

**COMPREHENSIVE
ANNUAL FINANCIAL REPORT**

CITY OF LA MARQUE, TEXAS

FOR THE FISCAL YEAR ENDED

SEPTEMBER 30, 2007

PREPARED BY

THE DEPARTMENT OF FINANCE

CITY OF LA MARQUE, TEXAS

CITY OF LA MARQUE, TEXAS
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Introductory Section

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MAYOR - Larry E. Crow, Sr.
MAYOR PRO TEM - Bill Charbonneau
COUNCIL MEMBERS - Keith Bell, Larry Mann, Deanie Barrett
CITY MANAGER - Robert F. Ewart



March 26, 2007

Honorable Larry E. Crow, Sr., Mayor
Members of the City Council
City of La Marque, Texas

The Finance Department and City Manager's Office is pleased to submit the Comprehensive Annual Financial Report of the City of La Marque, Texas, for the fiscal year ended September 30, 2007.

This report is published to provide the City Council, City staff, our citizens, our bondholders and other interested parties with detailed information concerning the financial condition and activities of the City government. Responsibility for both the accuracy of the presented data and the completeness and fairness of the presentation, including all disclosures, rests with the City.

To the best of our knowledge and belief the enclosed data is accurate in all material respects, and is organized in a manner designed to fairly present the financial position and results of operations of the City as measured by the financial activity of its various funds. We also believe that all disclosures necessary to enable the reader to gain the maximum understanding of the City financial affairs have been included.

The financial statements of the City of La Marque have been audited by Null-Lairson, P.C. Certified Public Accountants in order to provide reasonable assurance that the financial statements of the City of La Marque for the fiscal year ended September 30, 2007 are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; assessing the accounting principles used and significant estimates made by management; and evaluating the overall financial statement presentation. The Independent Auditor's Report reflects an unqualified opinion that the City of La Marque's financial statements for the fiscal year ended September 30, 2007, are fairly presented in conformity with accounting principles generally accepted in the United States of America. The Independent Auditor's Report is included as the first component of the financial section of the report.

THE REPORT

This Comprehensive Annual Financial Report is presented in three sections: Introductory, Financial and Statistical. The introductory section includes this transmittal letter, a listing of the City Officials and an organizational chart of the City. The financial section includes a Management and Discussion Analysis (MD&A), basic financial statements and combining and individual fund statements and schedules, as well as the independent auditors' report on the basic financial statements. The MD&A is a narrative introduction, overview, and analysis to accompany the basic financial statements. This letter of transmittal is designed to complement and should be read in conjunction with the MD&A. The City of La Marque's MD&A can be found immediately following the report of the independent auditors. The statistical section includes financial and demographic information, usually presented on a multi-year basis that is relevant to a financial statement reader.

The Financial Section described above is prepared in accordance with generally accepted accounting principals for governments as prescribed by the Governmental Accounting Standards Board (GASB) and other professional associations, as applicable.

1111 Bayou Road • La Marque, Texas 77568

Honorable Larry E. Crow, Sr., Mayor
Members of the City Council

The financial reporting entity (the government) includes all funds of the primary government, the City of La Marque, as well as its component unit. Component units are legally separate entities for which the primary government is financially accountable. Discretely presented component units are reported in a separate column in the combined financial statements to emphasize that they are legally separate from the primary government and to differentiate their financial position, results of operations and cash flows from those of the primary government. The La Marque Economic Development Corporation is reported as a discretely presented component unit.

CITY PROFILE

Location

The City is located in the Gulf Coast area of Texas just north of Galveston. La Marque is only 45 miles south of Houston and less than 20 miles south of NASA's Johnson Space Center, and is readily accessible via the Interstate Highway 45 corridor. The City encompasses 14.8 square miles with a population of approximately 13,805 and shares its boundaries with Texas City and Hitchcock.

Organization

Originally part of the Republic of Texas Land Grant, the area prospered along with the growth of the petrochemical industry in Texas City, and was incorporated in 1953 under the provisions of the Home Rule City Act. The City operates under a Council-Manager form of government comprised of a Mayor and four council members, and is responsible for enacting legislation in the form of ordinances, resolutions, and regulations governing the City. The City has an Economic Development Corporation, Building Standards Commission, Clean City Commission and Planning Commission. The City Manager is the chief administrative officer of the City, and is responsible for enforcement of laws and ordinances, as well as appointment of various department heads of the municipal organization.

Services Provided

The City provides to its citizens those services that have proven to be necessary and meaningful and which the City can provide at the least cost. Major services provided under general government and enterprise functions are: police, fire and ambulance, streets, water and wastewater utilities, solid waste, code enforcement, parks and recreation, public library, public improvements, community development, planning and general administrative services.

Accounting System and Budgetary Control

In developing and evaluating the City's accounting system, consideration is given to the adequacy of internal accounting controls as deemed appropriate by the City Manager. The concept of reasonable assurance recognizes that: (1) the cost of a control should not exceed the benefits likely to be derived; and (2) the evaluation of costs and benefits requires estimates and judgments by the City Manager. All internal control evaluations occur within the above framework. Internal accounting controls are designed to provide reasonable, but not absolute assurance regarding (1) safeguarding of assets against loss from unauthorized use or disposition and (2) the reliability of financial records for preparing financial statements and maintaining accountability for assets. The City believes that its internal accounting controls adequately safeguard and provide reasonable assurance from improper recording of financial transactions. The City's accounting controls are designed to provide reasonable assurance that errors or irregularities that could be material to the financial statements are prevented or would be detected within a timely period by employees in the normal course of performing their assigned duties.

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Members of the City Council

The City's annual budget is the basis for La Marque's financial planning and control. All departments submit requests for appropriation to the City manager. These requests are the starting point for developing a proposed budget. The City manager then presents this proposed budget to the City council for review. The council is required to hold public hearings on the proposed budget and to adopt a final budget no later than September 30, the close of the City of La Marque's fiscal year. The appropriated budget is prepared by fund, function, department and category. Budget-to-actual comparisons are provided in this report for each individual governmental fund for which an appropriated annual budget has been adopted. For the general fund, this comparison is presented as part of the basic financial statements for the governmental funds. For governmental funds, other than general fund, with appropriated annual budgets, this comparison is presented in the nonmajor governmental funds subsection of this report.

Activities of the General Fund, Special Revenue Funds, Debt Service Fund, and Enterprise Funds are included in the annual appropriated budget. Budgetary control (the level at which expenditures cannot legally exceed appropriations) is maintained at the departmental level.

ECONOMIC OUTLOOK AND FINANCIAL CONDITION

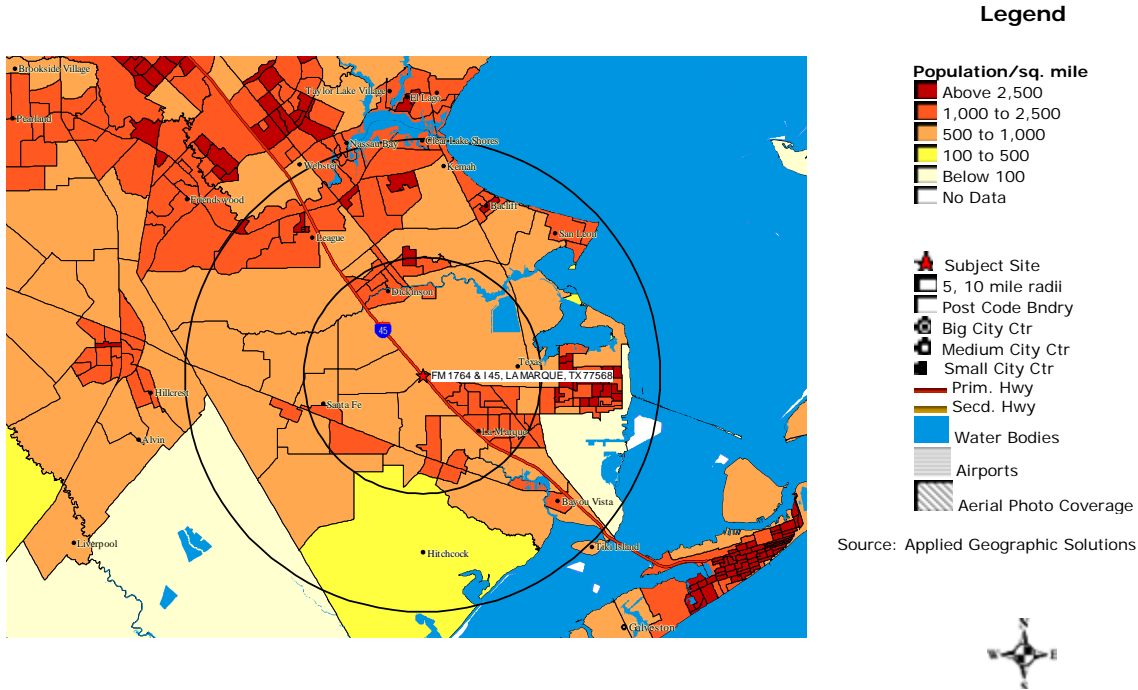
La Marque is located on the upper Texas coast of the Gulf of Mexico along the Interstate 45 corridor in south central Galveston County. La Marque is twenty minutes south of the city of Houston and 15 minutes north of Galveston Island. The City has traditionally been a bedroom community, but is now experiencing tremendous growth in both residential and commercial areas. The educational system includes four college-level institutions: The University of Texas Medical Branch at Galveston, College of the Mainland of Texas City, Galveston Community College at Galveston, and the Texas A & M Marine Institute at Galveston. The City is also home to Kay Bailey Hutchinson, the first woman to serve as a United States Senator from Texas.

