184
Business-Type Activities:						
OPEB Liability	16,956			16,956		16,956
Compensated Absences	12,011	15,144	12,011	15,144	15,144	0
Total Business-Type Activities	28,967	15,144	12,011	32,100	15,144	16,956
Grand Total	\$9,493,145	\$1,069,545	\$584,409	\$9,978,281	\$836,141	\$9,142,140

Note: Compensated absences are considered to be short term liabilities.

The government-wide statement of net assets includes \$836,141 as "noncurrent liabilities, due within one year". There was no interest capitalized in the Capital assets but rather was expended in the financial statements. Note: Compensated absences are considered to be short term liabilities. The governmental activities bonds Series 2004 is serviced by the Hotel Motel Special Fund, the Series 2007 and 2010 are serviced by the Debt Service Fund, the capital leases are serviced by the General Fund, and the compensated absences are serviced by the General Fund. The Business-type activities compensated absences are serviced by both the Gas Fund, the sanitation Fund, and the Harbor Fund.

G. Segment information

Because the gas fund, the sanitation fund, and the harbor fund are reported as major funds in the fund financial statements, separate segment disclosures for them are not required.

H. Restricted net assets/fund balance reserve

The balances of the restricted assets/fund balance reserves are as follows:

Type	Governmental Activities	Type	Funds
Debt Service	\$52,537	Construction	\$2,507,918
Street Maintenance	85,000	Debt Service	52,537
Public Service	9,594	Street Maintenance	85,000
Recreation	100,000	Prepaid Items	8,265
	<u>\$247,131</u>	Public Service	9,594
		Recreation	100,000
			<u>\$2,763,314</u>

V. Other information

A. Risk management

The government is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; and natural disasters for which the government carries commercial insurance. Liabilities of the fund are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. Liabilities include an amount for claims that have been incurred but not reported (IBNRs). The result of the process to estimate the claims liability is not an exact amount as it depends on many complex factors, such as inflation, changes in legal doctrines, and damage awards. Accordingly, claims are reevaluated periodically to consider the effects of inflation, recent claim settlement trends (including frequency and amount of pay-outs), and other economic and social factors. The estimate of the claims liability also includes amounts for incremental claim adjustment expenses related to specific claims and other claim adjustment expenses regardless of whether allocated to specific claims. Estimated recoveries, for example from salvage or subrogation, are another component of the claims liability estimate.

Changes in the balances of claims liabilities during the past two years are as follows:

	Year ended <u>09/30/10</u>	Year ended <u>09/30/09</u>
Unpaid claims, beginning of fiscal year	\$ -0-	\$ -0-
Incurred claims (including IBNRs)		
Claim payments	<u>-0-</u>	<u>-0-</u>
Unpaid claims, end of fiscal year	<u>\$ -0-</u>	<u>\$ -0-</u>

B. Subsequent Events

1. The following are subsequent events requiring disclosure.

On October 21, 2010 the City Council authorized the City Manager to enter into a contract for the construction of the beach access road 1 reconstruction and the 6th street drainage project funded in whole by the Texas Department of Rural Affairs Community Development Block Grant that the City was awarded following Hurricane Ike in 2008. The city was awarded \$405,000.00 in a no match grant. The bid came in \$6,800.00 over the grant award and Council authorized entering into the contract and have the City fund the overage so the projects could move forward.

On December 16, 2010, the City Council authorized the City Manager to enter a contract for the 2009 Streets and Drainage Bond, Phase III with Island Construction for \$1,263,480.02.

C. Related Party Transactions

There were no related party transactions requiring disclosure.

D. 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 participating in the following causes of action:

1. On June 1, 2010, Sherry Black Lancaster committed suicide by hanging herself with the phone cord in the Port Aransas City Jail. The City has been put on notice and a demand has been made for \$10,000,000 by the Mithoff Law Firm in Houston, Texas. The City anticipates that this case will be vigorously contested if a suit is filed.
2. On February 10, 2010, Jacklin Edwards ("Ms- Edwards") filed a charge of discrimination against the City alleging sex discrimination. Ms. Edwards alleges that over the period of March 1, 2009 to January 10, 2010, she was subjected to sex discrimination. In December 2010, Parties resolved this matter via settlement, and Ms. Edwards withdrew her Equal Employment Opportunity Commission charge. There was no cost to the City.
3. Cause No. 09-01340-G; *LRM Properties, LLC d/b/a San Sil Apartments vs. City of Port Aransas and Thomas Nathan Clark; and Chloes & Way LLC*; In the 319th Judicial District Court of Nueces County, Texas. Plaintiff requests an injunction and declaratory judgment to correct alleged current damage and prevent future damage to Plaintiff's property by water drainage problems allegedly caused by the defendants (adjacent property owners, and the City of Port Aransas which issued permits for construction and development of adjacent properties). Defendant City has filed a general denial and asserted affirmative defenses including governmental immunity. The City has sent requests for disclosure; however the case is still early in the discovery process. At this time, the City estimates that this case is not likely to have an unfavorable outcome and potential loss that would materially affect the City's financial position.
4. Charlie's Pasture Pier. Personal injury claim, April 2010 a ship wake caused damage to Charlie's Pasture Pier. There were two fishermen on the pier who allegedly sustained injuries. At this time, the City estimates that this case is not likely to have an unfavorable outcome and potential loss that would materially affect the City's financial position.