Local Economy

The western portion of the city along Interstate 45 is leading the explosive commercial development, which started several years ago with the building of Gulf Greyhound Park, touted as the world's largest greyhound race track. The neighboring area is now home to the 226,000 square foot Wal-Mart Super Center, which opened in April 2003. The Wal-Mart opening has spurred other commercial developments such as La Marque Center, Bay Park Shopping Center, and La Marque Crossing Shopping Center, all housing a variety of specialty retail stores, restaurant and entertainment facilities.



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Members of the City Council



Future Economic Outlook

The total number of new subdivision lots platted in La Marque topped off at 2,450 in seven subdivisions with home prices ranging from \$115,000 to \$215,000.

Additionally, the 2010 county population is expected to increase by 7.7% over the 2000 census. This region also boasts a high educational attainment with 63% of the population over 25 having some college or more attributing to the average income of \$60,838, median household income of \$50,846, and per capita income of \$23,685.

Specifically, La Marque's percentage of owner occupied housing units is 73%, which is 6.8% greater than Galveston County as a whole.

Cash Management Policies and Practices

Cash temporarily idle during the year was invested in certificates of deposit, U.S. Agency securities, mutual funds and investment pools. Maturities of these investments range from one day to eighteen months. Interest rates on these investments range from 4.37% to 5.39%. The primary objectives of the City's investment policy, in priority order, are safety (preservation of capital), liquidity (to provide adequate and timely working funds), and return on investment (obtaining a rate of return commensurate with investment risk constraints and cash flow needs).

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Members of the City Council

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. In addition, a designation for self-insurance has been established in the General and Enterprise Funds to provide a designation of funds to cover the risk of loss for physical damage to vehicles. This designation is not, nor is it intended to be a traditional self-insurance program. It is rather a designation of funds established to meet deductibles under the City's commercial insurance coverage.

AWARDS AND ACKNOWLEDGEMENTS

Awards

This report has been prepared in accordance with guidelines established by the Government Finance Officers Association (GFOA) for its Certificate of Achievement for Excellence in Financial Reporting. The GFOA awarded a Certificate of Achievement for Excellence in Financial Reporting to the City for its comprehensive annual financial report for the fiscal year ended September 30, 2006. This was the thirteenth consecutive year that the government has achieved this prestigious award. In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe that our current comprehensive annual financial report continues to meet the Certificate of Achievement Program's requirements and we are submitting it to the GFOA to determine its eligibility for another certificate.

Acknowledgments

The preparation of the CAFR was made possible by the efforts of the City audit firm, Null-Lairson, P.C., along with the City Finance Department. Other departments within the City were cooperative in providing essential information to the Finance Department in a timely and professional manner and we extend our thanks to responsible persons in those departments. In addition, we thank the Mayor and members of the City Council for the responsible decisions they have made in the interest of preserving the financial integrity of the City of La Marque.

Respectfully submitted,



Robert Ewart
City Manager



Susan Lang, CGFO
Director of Finance

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Certificate of Achievement for Excellence in Financial Reporting

Presented to

City of La Marque
Texas

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
September 30, 2006

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.



Charles S. Cox

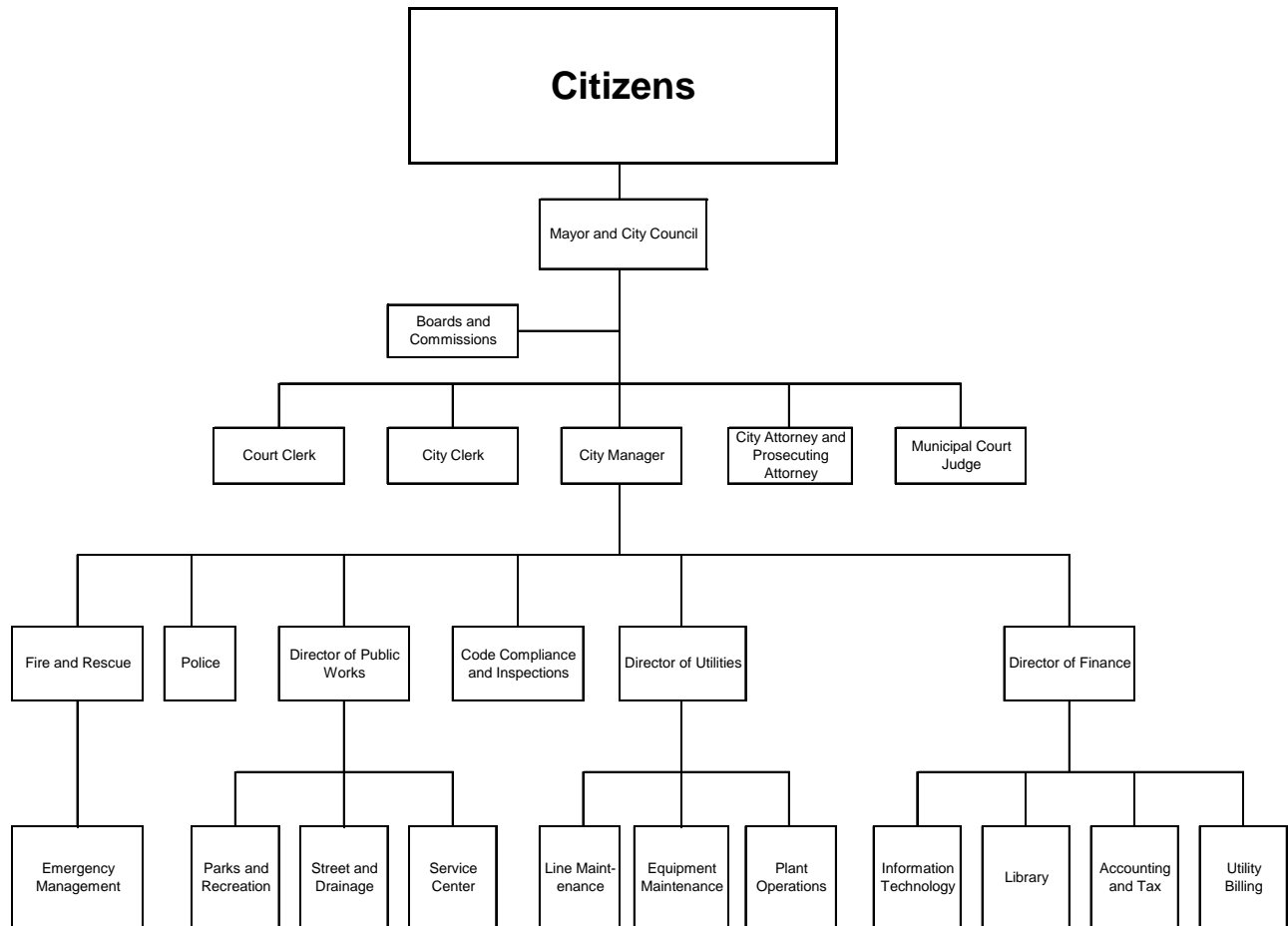
President

Jeffrey R. Emer

Executive Director

City of La Marque, Texas

Organizational Chart



CITY COUNCIL

LARRY E. CROW, SR.
Mayor

BILL CHARBONNEAU
Mayor Pro-Tem

KEITH BELL
Councilman



Set your sites on La Marque.

DEANIE BARRETT
Councilwoman

LARRY MANN
Councilman

ROBERT EWART
City Manager

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Financial Section

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Independent Auditors' Report

The Honorable Larry E. Crow, Sr., Mayor
Members of the City Council
1111 Bayou Road
La Marque, Texas 77568-4299

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of La Marque, Texas as of and for the year ended September 30, 2007, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of La Marque's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, business-type activities, each major fund and the aggregate remaining fund information of the City of La Marque, Texas, as of September 30, 2007, and the respective changes in financial position, and where applicable, cash flows thereof and the budgetary comparison for the general fund, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note I, the City has retroactively reported major general infrastructure assets, as allowed by the provisions of GASB Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, as amended and interpreted, as of September 30, 2007.

In accordance with *Government Auditing Standards*, we have also issued our report dated April 29, 2008 on our consideration of the City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and important for assessing the results of our audit.

The management's discussion and analysis and the schedule of funding progress as listed in the table of contents, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of La Marque's basic financial statements. The introductory section, combining and individual fund statements and schedules that include: combining financial statements for nonmajor governmental funds, internal service funds and fiduciary funds; individual fund annual budgetary comparison schedules; combined schedule of investments; schedule of changes in taxes receivable; combined schedule of bonds and other long-term debt; and, debt service requirements to maturity; and, statistical tables are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-profit Organizations*, and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the financial statements taken as a whole.

The combining and individual fund statements and schedules that include: combining financial statements for nonmajor governmental funds and internal service funds; individual fund annual budgetary comparison schedules; combined schedule of investments; schedule of changes in taxes receivable; combined schedule of bonds and other long-term debt; and, debt service requirements to maturity have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

The introductory section and statistical tables have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

Null-Lairson, PC

A handwritten signature in black ink that reads "Null-Lairson, PC". The signature is written in a cursive, flowing style.