E. Employee retirement systems and pension plans

Texas Municipal Retirement System

Plan Description

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

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

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:

PLAN YEAR	2009	2010
EMPLOYEE DEPOSIT RATE	5.00%	5.00%
MATCHING RATIO (city to employee)	2 to 1	2 to 1
YEARS REQUIRED FOR VESTING	5	5
SERVICE RETIREMENT ELIGIBILITY (expressed as age/years of service)	60/5, 0/20	60/5, 0/20
UPDATED SERVICE CREDIT	100% repeating, transfers	100% repeating, Transfers
ANNUITY INCREASE (to retirees)	70% of CPI Repeating	70% of CPI Repeating

Contributions

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

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

The annual pension cost and net pension obligation/(asset) are as follows:

Accounting Year Ending	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
09-30-08	257,421	100%	-0-
09-30-09	348,032	100%	-0-
09-30-10	366,065	100%	-0-

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

VALUATION DATE	12/31/2007	12/31/2008	12/31/2009
ACTUARIAL COST METHOD	Unit Credit	Projected Unit Credit	Projected Unit Credit
AMORTIZATION METHOD	Level Percent of Payroll	Level Percent of Payroll	Level Percent of Payroll
REMAINING AMORTIZATION PERIOD	30 years; open period	29 years; closed period	28 years; closed period
ASSET VALUATION METHOD	Amortized Cost	Amortized Cost	Amortized Cost

ACTUARIAL ASSUMPTIONS:

INVESTMENT RATE OF RETURN	7.0%	7.5%	7.5%
PROJECTED SALARY INCREASES	Varies by age and service	Varies by age and service	Varies by age and service
INCLUDES INFLATION AT	3.00%	3.00%	3.00%
ACOST-OF-LIVING ADJUSTMENTS	2.1%	2.1%	2.1%

The funded status as of December 31, 2009, the most actuarial valuation date, is as follows:

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Annual Covered Payroll (c)	UAAL as a Percentage of Payroll ((b-a)/c)
12/31/2009	\$4,111,312	\$6,419,503	\$2,308,191	64.0%	\$3,916,657	58.9%

The schedule of funding progress presented as required supplementary information (RSI) immediately following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the AAL for benefits.

Texas Emergency Services Retirement System

Plan Description

The Fire Fighter's Pension Commissioner is the administrator of the Texas Emergency Services Retirement System (TESRS), a cost-sharing multiple employer pension system established and administered by the State of Texas to provide pension benefits for emergency services personnel who serve without significant monetary remuneration. TESRS is considered a component unit of the State of Texas financial reporting entity and is included in the State's financial reports as a pension trust fund. At August 31, 2010, there was 199 member fire or emergency services departments participating in TESRS. Eligible participants include volunteer emergency services personnel who are members in good standing of a participating department. At August 31, 2010, TESRS membership consisted of:

Retirees and Beneficiaries Currently Receiving Benefits	2,231
Terminated Participants Entitled to Benefits but Not Yet Receiving Them	2,106
Active Participants (Vested and Nonvested)	<u>4,371</u>
	<u>8,708</u>

Senate Bill 411, 65th Legislature, Regular Session (1977), created TESRS and established the applicable benefit provisions. The 79th Legislature, Regular Session (2005), recodified the provisions and gave the TESRS Board of Trustees authority to establish vesting requirements, contribution levels, benefit formulas, and eligibility requirements by board rule. The benefit provisions include retirement benefits as well as death and disability benefits. Members are 50% vested after the tenth year of service, with the vesting percent increasing 10% for each of the next five years of service so that a member becomes 100% vested with 15 years of service.

Upon reaching age 55, each vested member may retire and receive a monthly pension equal to his vested percent multiplied by six times the governing body's average monthly contribution over the member's years of qualified service. For years of service in excess of 15 years, this monthly benefit is increased at the rate of 6.2% compounded annually.

On and off-duty death benefits and on-duty disability benefits are dependent on whether or not the member was engaged in the performance of duties at the time of death or disability. Death benefits include a lump sum amount and continuing monthly payments to a member's surviving spouse and dependent children.