Texas City, Texas
April 29, 2008

Management's Discussion and Analysis

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CITY OF LA MARQUE, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS

In this section of the Comprehensive Annual Financial Report, we present a narrative overview and analysis of the financial activities of the City of La Marque for the fiscal year ended September 30, 2007. Please read it in conjunction with the independent auditors' report, our letter of transmittal and the City's Basic Financial Statements.

FINANCIAL HIGHLIGHTS

- The assets of the City of La Marque exceeded its liabilities at the close of the most recent fiscal year by \$26,217,448 (*net assets*). Of this amount, \$7,170,044 (*unrestricted net assets*) may be used to meet the government's ongoing obligations to citizens and creditors.
- The City's net assets decreased by \$847,348 as a result of this year's operations.
- During the year, the City had expenses that were \$2,727,438 more than the \$10,083,784 generated in tax and other revenues for governmental programs (before special items). This compares to last year when revenues exceeded expenses by \$532,225. The current year expenses in excess of revenues were due primarily to the expenditure of bond proceeds in the capital projects fund.
- As of the close of the current fiscal year, the City of La Marque's governmental funds reported combined ending fund balances of \$8,127,975, an increase of \$1,210,018 in comparison with the prior year.
- The General Fund ended the year with a fund balance of \$2,341,677, which is \$118,067 less than the prior year.
- The resources available for appropriation were \$81,067 more than budgeted for the General Fund.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis are intended to serve as an introduction to the City of La Marque's basic financial statements. The City's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

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

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

The *statement of activities* presents information showing how the government'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).

CITY OF LA MARQUE, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS

Both of the government-wide financial statements distinguish functions of the City of La Marque 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 La Marque include general government, public safety, public works, sanitation and Urban Housing and Rehabilitation. The business-type activities of the City of La Marque include the Utility fund, Water and Sewer System Revenue fund and the Community Development Block Grant fund. The government-wide financial statements include not only the City of La Marque (the *primary government*), but also a legally separate Economic Development Corporation for which the City is financially accountable. Financial information for this *component unit* is reported separately from the financial information presented for the primary government itself.

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

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

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

The City of La Marque maintains nine individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general fund and capital projects fund which are considered to be major funds. Data from the other seven governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of *combining statements* elsewhere in this report. The Community Development Block Grant fund was reported as a governmental fund in the prior year, however during the current year management determined this fund to be an enterprise fund.

The City of La Marque adopts an annual appropriated budget for its general fund. A budgetary comparison statement has been provided for the general fund to demonstrate compliance with this budget.

CITY OF LA MARQUE, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS

Proprietary Funds. The City of La Marque maintains two different types of proprietary funds. *Enterprise funds* are used to report the same functions presented as *business-type activities* in the government-wide financial statements. The City of La Marque uses enterprise funds to account for its Utility fund, Water and Sewer System Revenue fund, and Community Development Block Grant fund (formerly a governmental fund). *Internal service funds* are an accounting device used to accumulate and allocate costs internally among the City's various functions. The City of La Marque uses internal service funds to account for its equipment replacement and for its equipment maintenance insurance. Because both of these services predominantly benefit governmental rather than business-type functions, they have been included within *governmental activities* in the government-wide financial statements.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the Utility Fund and for the Water and Sewer System Revenue and Interest and Sinking Funds, all of which are considered to be major funds of the City of La Marque. Conversely, both internal service funds are combined into a single, aggregated presentation in the proprietary fund financial statements. Individual fund data for the internal service funds is provided in the form of *combining statements* elsewhere in this report.

Fiduciary Funds. Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are *not* reflected in the government-wide financial statement because the resources of those funds are *not* available to support the City of La Marque's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds.

The City of La Marque maintains one fiduciary fund, the Library Memorial Fund.

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.

Other Information. In addition to the basic financial statements and accompanying notes, this report also presents certain *required supplementary information* concerning the City of La Marque's progress in funding its obligation to provide pension benefits to its employees.

The combining statements referred to earlier in connection with nonmajor governmental funds, internal service funds, and fiduciary funds are presented immediately following the required supplementary information on pensions.

Government-wide Financial Analysis

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 La Marque, assets exceeded liabilities by \$26,217,448 at the close of the most recent fiscal year.

By far the largest portion of the City of La Marque's net assets (68 percent) 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 of La Marque'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.

CITY OF LA MARQUE, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS

City of La Marque's Net Assets

	Governmental Activities		Business-type Activities		Total	
	2007	2006	2007	2006	2007	2006
Assets						
Current and other assets	\$ 10,648,070	\$ 10,025,125	\$ 5,075,857	\$ 5,324,323	\$ 15,723,927	\$ 15,349,448
Capital assets	12,822,474	3,510,544	16,914,905	17,366,996	29,737,379	20,877,540
Total assets	23,470,544	13,535,669	21,990,762	22,691,319	45,461,306	36,226,988
Liabilities						
Long-term liabilities	8,127,512	4,535,838	9,513,011	10,042,554	17,640,523	14,578,392
Other liabilities	768,371	1,322,447	834,964	627,721	1,603,335	1,950,168
Total liabilities	8,895,883	5,858,285	10,347,975	10,670,275	19,243,858	16,528,560
Net assets						
Invested in capital assets, net of related debt	10,126,850	3,072,404	7,721,479	7,656,487	17,848,329	10,728,891
Restricted	901,932	3,621,242	297,143	297,404	1,199,075	3,918,646
Unrestricted	3,545,879	983,738	3,624,165	4,067,153	7,170,044	5,050,891
Total net assets	\$ 14,574,661	\$ 7,677,384	\$ 11,642,787	\$ 12,021,044	\$ 26,217,448	\$ 19,698,428

An additional portion of the City of La Marque's net assets (4.6 percent) represents resources that are subject to external restrictions on how they may be used. The remaining balance of *unrestricted net assets* (\$7,170,044) may be used to meet the government's ongoing obligations to citizens and creditors.

At the end of the current fiscal year, the City of La Marque had positive balances in all three categories of net assets, both for the government as a whole, as well as for its separate governmental and business-type activities.

There was a decrease of \$261 in restricted net assets reported in connection with the City of La Marque's business-type activities resulting from increased investment earnings on restricted investments.

The government's net assets decreased by \$847,348 during the current fiscal year due primarily to an increase in personnel for the police and fire departments, as well as street and drainage maintenance and improvement projects within the public works department.

CITY OF LA MARQUE, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS

City of La Marque's Changes in Net Assets

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total</u>	
	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>
Revenues						
Program revenues:						
Charges for services	\$ 2,497,389	\$ 2,395,708	\$ 3,565,565	\$ 4,233,425	\$ 6,062,954	\$ 6,629,133
Operating grants and contributions	626,748	696,743	349,362	14,557	976,110	711,300
Capital grants and contributions						
General revenues:						
Property taxes	2,912,427	2,840,318			2,912,427	2,840,318
Other taxes	3,385,714	3,404,723			3,385,714	3,404,723
Unrestricted grants and contributions	63,473				63,473	
Special item						
Unrestricted investment earnings	473,411	379,188	129,410	144,351	602,821	523,539
Other revenue	148,232	146,038	185,648	3,440	333,880	149,478
Total revenues	<u>10,107,394</u>	<u>9,862,718</u>	<u>4,229,985</u>	<u>4,395,773</u>	<u>14,337,379</u>	<u>14,258,491</u>
Expenses						
General government	1,446,482	1,278,647			1,446,482	1,278,647
Public safety	5,017,928	4,645,576			5,017,928	4,645,576
Public works	2,344,263	1,338,798			2,344,263	1,338,798
Sanitation	1,189,657	968,143			1,189,657	968,143
Urban housing and rehabilitation	290,050	257,455			290,050	257,455
Interest on long-term debt	183,369	181,040			183,369	181,040
Business-type activity - Utility			4,415,293	4,130,361	4,415,293	4,130,361
Business-type activity - Water & sewer			297,685	302,266	297,685	302,266
Business-type activity - C.D.B.G.						
Total expenses	<u>10,471,749</u>	<u>8,669,659</u>	<u>4,712,978</u>	<u>4,432,627</u>	<u>15,184,727</u>	<u>13,102,286</u>
Increase (decrease) in net assets						
before transfers	(364,355)	1,193,059	(482,993)	(36,854)	(847,348)	1,156,205
Transfers	(104,736)	121,730	104,736	(121,730)		
Increase (decrease) in net assets	(469,091)	1,314,789	(378,257)	(158,584)	(847,348)	1,156,205
Net assets - October 1 (beginning)	<u>7,677,384</u>	<u>6,362,595</u>	<u>12,021,044</u>	<u>12,179,628</u>	<u>19,698,428</u>	<u>18,542,223</u>
Prior period adjustment	7,366,368				7,366,368	
Net assets - Beginning (As restated)	<u>15,043,752</u>	<u>6,362,595</u>	<u>12,021,044</u>	<u>12,179,628</u>	<u>27,064,796</u>	<u>18,542,223</u>
Net assets - September 30 (ending)	<u>\$ 14,574,661</u>	<u>\$ 7,677,384</u>	<u>\$ 11,642,787</u>	<u>\$ 12,021,044</u>	<u>\$ 26,217,448</u>	<u>\$ 19,698,428</u>

Governmental Activities. Governmental activities decreased the City of La Marque's net assets by \$469,091. Business-type activities generated a decrease of \$378,257 resulting in a combined net decrease of \$847,348. Key elements of this decrease are as follows:

- Public safety expenses increased \$372,352 (17.9 percent) due to additional dispatchers and firefighters.
- Public works expenses increased \$1,005,465 (48.3 percent) due to street improvement maintenance programs.

CITY OF LA MARQUE, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS

Business-type Activities. Business-type activities decreased the City of La Marque's net assets by \$378,257. Key elements of this decrease are as follows:

- Charges for services for business-type activities were sufficient to cover operating expenses excluding depreciation of \$1,186,466 and debt service payments. Rates are appropriate to generate sufficient cash flow; however heavy rains in the spring and early summer contributed to a decrease in water consumption along with corresponding revenue.
- Maintenance and repairs expenses increased \$228,891, including expenses to fund a program to repair and replace failing electronic meter reading transponder units.

Financial Analysis of the Government's Funds

The City of La Marque uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental Funds. The focus of the City of La Marque's *governmental funds* is to provide information on near-term inflows, outflows, and balances of *spendable* resources. Such information is useful in assessing the City's financing requirements. In particular, *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.

At the end of the current fiscal year, the City of La Marque's governmental funds reported combined ending fund balances of \$8,127,975, an increase of \$1,210,018 as compared to the prior year. *Unreserved fund balance*, which is available for spending at the government's discretion, totaled \$2,801,353. The remainder of fund balance is *reserved* to indicate that it is not available for new spending because it has already been committed 1) to pay debt service (\$400,957), 2) for capital projects (\$4,591,310), 3) for prepaid expenditures (\$10,176), 4) invested in inventory (\$47,921), 5) for park improvements (\$28,478), 6) for judicial security and technology (\$58,859), 7) for special revenue fund expenditures (\$154,911) and 7) for other purposes (\$34,010).

The general fund is the chief operating fund of the City of La Marque. At the end of the current fiscal year, *unreserved fund balance* amounted to \$2,162,233, while total fund balance amounted to \$2,341,677. As a measure of the general fund's liquidity, it may be useful to compare both fund balance reserved for future expenditures and total fund balance, to total fund expenditures. Unreserved fund balance represents 24 percent of total general fund expenditures, while total fund balance represents 26 percent of that same amount.

The fund balance of the City of La Marque's general fund decreased by \$118,067 during the current fiscal year. Key factors in this growth are as follows:

- Declining retail sales within the City resulted in a decrease in sales tax revenue of \$45,434.
- An increase in public works expenditures due to the addition of dispatchers, police and fire personnel totaling \$310,948.

The capital projects fund ended the year with a fund balance of \$4,591,310, an increase of \$1,272,570. This increase is due to a current debt issuance in excess of capital projects expenditures.

The debt service fund has a total fund balance of \$400,957, all of which is reserved for debt service. The net decrease in fund balance during the current year in the debt service fund was \$26,071.

CITY OF LA MARQUE, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS

Proprietary Funds. The City of La Marque's proprietary funds provide the same type of information found in the government-wide financial statements, but in greater detail.

Unrestricted net assets of the Utility Fund at the end of the year totaled \$3,470,367 and total net assets were \$10,759,788. The Water and Sewer System Revenue Fund net assets totaled \$533,590 and the Community Development Block Grant fund ended the year with \$349,409 in net assets. The total change in net assets for these funds was a decrease of \$771,966, an increase of \$44,300, and an increase of \$349,409, respectively. Other factors concerning the finances of these funds have already been addressed in the discussion of the City of La Marque's business-type activities.

General Fund Budgetary Highlights

Differences between the original budget and the final amended budget resulted in an overall increase in appropriations of \$188,655 summarized as follows:

- \$11,050 in increases allocated to general government
- \$42,203 in increases allocated to public safety
- \$135,402 in increases allocated to capital outlay

This increase was to be funded from other revenue. During the year, however, expenditures were less than budgetary estimates as explained below.

The general fund had a positive revenue variance of final budget to actual of \$81,067. The City had amended its budget to reflect the receipt of proceeds from the sale of property, however the negotiations for this sale were not complete at the end of the fiscal year and the transaction did not occur, therefore the negative variance in other revenue was noted.

Negative variances of \$43,914 for general government were attributed to contingency items such as bad debt expense adjustments for EMS billing and code compliance activities that were not budgeted.

Public safety also experienced negative variances from budget to actual due to unforeseen extraordinary repairs to fire trucks, as well as an increase in fees for permit review which is outsourced.

Capital Assets and Debt Administration

Capital Assets. The City of La Marque's investment in capital assets for its governmental and business type activities as of September 30, 2007, amounts to \$29,737,379 (net of accumulated depreciation). This investment in capital assets includes land, buildings, improvements, vehicles, machinery and equipment, furniture and office equipment and construction in progress. The total increase in the City of La Marque's investment in capital assets for the current fiscal year was 42.4 percent.

Major capital assets acquired during the current fiscal year included the following:

- Construction continued on the sanitary sewer rehabilitation manhole projects and various drainage improvements; construction in progress as of the close of the fiscal year totaled \$3,334,515.
- Police cars were purchased at a cost of \$125,516.
- Dump trucks were purchased at a cost of \$89,381.

CITY OF LA MARQUE, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS

City of La Marque's Capital Assets
(net of depreciation)

	Governmental Activities		Business-type Activities		Total	
	2007	2006	2007	2006	2007	2006
Land	\$ 210,370	\$ 210,370	\$ 209,774	\$ 209,774	\$ 420,144	\$ 420,144
Buildings and improvements	1,391,379	1,461,123	31,409	34,388	1,422,788	1,495,511
Improvements other than buildings	6,777,231		16,105,062	16,896,152	22,882,293	16,896,152
Vehicles	517,828	423,657	164,839	101,073	682,667	524,730
Machinery and equipment	831,072	927,021	54,412	22,621	885,484	949,642
Furniture and office equipment	109,488	124,489			109,488	124,489
Construction in progress	2,985,106	363,884	349,409	102,988	3,334,515	466,872
	<u>\$ 12,822,474</u>	<u>\$ 3,510,544</u>	<u>\$ 16,914,905</u>	<u>\$ 17,366,996</u>	<u>\$ 29,737,379</u>	<u>\$ 20,877,540</u>

Additional information on the City of La Marque's capital assets can be found in note IV.D of this report.

Long-term Debt. At the end of the current fiscal year, the City of La Marque had total bonded debt outstanding of \$16,445,000. Of this amount, \$7,055,000 comprises debt backed by the full faith and credit of the government. The remainder of the City of La Marque's debt represents bonds secured solely by specified revenue sources (i.e., revenue bonds).

City of La Marque's Outstanding Debt
Certificates of Obligation and Revenue Bonds

	Governmental Activities		Business-type Activities		Total	
	2007	2006	2007	2006	2007	2006
Certificates of obligation	\$ 7,055,000	\$ 3,625,000			\$ 7,055,000	\$ 3,625,000
Revenue bonds and long-term contracts			9,390,000	9,925,000	9,390,000	9,925,000
	<u>\$ 7,055,000</u>	<u>\$ 3,625,000</u>	<u>\$ 9,390,000</u>	<u>\$ 9,925,000</u>	<u>\$ 16,445,000</u>	<u>\$ 13,550,000</u>

The City of La Marque's total debt increased by \$2,895,000 (2.6 percent) during the current fiscal year due to the issuance of debt of \$3,750,000 and principal payments in the amount of \$855,000 made on existing debt.

Although there is no legal debt limit in Texas, most municipal finance officers in the state hold the opinion that the Attorney General would not approve bonded indebtedness in excess of 10% of assessed value. The current debt limitation for the City of La Marque is \$65,869,859, which is significantly in excess of the City of La Marque's outstanding debt.

Additional information on the City of La Marque's long-term debt can be found in note IV.G of this report.

CITY OF LA MARQUE, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS

Economic Factors and Next Year's Budgets and Rates

- Recent area development consists of 2,450 newly platted lots in seven new subdivisions with 147 new housing starts.
- The unemployment rate for the City of La Marque declined to 9.8 percent. This is still significantly higher than the state's average unemployment rate of 4.3 percent and the national average rate of 4.7 percent.
- Property tax collections for the governmental funds increased 1.7% in the current fiscal year.
- The La Marque Clean City Commission has begun an aggressive campaign utilizing individuals sentenced to community service by the City's municipal court to perform revitalization projects throughout the City. Community service tasks such as painting City facilities and targeted litter pick-up have already been accomplished during the year, with numerous other projects planned for next year.
- La Marque Economic Development Corporation will be researching various ways to re-develop certain areas within the City that are currently under-utilized or under-productive.

These factors were considered in preparing the City of La Marque's budget for the 2008 fiscal year.

The City of La Marque has decreased the tax rate for the 2008 fiscal year budget to \$.51436 per \$100 assessed value.

Water and sewer rates have been maintained for the 2008 fiscal year at the same rate as the 2007 year, however garbage rates were adjusted according to contract negotiations with the City's service provider.

Requests for Information

This financial report is designed to provide a general overview of the City of La Marque'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, 1111 Bayou Road, La Marque, Texas 77568.



Set your sites on La Marque.

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Basic Financial Statements



Set your sites on La Marque.