Funding Policy

Contribution provisions were established by S.B. 411, 65th Legislature, Regular Session (1977) and were amended by board rule in 2006. No contributions are required by individual members of participating departments. The governing bodies of participating departments are required to contribute at least the minimum prescribed amount per month for each active member and may contribute more. Additional contributions may be made by a governing body to pay for granting credit for service before the department began participating in TESRS (prior service). The State may also be required to make annual contributions up a limited amount to make TESRS actuarially sound.

Annual Required Contributions

The contribution requirement per active emergency services personnel member per month is not actuarially determined. Rather, the minimum contribution provisions were set by board rule. For the fiscal year ending August 31, 2010 total contributions (dues and prior service) of \$2,875,103 were paid into TESRS by the political subdivisions served by the member volunteer emergency services personnel. In addition, the state appropriated \$8,800,000 for the fiscal year ending August 31, 2010 and 2011. Total contributions made were greater than the contributions required by the state statute and were greater than the contributions required based on the August 31, 2008 actuarial valuation.

The purpose of the biennial actuarial valuation is to test the adequacy of the contribution arrangement to determine if it is adequate to pay the benefits that are promised. The actuarial valuation as of August 31, 2010 revealed the adequacy of the expected contributions from the political subdivisions (dues and prior service contributions) together with the actual state appropriations for the fiscal year ending August 31, 2010 (\$502,941 to help pay for the System's administrative expenses) and with the assumed continuation of legislative appropriations of (1) the maximum state contribution amount in future years as is necessary for the System to have a 30-year amortization period, and (2) approximately \$500,000 each year to help pay for the System's administrative expenses. Expected contributions for the fiscal year ending August 31, 2010 are equal to the contributions required. The City's expense for the year ended September 30, 2010 is \$7,392.

E. Other Post Employment Benefits

Health Care Benefits - Retirees

Plan Description: The City of Port Aransas Post-retirement Healthcare Benefits Program is a single-employer defined benefit healthcare plan administered by the City's Finance department. The Post-retirement Healthcare Benefits Program was initiated in 2007 by action of the City Council. The Post-retirement Healthcare Benefits Program provides medical benefits to eligible retirees; no medical benefits are provided to spouses of retirees. Eligible retirees include (i) employees who retire at age 65 or later with at least 15 years of service, or (ii) retire at any age after 30 years of service, or (iii) retire at age 60 with at least 20 years of service. Medicare eligible retirees are covered by an AARP Medicare Supplemental policies (medical and prescription drugs), while pre-65 retirees are covered by the same group medical plan applicable to active employees (a United Healthcare PPO arrangement).

Funding Policy: The City currently funds the benefits provided through the Program on a pay-as-you-go basis. Since the City does not prefund future benefits to be provided under the Program, there are no accumulated plan assets. The City pays for 100% of the cost of medical benefits for eligible retirees; covered retirees are not required to contribute. During the fiscal year ending September 30, 2010, the City paid \$10,808 in premiums for the two current retirees receiving benefits under the Program.

Annual OPEB Cost and Net OPEB Obligation: The City's annual other postemployment benefit (OPEB) cost (expense) is calculated based on the annual required contribution of the employer (ARC), an amount determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. The following table shows the components of the City's annual OPEB cost for the year, the amount actually contributed to the plan during the year, and changes in the City's net OPEB obligation to Post-retirement Healthcare Benefits Program:

Annual required contribution (ARC):	249,041
Interest on net OPEB obligation	0
Adjustment to annual required contribution	<u>0</u>
Annual OPEB cost (expense)	249,041
Contributions made during the year	<u>8,841</u>
Increase in net OPEB obligation during year	240,200
Net OPEB obligation - beginning of year	<u>0</u>
Net OPEB obligation - end of year	<u>240,200</u>

The City's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for fiscal year ending September 30, 2010 and the two preceding years were as follows:

<i>Fiscal Year Ended</i>	<i>Annual OPEB Cost</i>	<i>% of Annual OPEB Cost Contributed</i>	<i>Net OPEB Obligation</i>
9/30/2009	\$ 249,041	3.55%	\$ 240,200
9/30/2008	*	*	*
9/30/2007	*	*	*

* GASB 45 reporting not required for these periods

Funded Status and Funding Progress: As of October 1, 2008, the most recent valuation date, the plan *City of Port Aransas* was 0% funded (the City does not prefund these benefits). The actuarial accrued liability for benefits was \$1.833 million, and the actuarial value of plan assets was \$0, resulting in an unfunded actuarial accrued liability (UAAL) of \$1.833 million. The covered payroll (annual payroll of active employees covered by the plan) was \$3.99 million, and the ratio of the UAAL to covered payroll was 46%.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Actuarial Methods and Assumptions: Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employers and members to that point. The actuarial assumptions and methods used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the October 1, 2008 actuarial valuation, the Projected Unit Credit actuarial cost method was used. The actuarial assumptions included a 4.0% discount rate for valuing the liability for benefits, and an annual healthcare cost trend rate of 9.0% initially, reduced by decrements to an ultimate rate of 5.0% after four years. The UAAL is being amortized as a level dollar amount over a period of 30 years (the maximum permitted period).

Health Care Benefits - Cobra

Under the Consolidated Omnibus Budget Reconciliation Act (COBRA), the City provides health care benefits to eligible former employees and eligible dependents. Certain requirements are outlined by the federal government for this coverage. Although premiums are paid in full by the insured for the actual months covered, the City pays a fee for the administration of the COBRA plan. This program is offered for a period of 18 months after the termination date. The expense amount to the City is considered immaterial and thus is not included in the City-wide financial statements either as an expense or as a liability.

Supplemental Death Benefits

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

The death benefit for active employees provides a lump-sum payment approximately equal to the employee’s annual salary (calculated based on the employee’s actual earnings, for the 12-month period preceding the month of death); retired employees are insured for \$7,500.00; this coverage is an “other postemployment benefit,” or OPEB.

Your city offers supplemental death to:	Plan Year 2009	Plan Year 2010
Active employees (yes or no)	Yes	Yes
Retirees (yes or no)	Yes	Yes

Contributions

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

The city’s contributions to the TMRS SDBF for the years ended 2010, 2009, and 2008 were equal to the required contributions for each respective year. The expense amount to the City is considered immaterial and thus is not included in the City-wide financial statements either as a liability.

**Schedule of Contribution Rates:
(RETIREE-only portion of the rate)**

Plan/ Calendar Year	Annual Required Contribution (Rate)	Actual Contribution Made (Rate)	Percentage of ARC Contributed
2006	0.02%	0.02%	100.0%
2007	0.02%	0.02%	100.0%
2008	0.03%	0.03%	100.0%
2009	0.03%	0.03%	100.0%
2010	0.03%	0.03%	100.0%

F. Prior Period Adjustments

The City has determined that certain transactions were recorded incorrectly in a prior year.

Business-type Activities: In the Government-Wide statements and in the funds, the Long-Term Liabilities were understated by \$16,956. This error was the result of not including the GASB 45 debt on the prior year statement.

	Net Assets, as Previously Reported	GASB 45 Restatement	Net Assets As Restated
Business-Type Activities:			
Net Assets	\$3,913,594	(\$16,956)	\$3,896,638
Total Business-Type Activities	\$3,913,594	(\$16,956)	\$3,896,638

REQUIRED SUPPLEMENTARY INFORMATION

Required Supplementary Information

ANALYSIS OF FUNDING PROGRESS

EMPLOYEE RETIREMENT PLAN

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Annual Covered Payroll (c)	UAAL as a Percentage of Payroll ((b-a)/c)
12/31/07	3,315,211	5,073,222	1,758,011	63.5%	1,758,011	58.3%
12/31/08	3,435,515	5,581,986	2,146,471	61.5%	3,637,540	59.0%
12/31/09	4,111,312	6,419,503	2,308,191	64.0%	3,916,657	58.9%

ANALYSIS OF FUNDING PROGRESS

OTHER POST EMPLOYMENT RETIREMENT PLAN

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Annual Covered Payroll (c)	UAAL as a Percentage of Payroll ((b-a)/c)
10/01/08	\$0	\$1,883,529	\$1,883,520	00.0%	\$3,995,000	47.0%

CITY OF PORT ARANSAS, TEXAS
 CONSTRUCTION FUND
 STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
 FOR THE YEAR ENDED SEPTEMBER 30, 2010

	Budgeted Amounts		Budgetary Basis	Variance with Final Budget - Positive
	Original	Final		(Negative)
REVENUES				
Interest	\$20,000	\$20,000	\$9,798	(\$10,202)
Total Revenues	20,000	20,000	9,798	(10,202)
EXPENDITURES				
Capital Projects -				
Capital Outlay and Other	4,215,000	4,215,000	1,855,241	2,359,759
Total Expenditures	4,215,000	4,215,000	1,855,241	2,359,759
Excess (Deficiency) of Revenues Over (Under) Expenditures	(4,195,000)	(4,195,000)	(1,845,443)	2,349,557
OTHER FINANCING SOURCES (USES):				
Operating Transfers In	85,000	85,000	0	(85,000)
Operating Transfers Out	(25,000)	(25,000)	0	25,000
Total Other Financing Sources (Uses)	60,000	60,000	0	(60,000)
Net Changes in Fund Balances	(4,135,000)	(4,135,000)	(1,845,443)	2,289,557
Fund Balances - Beginning	4,353,361	4,353,361	4,353,361	
Fund Balances - Ending	\$218,361	\$218,361	\$2,507,918	\$2,289,557