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CITY OF LA MARQUE, TEXAS
STATEMENT OF NET ASSETS
For The Year Ended Sempter 30, 2007

Exhibit A-1

	Primary Government			Component Unit
	Governmental Activities	Business-type Activities	Total	La Marque E.D.C.
Assets				
Current assets:				
Cash and cash equivalents	\$ 408,644	\$ 426,320	\$ 834,964	\$ 971,962
Investments	8,764,229	1,464,109	10,228,338	2,958,957
Property taxes receivable, net of allowance for doubtful accounts	520,942		520,942	
Other taxes receivable	648,514		648,514	134,259
Customer receivables, net of allowance for doubtful accounts	329,461	822,744	1,152,205	
Other receivables	44,439	20,424	64,863	735
Internal balances	(285,111)	285,111		
Due from primary government				2,834
Due from other governments	46,715	301,671	348,386	
Inventories	47,921		47,921	516,186
Prepaid items	10,952	324	11,276	
Deferred charges	111,364	234,279	345,643	
Restricted assets:				
Cash and cash equivalents		7,304	7,304	
Investments		1,513,571	1,513,571	
Capital assets (net of accumulated depreciation):				
Land	210,370	209,774	420,144	
Buildings and improvements	1,391,379	31,409	1,422,788	
Improvements other than buildings	6,777,231	16,105,062	22,882,293	
Vehicles	517,828	164,839	682,667	
Machinery and equipment	831,072	54,412	885,484	
Furniture and office equipment	109,488		109,488	
Construction in progress	2,985,106	349,409	3,334,515	
Total assets	23,470,544	21,990,762	45,461,306	4,584,933
Liabilities				
Accounts payable	524,707	395,339	920,046	7,332
Accrued expenses	172,256	22,111	194,367	
Payable to component unit	2,834		2,834	
Interest payable	30,133	37,705	67,838	
Unearned revenue	38,441	22,309	60,750	
Liabilities payable from restricted assets		357,500	357,500	
Noncurrent liabilities:				
Due within one year	573,895	622,120	1,196,015	
Due in more than one year	7,553,617	8,890,891	16,444,508	
Total liabilities	8,895,883	10,347,975	19,243,858	7,332
Net Assets				
Invested in capital assets, net of related debt	10,126,850	7,721,479	17,848,329	
Restricted for capital projects	313,165		313,165	
Restricted for debt service	433,868	297,143	731,011	
Restricted for urban housing and rehabilitation	149,116		149,116	
Restricted for other purposes	5,783		5,783	
Unrestricted	3,545,879	3,624,165	7,170,044	4,577,601
Total net assets	\$ 14,574,661	\$ 11,642,787	\$ 26,217,448	\$ 4,577,601

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

CITY OF LA MARQUE, TEXAS

STATEMENT OF ACTIVITIES

For The Year Ended September 30, 2007

Functions/Programs	Expenses	Charges for Services	Operating Grants and Contributions
Primary government			
Governmental activities:			
General government	\$ 1,446,482	\$ 31,813	\$ 10,204
Public safety	5,017,928	1,340,956	4,109
Public works	2,344,263	52,038	293,327
Sanitation	1,189,657	1,072,582	
Urban housing and rehabilitation	290,050		319,108
Interest on long-term debt	183,369		
Total governmental activities	10,471,749	2,497,389	626,748
Business-type activities:			
Enterprise fund - Utility	4,415,293	3,565,565	
Enterprise fund - Water and sewer	297,685		
Enterprise fund - C.D.B.G.			349,362
Total business-type activities	4,712,978	3,565,565	349,362
Total primary government	\$ 15,184,727	\$ 6,062,954	\$ 976,110
Component Unit - LaMarque E.D.C.	\$ 272,971	\$	\$ 4,750

General revenues:

Property taxes levied for general purposes
 Property taxes levied for special purposes
 Sales taxes
 Gross receipts taxes
 Hotel/Motel taxes
 Other taxes
 Unrestricted grants and contributions
 Unrestricted investment earnings
 Special item
 Other revenue

Transfers:

Total general revenues and transfers

Change in net assets

Net assets - beginning

Prior period adjustment

Net assets - beginning (As restated)

Net assets - ending

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

Exhibit A-2

Primary Government			Component Unit La Marque E.D.C.
Governmental Activities	Business-type Activities	Total	Total
\$ (1,404,465)	\$	\$ (1,404,465)	\$
(3,672,863)		(3,672,863)	
(1,998,898)		(1,998,898)	
(117,075)		(117,075)	
29,058		29,058	
(183,369)		(183,369)	
<u>(7,347,612)</u>		<u>(7,347,612)</u>	
	(849,728)	(849,728)	
	(297,685)	(297,685)	
	349,362	349,362	
	<u>(798,051)</u>	<u>(798,051)</u>	
<u>(7,347,612)</u>	<u>(798,051)</u>	<u>(8,145,663)</u>	
			<u>(268,221)</u>
2,424,030		2,424,030	
488,397		488,397	
2,416,247		2,416,247	805,416
816,018		816,018	
90,007		90,007	
63,442		63,442	
63,473		63,473	
473,411	129,410	602,821	134,482
148,232	185,648	333,880	3,006
(104,736)	104,736		
<u>6,878,521</u>	<u>419,794</u>	<u>7,298,315</u>	<u>942,904</u>
<u>(469,091)</u>	<u>(378,257)</u>	<u>(847,348)</u>	<u>674,683</u>
7,677,384	12,021,044	19,698,428	3,902,918
7,366,368		7,366,368	
<u>15,043,752</u>	<u>12,021,044</u>	<u>27,064,796</u>	<u>3,902,918</u>
<u>\$ 14,574,661</u>	<u>\$ 11,642,787</u>	<u>\$ 26,217,448</u>	<u>\$ 4,577,601</u>

CITY OF LA MARQUE, TEXAS
BALANCE SHEET
GOVERNMENTAL FUNDS
September 30, 2007

Exhibit B-1

	<u>General</u>	<u>Capital Projects</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Assets				
Cash and cash equivalents	\$ 32,459	\$ 24,487	\$ 262,604	\$ 319,550
Investments	1,933,057	4,598,344	1,124,273	7,655,674
Property taxes receivable, net	431,976		88,966	520,942
Other taxes receivable, net	630,231		18,283	648,514
Due from other funds	155,482		44,091	199,573
Due from other governments			46,715	46,715
Due from customers, net	329,461			329,461
Other receivables	44,337		102	44,439
Inventories	47,921			47,921
Prepaid expenditures	10,176			10,176
Other assets	776			776
Total assets	<u>\$ 3,615,876</u>	<u>\$ 4,622,831</u>	<u>\$ 1,585,034</u>	<u>\$ 9,823,741</u>
Liabilities				
Accounts payable	\$ 398,440	\$ 28,959	\$ 97,167	\$ 524,566
Accrued expenditures	166,901		1,565	168,466
Accrued interest payable			4,261	4,261
Due to other funds	405,223	2,562	186,000	593,785
Deferred revenue	297,011		101,053	398,064
Bail bonds payable	3,790			3,790
Due to component unit	2,834			2,834
Total liabilities	<u>1,274,199</u>	<u>31,521</u>	<u>390,046</u>	<u>1,695,766</u>
Fund Balance				
Reserved for:				
Debt service			400,957	400,957
Inventory	47,921			47,921
Capital projects		4,591,310		4,591,310
Prepaid expenditures	10,176			10,176
Parks	28,478			28,478
Judicial security and technology	58,859			58,859
Special revenue funds			154,911	154,911
Other	34,010			34,010
Unreserved:				
Designated for:				
Self insurance:				
Reported in the general fund	40,000			40,000
Future expenditures:				
Reported in the general fund	2,122,233			2,122,233
Reported in special revenue funds			639,120	639,120
Total fund balance	<u>2,341,677</u>	<u>4,591,310</u>	<u>1,194,988</u>	<u>8,127,975</u>
Total liabilities and fund balances	<u>\$ 3,615,876</u>	<u>\$ 4,622,831</u>	<u>\$ 1,585,034</u>	<u>\$ 9,823,741</u>

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

CITY OF LA MARQUE, TEXAS
RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL
FUNDS TO THE STATEMENT OF NET ASSETS
September 30, 2007

Exhibit B-2

Total fund balances - Governmental funds		\$ 8,127,975
1 The City uses internal service funds to charge the costs of certain activities, such as equipment maintenance insurance to appropriate functions in other funds. The assets and liabilities of the internal service funds are included in governmental activities in the statement of net assets. The net effect of this consolidation is to increase net assets.		1,306,609
2 Capital assets used in governmental activities are not current financial resources and, therefore, are not reported in the Fund Financial Statements, but are reported in the governmental activities of the Statement of Net Assets.		
	\$ 28,802,472	
Capital assets	<u>(15,979,998)</u>	
Accumulated depreciation	<u>\$ 12,822,474</u>	12,822,474
3 Long-term liabilities are not due and payable in the current period and are not included in the Fund Financial Statements, but are included in the governmental activities of the Statement of Net Assets.		
	\$ (7,055,000)	
General obligation bonds, certificates of obligation, etc.	(135,782)	
Supplemental annuities payable	(936,730)	
Compensated absences payable	<u>\$ (8,127,512)</u>	(8,127,512)
4 Accrued interest on debt in excess of the amount recorded in the debt service fund		(25,872)
5 Deferred revenues recorded as revenue in the Statement of Net Assets		359,623
6 Unamortized bond issuance costs, premiums and losses on refunding bonds, in the Statement of Net Assets not in the Fund Financial Statements		<u>111,364</u>
Net assets of governmental activities		<u>\$ 14,574,661</u>