COMBINING AND INDIVIDUAL FUND STATEMENTS AND SCHEDULES

CITY OF PORT ARANSAS, TEXAS
 COMBINING BALANCE SHEET
 NON-MAJOR GOVERNMENTAL FUNDS
 SEPTEMBER 30, 2010

SPECIAL REVENUE

	AIRPORT FUND	COURT SECURITY FUND	COURT TECH- NOLOGY FUND	LIBRARY FUND	IMPACT FEES FUND	PARK DEDICA- TION FEES	RECREAT- IONAL DEVELOP- MENT	STREET MAIN- TENANCE FUND	DEBT SERVICE FUND	TOTAL
ASSETS										
Cash and Cash Equivalents	\$5,714	\$13,327	\$8,780	\$109,453	\$135,046	\$14,908	\$70,883	\$85,000	\$52,537	\$495,648
Receivables (net of allowance for uncollectibles)	346						44,498		30,002	74,846
Inventories	15,612									15,612
Total Assets	\$21,672	\$13,327	\$8,780	\$109,453	\$135,046	\$14,908	\$115,381	\$85,000	\$82,539	\$586,106
LIABILITIES AND FUND BALANCES										
Liabilities										
Accounts Payable	\$71						\$6,189			\$6,260
Bank Overdraft										0
Accrued Wages	383						2,902			3,285
Unearned Revenues									30,002	30,002
Total Liabilities	454	0	0	0	0	0	9,091	0	30,002	39,547
Fund Balances										
Reserved for Debt Service									52,537	52,537
Reserved for Street Maintenance								85,000		85,000
Unreserved - Undesignated	21,218	13,327	8,780	109,453	135,046	14,908	106,290			409,022
Total Fund Balances	21,218	13,327	8,780	109,453	135,046	14,908	106,290	85,000	52,537	546,559
TOTAL LIABILITIES AND FUND BALANCES	\$21,672	\$13,327	\$8,780	\$109,453	\$135,046	\$14,908	\$115,381	\$85,000	\$82,539	\$586,106

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

CITY OF PORT ARANSAS, TEXAS
 COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
 NON-MAJOR GOVERNMENTAL FUNDS
 FOR THE YEAR ENDED SEPTEMBER 30, 2010

	SPECIAL REVENUE									TOTAL
	AIRPORT	COURT	COURT	LIBRARY	IMPACT	PARK	RECREAT-	STREET	DEBT	
	FUND	SECURITY	TECH-NOLOGY	FUND	FEEES	DEDICA-TION	IONAL DEVELOP-MENT	MAIN-TENANCE FUND	SERVICE FUND	
REVENUES										
Taxes										
Property									\$712,299	\$712,299
Sales							429,218			429,218
Intergovernmental	21,725									21,725
Charges for Services	104,842				98,117	23,845				226,804
Fines and Forfeitures		3,113	4,151							7,264
Interest	306	31	20	12,261	259	35	20,805		392	34,109
Total Revenues	126,873	3,144	4,171	12,261	98,376	23,880	450,023	0	712,691	1,431,419
EXPENDITURES										
Current:										
Public Safety										
Municipal Court		608	5,869							6,477
Culture and Recreation										
Airport	170,136									170,136
Library				1,750						1,750
Parks							761,612			761,612
Debt Service										
Principal Retirement									260,000	260,000
Interest and Fiscal Charges									443,518	443,518
Total Expenditures	170,136	608	5,869	1,750	0	0	761,612	0	703,518	1,643,493
Excess (Deficiency) of Revenues Over (Under) Expenditures	(43,263)	2,536	(1,698)	10,511	98,376	23,880	(311,589)	0	9,173	(212,074)
OTHER FINANCING SOURCES (USES):										
Operating Transfers In	64,300						153,000	85,000		302,300
Operating Transfers Out						(23,000)				(23,000)
Total Other Financing Sources (Uses)	64,300	0	0	0	0	(23,000)	153,000	85,000	0	279,300
Net Changes in Fund Balances	21,037	2,536	(1,698)	10,511	98,376	880	(158,589)	85,000	9,173	67,226
Fund Balances - Beginning	181	10,791	10,478	98,942	36,670	14,028	264,879	0	43,364	479,333
Fund Balances - Ending	\$21,218	\$13,327	\$8,780	\$109,453	\$135,046	\$14,908	\$106,290	\$85,000	\$52,537	\$546,559

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

SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
- BUDGET AND ACTUAL

CITY OF PORT ARANSAS, TEXAS
 AIRPORT FUND
 STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
 FOR THE YEAR ENDED SEPTEMBER 30, 2010

	Budgeted Amounts		Actual	Variance with
	Original	Final		Final Budget - Positive (Negative)
REVENUES				
Intergovernmental	\$140,000	\$140,000	\$21,725	(\$118,275)
Charges for Services	135,000	135,000	104,842	(30,158)
Interest	500	500	306	(194)
Total Revenues	<u>275,500</u>	<u>275,500</u>	<u>126,873</u>	<u>(148,627)</u>
EXPENDITURES				
Current:				
Culture and Recreation				
Airport	360,520	360,520	170,136	190,384
Total Expenditures	<u>360,520</u>	<u>360,520</u>	<u>170,136</u>	<u>190,384</u>
Excess (Deficiency) of Revenues Over (Under)				
Expenditures	(85,020)	(85,020)	(43,263)	41,757
OTHER FINANCING SOURCES (USES):				
Operating Transfers In	85,020	85,020	64,300	(20,720)
Operating Transfers Out				0
Total Other Financing Sources (Uses)	<u>85,020</u>	<u>85,020</u>	<u>64,300</u>	<u>(20,720)</u>
Net Changes in Fund Balances	0	0	21,037	21,037
Fund Balances - Beginning	181	181	181	
Fund Balances - Ending	<u>\$181</u>	<u>\$181</u>	<u>\$21,218</u>	<u>\$21,037</u>

CITY OF PORT ARANSAS, TEXAS
 COURT SECURITY FUND
 STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
 FOR THE YEAR ENDED SEPTEMBER 30, 2010

	Budgeted Amounts		Actual	Variance with Final Budget - Positive (Negative)
	Original	Final		
REVENUES				
Fines and Forfeitures	\$3,000	\$3,000	\$3,113	\$113
Interest	75	75	31	(44)
Total Revenues	<u>3,075</u>	<u>3,075</u>	<u>3,144</u>	<u>69</u>
EXPENDITURES				
Current:				
Public Safety				
Municipal Court	3,000	3,000	608	2,392
Total Expenditures	<u>3,000</u>	<u>3,000</u>	<u>608</u>	<u>2,392</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	75	75	2,536	2,461
OTHER FINANCING SOURCES (USES):				
Operating Transfers In				0
Operating Transfers Out				0
Total Other Financing Sources (Uses)	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Net Changes in Fund Balances	75	75	2,536	2,461
Fund Balances - Beginning	10,791	10,791	10,791	
Fund Balances - Ending	<u>\$10,866</u>	<u>\$10,866</u>	<u>\$13,327</u>	<u>\$2,461</u>

CITY OF PORT ARANSAS, TEXAS
 COURT TECHNOLOGY FUND
 STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
 FOR THE YEAR ENDED SEPTEMBER 30, 2010

	Budgeted Amounts		Actual	Variance with Final Budget - Positive (Negative)
	Original	Final		
REVENUES				
Fines and Forfeitures	\$4,000	\$4,000	\$4,151	\$151
Interest	50	50	20	(30)
Total Revenues	4,050	4,050	4,171	121
EXPENDITURES				
Current:				
Public Safety				
Municipal Court	7,850	7,850	5,869	1,981
Total Expenditures	7,850	7,850	5,869	1,981
Excess (Deficiency) of Revenues Over (Under) Expenditures	(3,800)	(3,800)	(1,698)	2,102
OTHER FINANCING SOURCES (USES):				
Operating Transfers In				0
Operating Transfers Out				0
Total Other Financing Sources (Uses)	0	0	0	0
Net Changes in Fund Balances	(3,800)	(3,800)	(1,698)	2,102
Fund Balances - Beginning	10,478	10,478	10,478	
Fund Balances - Ending	\$6,678	\$6,678	\$8,780	\$2,102

CITY OF PORT ARANSAS, TEXAS

IMPACT FEES

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
FOR THE YEAR ENDED SEPTEMBER 30, 2010

	Budgeted Amounts		Actual	Variance with Final Budget - Positive (Negative)
	Original	Final		
REVENUES				
Charges for Services	\$47,356	\$47,356	\$98,117	\$50,761
Interest	44	44	259	215
Total Revenues	47,400	47,400	98,376	50,976
Net Changes in Fund Balances	47,400	47,400	98,376	50,976
Fund Balances - Beginning	36,670	36,670	36,670	
Fund Balances - Ending	\$84,070	\$84,070	\$135,046	\$50,976

CITY OF PORT ARANSAS, TEXAS
 PARK DEDICATION FEES
 STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
 FOR THE YEAR ENDED SEPTEMBER 30, 2010