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

CITY OF LA MARQUE, TEXAS
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
For the Year Ended September 30, 2007

Exhibit B-3

	General	Capital Projects	Other Governmental Funds	Total Governmental Funds
Revenues				
Taxes:				
Property	\$ 2,464,448	\$	\$ 510,756	\$ 2,975,204
Sales	2,416,247			2,416,247
Gross receipts	816,018			816,018
Other	63,442		90,007	153,449
Licenses and permits	268,421			268,421
Intergovernmental revenue	72,715		600,684	673,399
Charges for services	1,603,149			1,603,149
Fines and forfeitures	605,707			605,707
Investment earnings	83,472	204,442	97,212	385,126
Reimbursement from component unit	93,854			93,854
Other revenue	85,479		7,731	93,210
Total revenues	8,572,952	204,442	1,306,390	10,083,784
Expenditures				
Current:				
General government:	1,359,536		97,600	1,457,136
Public safety	4,820,973		839	4,821,812
Public works	1,399,051	3,750	336,609	1,739,410
Sanitation	1,065,018			1,065,018
Urban rehabilitation and housing			290,050	290,050
Debt service:				
Principal on long-term debt			345,401	345,401
Interest and fiscal charges	1,014	60,650	162,204	223,868
Capital outlay:				
Public safety	196,546			196,546
Public works	54,509	2,617,472		2,671,981
Total expenditures	8,896,647	2,681,872	1,232,703	12,811,222
Excess (Deficiency) of revenues over (under) expenditures	(323,695)	(2,477,430)	73,687	(2,727,438)
Other Financing Sources (Uses)				
Transfer in	231,628			231,628
Transfers (out)	(26,000)		(18,172)	(44,172)
Proceeds from issuance of long-term debt, net		3,750,000		3,750,000
Total other financing sources (uses)	205,628	3,750,000	(18,172)	3,937,456
Net change in fund balances	(118,067)	1,272,570	55,515	1,210,018
Fund balances - October 1 (Beginning)	2,459,744	3,318,740	1,031,199	6,809,683
Prior period adjustment			108,274	108,274
Fund balances - Beginning (As restated)	2,459,744	3,318,740	1,139,473	6,917,957
Fund balances - September 30 (Ending)	\$ 2,341,677	\$ 4,591,310	\$ 1,194,988	\$ 8,127,975

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

CITY OF LA MARQUE, TEXAS
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE
STATEMENT OF ACTIVITIES
September 30, 2007

Exhibit B-4

Total net change in fund balances - Governmental funds		\$ 1,210,018
1 The City uses internal service funds to charge the costs of certain activities, such as equipment maintenance insurance to appropriate functions in other funds. The income (loss) of internal service funds are reported with governmental activities. The net effect of this consolidation is to decrease net assets.		(122,743)
2 Governmental funds report outlays for capital assets as expenditures because such outlays use current financial resources. In contrast, the statement of activities reports only a portion of the outlay as expense. The outlay is allocated over the assets' estimated useful lives as depreciation.		
Capital outlays moved to capital asset additions	\$ 2,868,527	
Depreciation expense recorded for the year	<u>(786,632)</u>	
Net adjustment to increase (decrease) in governmental fund balances to arrive at the change in net assets for governmental activities	<u>\$ 2,081,895</u>	2,081,895
3 Governmental funds do not present revenues that are not available to pay current obligations. In contrast, such revenues are reported in the Statement of Activities when earned.		
Property taxes net adjustment to the accrual basis		(62,777)
4 Proceeds from long-term debt issued increase long-term liabilities in the Statement of Net Assets but are considered other sources in the governmental fund financial statements		
General Obligation Bonds, Certificates of Obligation, etc.	\$ (3,750,000)	
Supplemental annuities for retirees	<u>(74,486)</u>	
	<u>\$ (3,824,486)</u>	(3,824,486)
5 Issuance costs are recorded as assets in the Statement of Net Assets, but for the Governmental Fund Financial Statements the amounts are recorded as other uses		60,650
6 Governmental funds report the repayment of principal on long-term debt as an expenditure. In contrast, the Statement of Activities treats such repayments as reductions in long-term liabilities.		
Principal payments on long-term debt (General Obligation Bonds, Certificates of Obligation, etc.)	\$ 320,000	
Payment of supplemental annuities for retirees	<u>25,401</u>	
	<u>\$ 345,401</u>	345,401
7 Some expenses reported in the Statement of Activities do not require the use of current financial resources and are therefore not reported as expenditures in the Fund Financial Statements:		
Book value of disposed assets		(28,059)
Change in accrued interest payable		(13,016)
Change in compensated absences payable		(112,589)
Amortization of issuance costs, premiums and refunding losses not recorded in the Fund Financial Statements but recorded in the Statement of Activities		<u>(3,385)</u>
Change in net assets of governmental activities		<u>\$ (469,091)</u>

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

CITY OF LA MARQUE, TEXAS
GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
For the Year Ended September 30, 2007

Exhibit B-5
Page 1 of 2

	<u>Budgeted Amounts</u>			Variance With Final Budget (Negative)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
Revenues				
Taxes:				
Property	\$ 2,398,760	\$ 2,387,200	\$ 2,464,448	\$ 77,248
Sales	2,300,000	2,420,000	2,416,247	(3,753)
Gross receipts	815,900	822,200	816,018	(6,182)
Other	76,500	71,400	63,442	(7,958)
Licenses and permits	148,460	193,200	268,421	75,221
Intergovernmental revenue	2,641	2,641	72,715	70,074
Charges for services	1,386,445	1,417,091	1,603,149	186,058
Fines and forfeitures	587,510	583,345	605,707	22,362
Investment earnings	22,300	50,000	83,472	33,472
Reimbursement from component unit	84,460	75,300	93,854	18,554
Other revenue	167,550	469,508	85,479	(384,029)
Total revenues	<u>7,990,526</u>	<u>8,491,885</u>	<u>8,572,952</u>	<u>81,067</u>
Expenditures				
Current:				
General government:				
General	225,621	225,621	212,746	12,875
City Manager	260,345	260,345	250,028	10,317
City Council	26,975	26,975	25,700	1,275
Finance and tax	374,020	374,020	338,278	35,742
Data processing	79,050	79,050	80,458	(1,408)
Library	292,701	292,701	321,327	(28,626)
Contingency	45,860	56,910	130,999	(74,089)
Total general government	<u>1,304,572</u>	<u>1,315,622</u>	<u>1,359,536</u>	<u>(43,914)</u>
Public safety:				
Police	2,667,075	2,667,575	2,563,229	104,346
Judicial	269,665	269,665	260,941	8,724
Fire	1,471,769	1,513,472	1,573,617	(60,145)
Inspection	268,835	268,835	365,802	(96,967)
Emergency management	20,670	20,670	10,889	9,781
Animal control	61,992	61,992	46,495	15,497
Total public safety	<u>4,760,006</u>	<u>4,802,209</u>	<u>4,820,973</u>	<u>(18,764)</u>
Public works:				
Administration	238,311	238,311	63,559	174,752
Shop service facility	251,860	251,860	214,135	37,725
Streets and highways	962,210	962,210	969,746	(7,536)
Parks and recreation	163,590	163,590	151,611	11,979
Total public works	<u>1,615,971</u>	<u>1,615,971</u>	<u>1,399,051</u>	<u>216,920</u>
Sanitation	<u>1,015,660</u>	<u>1,015,660</u>	<u>1,065,018</u>	<u>49,358</u>

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

CITY OF LA MARQUE, TEXAS
GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
For the Year Ended September 30, 2007

Exhibit B-5
Page 2 of 2

	<u>Budgeted Amounts</u>			Variance With Final Budget (Negative)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
Expenditures (Continued)				
Debt service:				
Interest and fiscal charges	\$ 1,014	\$ 1,014	\$ 1,014	\$
Total debt service	<u>1,014</u>	<u>1,014</u>	<u>1,014</u>	
Capital outlay:				
Public Safety	146,144	196,546	196,546	
Public Works	(30,491)	54,509	54,509	
Total capital outlay	<u>115,653</u>	<u>251,055</u>	<u>251,055</u>	
Total expenditures	<u>8,812,876</u>	<u>9,001,531</u>	<u>8,896,647</u>	<u>203,600</u>
Excess (Deficiency) of revenues over (under) expenditures	<u>(822,350)</u>	<u>(509,646)</u>	<u>(323,695)</u>	<u>185,951</u>
Other Financing Sources (Uses)				
Transfer in	80,101	80,101	231,628	151,527
Transfers (out)	(26,000)	(26,000)	(26,000)	
Proceeds from the disposal of assets	10	1,020		(1,020)
Total other financing sources (uses)	<u>54,111</u>	<u>55,121</u>	<u>205,628</u>	<u>150,507</u>
Net change in fund balances	(768,239)	(454,525)	(118,067)	336,458
Fund balances - Beginning	<u>2,459,744</u>	<u>2,459,744</u>	<u>2,459,744</u>	
Fund balances - Ending	<u>\$ 1,691,505</u>	<u>\$ 2,005,219</u>	<u>\$ 2,341,677</u>	<u>\$ 336,458</u>

CITY OF LA MARQUE, TEXAS
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
September 30, 2007

	<u>Utility Current Year</u>	<u>Utility Prior Year</u>	<u>Water and Sewer System Revenue Current Year</u>	<u>Water and Sewer System Revenue Prior Year</u>
Assets				
Current assets:				
Unrestricted:				
Cash and cash equivalents	\$ 68,820	\$	\$ 5,741	\$
Investments	1,464,109	533,047		
Due from other funds	1,528,723	2,781,579	11,615	11,615
Due from customers, net of allowance for doubtful accounts	822,744	716,533		
Interest receivable	2,282	5,126		
Miscellaneous receivables	18,142	18,450		
Prepaid items	324	324		
Restricted:				
Cash and cash equivalents:				
Customer deposits	357,500	336,857		
Revenue bond debt service	1,563	3,813		
Water and sewer system reserve				35,818
Investments:				
Revenue bond debt service	313,437	296,187		
Water and sewer system reserve			240,000	199,182
Total current assets	<u>4,577,644</u>	<u>4,691,916</u>	<u>257,356</u>	<u>246,615</u>
Noncurrent assets:				
Restricted assets:				
Restricted investments:				
Revenue bond debt service	41,143	220,103		
Water and sewer system reserve				1,213,769
Plant and lines reserve	421,510	399,844		
Meter replacement reserve	497,481	472,979		
Total restricted assets	<u>960,134</u>	<u>1,092,926</u>	<u></u>	<u>1,213,769</u>
Deferred charges, net of accumulated amortization	<u>160,694</u>	<u>173,405</u>	<u>73,585</u>	<u>80,404</u>
Capital assets:				
Land	209,774	209,774		
Buildings and structures	116,805	116,805		
Other improvements	28,666,325	28,421,659	4,824,765	4,726,622
Machinery and equipment	583,805	532,628		
Motor vehicles	1,152,934	1,058,966		
Construction in process		22,574		80,414
Less accumulated depreciation	(18,080,229)	(17,053,225)	(908,683)	(749,221)
Total capital assets, net of accumulated depreciation	<u>12,649,414</u>	<u>13,309,181</u>	<u>3,916,082</u>	<u>4,057,815</u>
Total noncurrent assets	<u>13,770,242</u>	<u>14,575,512</u>	<u>3,989,667</u>	<u>5,351,988</u>
Total assets	<u>18,347,886</u>	<u>19,267,428</u>	<u>4,247,023</u>	<u>5,598,603</u>

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

<u>Community Development Block Grant Current Year</u>	<u>Community Development Block Grant Prior Year</u>	<u>Total Proprietary Funds</u>	<u>Governmental Activities - Internal Service Funds</u>
\$	\$ 70,000	\$ 74,561	\$ 89,094
		1,464,109	1,108,555
		1,540,338	114,338
		822,744	
		2,282	
301,671		319,813	
		324	
		357,500	
		1,563	
		313,437	
		240,000	
<u>301,671</u>	<u>70,000</u>	<u>5,136,671</u>	<u>1,311,987</u>
		41,143	
		421,510	
		497,481	
		960,134	
		234,279	
		209,774	
		116,805	
		33,491,090	
		583,805	
349,409		1,152,934	
		349,409	
		(18,988,912)	
<u>349,409</u>		<u>16,914,905</u>	
<u>349,409</u>		<u>18,109,318</u>	
<u>651,080</u>	<u>70,000</u>	<u>23,245,989</u>	<u>1,311,987</u>

CITY OF LA MARQUE, TEXAS
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
September 30, 2007

	<u>Utility</u> <u>Current Year</u>	<u>Utility</u> <u>Prior Year</u>	<u>Water and</u> <u>Sewer System</u> <u>Revenue</u> <u>Current Year</u>	<u>Water and</u> <u>Sewer System</u> <u>Revenue</u> <u>Prior Year</u>
Liabilities				
Current liabilities:				
Accounts payable	\$ 227,382	\$ 168,631	\$	\$ 70,144
Accrued expenses	22,111	12,771		
Interest payable	27,830	28,892	9,875	10,426
Accrued compensated absences	67,120	55,656		
Due to other funds	1,040,264	980,969	103,558	1,193,743
Deferred revenue				
	<u>1,384,707</u>	<u>1,246,919</u>	<u>113,433</u>	<u>1,274,313</u>
Current liabilities payable from restricted assets:				
Customer deposits payable	357,500	336,857		
Revenue bonds payable	315,000	300,000	240,000	235,000
	<u>672,500</u>	<u>636,857</u>	<u>240,000</u>	<u>235,000</u>
Total current liabilities	<u>2,057,207</u>	<u>1,883,776</u>	<u>353,433</u>	<u>1,509,313</u>
Noncurrent liabilities:				
Accrued compensated absences	55,891	61,898		
Revenue bonds payable	5,475,000	5,790,000	3,360,000	3,600,000
Total noncurrent liabilities	<u>5,530,891</u>	<u>5,851,898</u>	<u>3,360,000</u>	<u>3,600,000</u>
Total liabilities	<u>7,588,098</u>	<u>7,735,674</u>	<u>3,713,433</u>	<u>5,109,313</u>
Net Assets				
Invested in capital assets, net of related debt	6,992,278	7,363,694	379,792	292,793
Restricted for debt service	297,143	297,404		
Unrestricted	3,470,367	3,870,656	153,798	196,497
Total net assets	<u>\$ 10,759,788</u>	<u>\$ 11,531,754</u>	<u>\$ 533,590</u>	<u>\$ 489,290</u>

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

<u>Community Development Block Grant Current Year</u>	<u>Community Development Block Grant Prior Year</u>	<u>Total Proprietary Funds</u>	<u>Governmental Activities - Internal Service Funds</u>
\$ 167,957	\$	\$ 395,339	\$ 141
		22,111	
		37,705	
		67,120	
111,405		1,255,227	5,237
22,309	70,000	22,309	
<u>301,671</u>	<u>70,000</u>	<u>1,799,811</u>	<u>5,378</u>
		357,500	
		555,000	
		<u>912,500</u>	
<u>301,671</u>	<u>70,000</u>	<u>2,712,311</u>	<u>5,378</u>
		55,891	
		8,835,000	
		<u>8,890,891</u>	
<u>301,671</u>	<u>70,000</u>	<u>11,603,202</u>	<u>5,378</u>
349,409		7,721,479	
		297,143	
		3,624,165	1,306,609
<u>\$ 349,409</u>	<u>\$</u>	<u>\$ 11,642,787</u>	<u>\$ 1,306,609</u>

CITY OF LA MARQUE, TEXAS
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUNDS
For The Year Ended September 30, 2007

	<u>Utility</u> <u>Current Year</u>	<u>Utility</u> <u>Prior Year</u>	<u>Water and</u> <u>Sewer System</u> <u>Revenue</u> <u>Current Year</u>	<u>Water and</u> <u>Sewer System</u> <u>Revenue</u> <u>Prior Year</u>
Operating revenues				
Charges for services	\$ 3,532,125	\$ 4,211,225	\$	\$
Total operating revenues	<u>3,532,125</u>	<u>4,211,225</u>	<u></u>	<u></u>
Operating expenses				
Personnel services	880,370	932,900		
Supplies	196,255	188,716		
Maintenance and repairs	895,536	603,591		
Miscellaneous services	91,507	176,516		
Utilities	359,532	219,744		
Purchased water	659,219	676,832		
Depreciation	1,027,004	1,016,034	159,462	157,554
Compensated absences expense	5,457	2,934		
Total operating expenses	<u>4,114,880</u>	<u>3,817,267</u>	<u>159,462</u>	<u>157,554</u>
Operating income	<u>(582,755)</u>	<u>393,958</u>	<u>(159,462)</u>	<u>(157,554)</u>
Non-operating revenues (expenses)				
Intergovernmental revenue		14,557		
Miscellaneous revenue	37,591	25,580		
Investment earnings	118,514	83,155	10,849	61,196
G.C.W.A. cost reimbursement	181,497			
Interest expense and fiscal charges	(286,862)	(297,390)	(131,404)	(137,893)
Amortization of deferred expenses	(12,711)	(14,934)	(6,819)	(6,819)
Contingencies	(840)	(770)		
Total non-operating revenues (expenses)	<u>37,189</u>	<u>(189,802)</u>	<u>(127,374)</u>	<u>(83,516)</u>
Income before contributions and transfers	<u>(545,566)</u>	<u>204,156</u>	<u>(286,836)</u>	<u>(241,070)</u>
Contributions and transfers				
Transfer in	715,474	56,296	366,954	363,411
Transfers (out)	(941,874)	(541,437)	(35,818)	
Proceeds from disposal of assets		60		
Total contributions and transfers	<u>(226,400)</u>	<u>(485,081)</u>	<u>331,136</u>	<u>363,411</u>
Change in net assets	(771,966)	(280,925)	44,300	122,341
Total net assets - Beginning	<u>11,531,754</u>	<u>11,812,679</u>	<u>489,290</u>	<u>366,949</u>
Total net assets - Ending	<u>\$ 10,759,788</u>	<u>\$ 11,531,754</u>	<u>\$ 533,590</u>	<u>\$ 489,290</u>