	Budgeted Amounts		Actual	Variance with
	Original	Final		Final Budget - Positive (Negative)
REVENUES				
Charges for Services	\$14,282	\$14,282	\$23,845	\$9,563
Interest	250	250	35	(215)
Total Revenues	14,532	14,532	23,880	9,348
EXPENDITURES				
Current:				
Culture and Recreation				
Park Dedication	0	0	0	0
Total Expenditures	0	0	0	0
Excess (Deficiency) of Revenues Over (Under)				
Expenditures	14,532	14,532	23,880	9,348
OTHER FINANCING SOURCES (USES):				
Operating Transfers Out	(23,000)	(23,000)	(23,000)	0
Total Other Financing Sources (Uses)	(23,000)	(23,000)	(23,000)	0
Net Changes in Fund Balances	(8,468)	(8,468)	880	9,348
Fund Balances - Beginning	14,028	14,028	14,028	
Fund Balances - Ending	\$5,560	\$5,560	\$14,908	\$9,348

CITY OF PORT ARANSAS, TEXAS
RECREATIONAL DEVELOPMENT FUND
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
FOR THE YEAR ENDED SEPTEMBER 30, 2010

	Budgeted Amounts		Actual	Variance with Final Budget - Positive (Negative)
	Original	Final		
REVENUES				
Taxes				
Sales	\$445,000	\$445,000	\$429,218	(\$15,782)
Interest	19,800	19,800	20,805	1,005
Total Revenues	<u>464,800</u>	<u>464,800</u>	<u>450,023</u>	<u>(14,777)</u>
EXPENDITURES				
Current:				
Culture and Recreation				
Parks	769,549	769,549	761,612	7,937
Total Expenditures	<u>769,549</u>	<u>769,549</u>	<u>761,612</u>	<u>7,937</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	(304,749)	(304,749)	(311,589)	(6,840)
OTHER FINANCING SOURCES (USES):				
Operating Transfers In	153,000	153,000	153,000	0
Total Other Financing Sources (Uses)	<u>153,000</u>	<u>153,000</u>	<u>153,000</u>	<u>0</u>
Net Changes in Fund Balances	(151,749)	(151,749)	(158,589)	(6,840)
Fund Balances - Beginning	264,879	264,879	264,879	
Fund Balances - Ending	<u>\$113,130</u>	<u>\$113,130</u>	<u>\$106,290</u>	<u>(\$6,840)</u>

CITY OF PORT ARANSAS, TEXAS
DEBT SERVICE FUND
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
FOR THE YEAR ENDED SEPTEMBER 30, 2010

	Budgeted Amounts		Actual	Variance with
	Original	Final		Final Budget - Positive (Negative)
REVENUES				
Taxes				
Property	\$703,150	\$703,150	\$712,299	\$9,149
Interest	1,000	1,000	392	(608)
Total Revenues	<u>704,150</u>	<u>704,150</u>	<u>712,691</u>	<u>8,541</u>
EXPENDITURES				
Debt Service				
Principal Retirement	260,000	260,000	260,000	0
Interest Retirement	444,150	444,150	443,518	632
Total Expenditures	<u>704,150</u>	<u>704,150</u>	<u>703,518</u>	<u>632</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	0	0	9,173	9,173
OTHER FINANCING SOURCES (USES):				
Operating Transfers In				0
Operating Transfers Out				0
Total Other Financing Sources (Uses)	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Net Changes in Fund Balances	0	0	9,173	9,173
Fund Balances - Beginning	43,364	43,364	43,364	
Fund Balances - Ending	<u>\$43,364</u>	<u>\$43,364</u>	<u>\$52,537</u>	<u>\$9,173</u>

SINGLE AUDIT SECTION

CITY OF PORT ARANSAS, TEXAS
 SCHEDULE OF STATE FINANCIAL ASSISTANCE
 FOR THE YEAR ENDED SEPTEMBER 30, 2010

SOURCE AND TITLE OF GRANT	GRANTOR'S/ PASS-THROUGH GRANTOR'S NUMBER	PROGRAM EXPEND- ITURES
<i>Texas Parks and Wildlife (M)</i>		
Harbor Fund	Y-14-D	\$366,165
Harbor Fund	F-207-B	44,349
Nature Preserve Fund	172210	97,400
Total Texas Parks and Wildlife		<u>507,914</u>
<i>Texas State Library and Archives Division</i>		
General Fund	442-10420	6,891
Total Texas State Library and Archives Division		<u>6,891</u>
<i>Texas Coastal Program (Fish Wildlife Service)</i>		
Nature Preserve Fund	201816G941	5,250
Total Texas Coastal Program (Fish Wildlife Service)		<u>5,250</u>
<i>General Land Office</i>		
Beach Fund	10-320-005-3937	103,165
Total General Land Office		<u>103,165</u>
Total State Assistance		<u>\$623,220</u>

CFDA=CATALOGUE OF State DOMESTIC ASSISTANCE NUMBER
 M=MAJOR PROGRAM

See Accompanying Notes to Schedule of State Financial Assistance

WAYNE R. BEYER
CERTIFIED PUBLIC ACCOUNTANT

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P.O. BOX 366 830/569-8781 FAX 830/569-6776
PLEASANTON, TEXAS 78064

111 NORTH ODEM
830/569-8781 FAX 830/569-6776
SINTON, TEXAS 78387

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

To the City Council
City of Port Aransas, Texas

I have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Port Aransas, Texas as of and for the year ended September 30, 2010, which collectively comprise the City of Port Aransas, Texas's basic financial statements and have issued my report thereon dated February 9, 2011. I conducted my audit in accordance with auditing standards generally accepted in the United States of America, the Uniform Grant Management Standards (UGMS), 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 my audit, I considered the City of Port Aransas, Texas's internal control over financial reporting as a basis for designing my audit procedures for the purpose of expressing my opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City of Port Aransas, Texas's internal control over financial reporting. Accordingly, I do not express an opinion on the effectiveness of the City of Port Aransas, Texas's internal control over financial reporting.

My consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, I identified no deficiencies in 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 of Port Aransas, Texas'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 of Port Aransas, Texas's financial statements that is more than inconsequential will not be prevented or detected by the City of Port Aransas, Texas's internal control. I did not identify any deficiencies in the internal control over financial reporting that I consider to be significant deficiency as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Port Aransas, Texas's financial statements are free of material misstatements, I 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 amount. However, providing an opinion on compliance with those provisions was not an objective of my audit, and accordingly, I do not express such an opinion. The results of my tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of the City of Port Aransas, Texas in a separate letter dated February 9, 2011.

This report is intended solely for the information and use of management, the audit committee, City Council, 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.

Sincerely,

A handwritten signature in cursive script that reads "Wayne R. Beyer".

Wayne R. Beyer
Certified Public Accountant
February 13, 2011

WAYNE R. BEYER
CERTIFIED PUBLIC ACCOUNTANT

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

To the City Council
City of Port Aransas, Texas

Compliance

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

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

In my opinion, the City of Port Aransas, Texas complied, in all material respects, with the requirements referred to above that are applicable to each of its major state programs for the ended September 30, 2010.

Internal Control over Compliance

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

A *control deficiency* in an entity's internal control over compliance exists when the design operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a state program on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a state program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a state program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a state program will not be prevented or detected by the entity's internal control.

My consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section, and would not necessarily identify all deficiencies in the entity's internal control that might be significant deficiencies or material weaknesses as defined below. I did not identify any deficiencies in internal control over compliance that I consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of management, City Council, others within the entity, 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.

Sincerely,



Wayne R. Beyer
Certified Public Accountant
February 13, 2011

CITY OF PORT ARANSAS, TEXAS
NOTES TO SCHEDULE OF EXPENDITURES OF STATE AWARDS
FOR THE YEAR ENDED SEPTEMBER 30, 2010

General

The accompanying Schedule of Expenditure of State Awards presents the activity of all the City of Port Aransas, Texas's state grants for the year ended September 30, 2010. This report is intended for the information of the City of Port Aransas, Texas, state and state awarding agencies, and is not intended to be used and should not be used by anyone other than these specified parties.

Basis of Accounting

The Schedule of Expenditure of State Awards is presented using the modified accrual basis of accounting.

Non Cash Grants

The City of Port Aransas received no non-cash grants for the year ended September 30, 2010.

CITY OF PORT ARANSAS, TEXAS
SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED SEPTEMBER 30, 2010

State

There were no prior audit findings for State Awards.

CITY OF PORT ARANSAS, TEXAS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED SEPTEMBER 30, 2010

SUMMARY OF AUDITOR'S RESULTS

1. The auditor's report expresses an unqualified opinion on the financial statements of the City of Port Aransas, Texas.
2. There were no significant deficiencies disclosed during the audit. There was no material weakness disclosed during the audit.
3. There were no instances of noncompliance material to the financial statements of the City of Port Aransas, Texas, which would be required to be reported in accordance with Government Auditing Standards and the Uniform Grant Management Standards (UGMS), disclosed during the audit.
4. There were no significant deficiencies over major state award programs disclosed during the audit. There was no material weakness over major state award programs disclosed during the audit.
5. The auditor's report on compliance for the major state award programs for the City of Port Aransas, Texas expresses an unqualified opinion on all major state programs.
6. There were no audit findings that are required to be reported in accordance with Section 510(a) of OMB Circular A-133.
7. The programs tested as major programs: Texas Parks and Wildlife.
8. The threshold used for distinguishing between Type A and B programs was \$300,000.
9. The City of Port Aransas did not qualify as a low-risk auditee.
10. Material Weaknesses
 - a. There were no material weakness disclosed during the audit.

Findings relating to the Financial Statements

None

Findings and Questioned Costs for State Awards

None