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

Exhibit C-2

Community Development Block Grant Current Year	Community Development Block Grant Prior Year	Total Proprietary Funds	Governmental Activities - Internal Service Funds
\$ _____	\$ _____	\$ 3,532,125	\$ 92,440
		3,532,125	92,440
		880,370	
		196,255	
		895,536	
		91,507	11,276
		359,532	
		659,219	
		1,186,466	
		5,457	
		4,274,342	11,276
		(742,217)	81,164
301,671		301,671	
47,691		85,282	
47		129,410	88,285
		181,497	
		(418,266)	
		(19,530)	
		(840)	
349,409		259,224	88,285
349,409		(482,993)	169,449
		1,082,428	26,690
		(977,692)	(318,882)
		104,736	(292,192)
349,409		(378,257)	(122,743)
		12,021,044	1,429,352
\$ 349,409	\$ _____	\$ 11,642,787	\$ 1,306,609

CITY OF LA MARQUE, TEXAS
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
For The Year Ended September 30, 2007

	<u>Utility</u> <u>Current Year</u>	<u>Utility</u> <u>Prior Year</u>	<u>Water and</u> <u>Sewer System</u> <u>Revenue</u> <u>Current Year</u>	<u>Water and</u> <u>Sewer System</u> <u>Revenue</u> <u>Prior Year</u>
Cash flows from operating activities:				
Cash received from customers	\$ 3,665,953	\$ 3,869,459	\$	\$
Receipts from interfund services provided				
Cash paid to suppliers for goods and services	(2,144,138)	(1,870,635)	(70,144)	
Cash paid to employees for services	(871,030)	(934,251)		
Federal assistance - FEMA		14,557		
Net cash provided by operating activities	<u>650,785</u>	<u>1,079,130</u>	<u>(70,144)</u>	
Cash flows from non-capital financing activities:				
Transfers in	715,474	56,296	366,954	363,411
Transfers (out)	(941,874)	(541,437)	(35,818)	
Interfund cash payments		(172,940)	(1,090,185)	
Interfund cash receipts	1,312,151			10,270
Cash payments to component unit				
Net cash used for non-capital financing activities	<u>1,085,751</u>	<u>(658,081)</u>	<u>(759,049)</u>	<u>373,681</u>
Cash flows from capital and related financing activities:				
Acquisition and construction of capital assets	(367,237)	(9,753)	(17,729)	(10,270)
Proceeds from disposal of assets		60		
Principal paid on bond maturities	(300,000)	(290,000)	(235,000)	(225,000)
Interest and fiscal charges paid on bonds	(287,924)	(298,397)	(131,955)	(138,411)
Net cash from capital and related financing activities	<u>(955,161)</u>	<u>(598,090)</u>	<u>(384,684)</u>	<u>(373,681)</u>
Cash flows from investing activities:				
Purchase of investments	(1,554,580)	(45,406)		
Proceeds - sale and maturity of investments	829,337	2,550	1,183,782	
Interest received from investments	31,081	6,763	18	
Net cash from investing activities	<u>(694,162)</u>	<u>(36,093)</u>	<u>1,183,800</u>	
Net increase (decrease) in cash and cash equivalents	87,213	(213,134)	(30,077)	
Cash and cash equivalents, beginning of year	<u>340,670</u>	<u>553,804</u>	<u>35,818</u>	<u>35,818</u>
Cash and cash equivalents, end of year	<u>\$ 427,883</u>	<u>\$ 340,670</u>	<u>\$ 5,741</u>	<u>\$ 35,818</u>

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

Community Development Block Grant Current Year	Community Development Block Grant Prior Year	Total Proprietary Funds	Governmental Activities - Internal Service Funds
\$	\$	\$ 3,665,953	\$
		(2,214,282)	92,440
		(871,030)	(11,667)
		<u>580,641</u>	<u>80,773</u>
		1,082,428	26,690
		(977,692)	(318,882)
		(1,090,185)	(452,355)
111,405	70,000	1,423,556	17,860
<u>111,405</u>	<u>70,000</u>	<u>438,107</u>	<u>(726,687)</u>
(181,452)		(566,418)	
		(535,000)	
		(419,879)	
<u>(181,452)</u>		<u>(1,521,297)</u>	
		(1,554,580)	
		2,013,119	734,000
47		31,146	1,008
<u>47</u>		<u>489,685</u>	<u>735,008</u>
(70,000)	70,000	(12,864)	89,094
<u>70,000</u>		<u>446,488</u>	
<u>\$</u>	<u>\$ 70,000</u>	<u>\$ 433,624</u>	<u>\$ 89,094</u>

CITY OF LA MARQUE, TEXAS
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
For The Year Ended September 30, 2007

	<u>Utility</u> <u>Current Year</u>	<u>Utility</u> <u>Prior Year</u>	<u>Water and</u> <u>Sewer System</u> <u>Revenue</u> <u>Current Year</u>	<u>Water and</u> <u>Sewer System</u> <u>Revenue</u> <u>Prior Year</u>
Reconciliation of net operating income to net cash provided by operating activities:				
Net operating income (loss)	\$ (582,755)	\$ 393,958	\$ (159,462)	\$ (157,554)
Adjustments to reconcile net operating income (loss) to net cash provided by operating activities:				
Depreciation	1,027,004	1,016,034	159,462	157,554
Non-operating income (expense)	218,248	39,367		
Change in assets and liabilities:				
(Increase) decrease in accounts receivable	(105,903)	(369,583)		
(Increase) decrease in prepaid items		(63)		
Increase (decrease) in accrued expenditures	9,340	(1,351)		
Increase (decrease) in accounts payable	58,751	(4,403)	(70,144)	
Increase (decrease) in compensated absences	5,457	2,934		
Increase (decrease) in customer deposits	20,643	2,237		
Total adjustments	<u>1,233,540</u>	<u>685,172</u>	<u>89,318</u>	<u>157,554</u>
Net cash provided by operating activities	<u>\$ 650,785</u>	<u>\$ 1,079,130</u>	<u>\$ (70,144)</u>	<u>\$</u>
 Non-cash transactions:				
Depreciation	\$ 1,027,004	\$ 1,016,034	\$ 159,462	\$ 157,554
Amortization of deferred expenditures	12,711	14,934	6,819	6,819
Deferred debt issuance costs	160,694	173,405	73,585	80,404
Change in fair value of investments				

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

<u>Community Development Block Grant Current Year</u>	<u>Community Development Block Grant Prior Year</u>	<u>Total Proprietary Funds</u>	<u>Governmental Activities - Internal Service Funds</u>
\$	\$	\$ (742,217)	\$ 81,164
		1,186,466	
		218,248	
		(105,903)	
		9,340	
		(11,393)	(391)
		5,457	
		20,643	
		<u>1,322,858</u>	<u>(391)</u>
\$	\$	\$ 580,641	\$ 80,773

\$	\$	\$ 1,186,466	\$
		19,530	
		234,279	

CITY OF LA MARQUE, TEXAS
STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
Septer 30, 2007

Exhibit D-1

	Library Memorial
Assets	
Cash and cash equivalents	\$ 1,124
Total assets	<u>1,124</u>
Net Assets	
Unreserved	1,124
Total net assets	<u>\$ 1,124</u>

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

CITY OF LA MARQUE, TEXAS
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
September 30, 2007

Exhibit D-2

	Library Memorial
	<hr/>
Additions	
Contributions from the public	\$ 529
Total additions	<hr/> 529 <hr/>
Deductions	
Purchase of library books	69
Other deductions	
Total deductions	<hr/> 69 <hr/>
Change in net assets	460
Net assets - Beginning	<hr/> 664 <hr/>
Net assets - Ending	<hr/> \$ 1,124 <hr/> <hr/>

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



Set your sites on La Marque.

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I. Summary of significant accounting policies

The City of La Marque (the “City”) is a municipality operating under the applicable laws and regulations of the State of Texas. The City prepares its basic financial statements in conformity with generally accepted accounting principles (GAAP) promulgated by the Governmental Accounting Standards Board (GASB), other authoritative sources identified in *Statement on Auditing Standards No. 69* of the American Institute of Certified Public Accountants, and the requirements of contracts and grants of agencies from which it receives funds.

In accordance with Governmental Accounting Standards Board Statement No. 34, the City retroactively reported its general infrastructure assets during the year ended September 30, 2007.

A. Reporting entity

Primary Government

The City of La Marque, Texas was incorporated under the provisions of the Home Rule City Act and is governed by an elected mayor and four-member city council. The accompanying financial statements present the City and its component unit, an entity for which the City is considered to be financially accountable. The discretely presented component unit is reported in a separate column in the government-wide financial statements (see note below for description) to emphasize that it is legally separate from the City.

Discretely Presented Component Unit

The La Marque Economic Development Corporation was established to promote economic and industrial expansion within the City’s jurisdiction. The members of the Corporation’s governing board as well as its operational and capital budgets are approved by City Council. The Corporation has both governmental and proprietary fund types.

Complete financial statements for the component unit may be obtained at the entity’s administrative offices.

La Marque Economic Development Corporation
1111 Bayou Road
La Marque, Texas 77568-4299

I. Summary of significant accounting policies (Continued)

Condensed Statement Of Net Assets
Discretely Presented Component Unit
September 30, 2007

	Governmental Activities	Business-type Activities	Total
Assets			
Cash and cash equivalents	\$ 736,369	\$ 235,593	\$ 971,962
Investments	2,619,013	339,944	2,958,957
Internal balances	933,904	(933,904)	
Due from primary government	2,834		2,834
Interest receivable	735		735
Due from other governments	134,259		134,259
Inventories		516,186	516,186
Total assets	4,427,114	157,819	4,584,933
Liabilities			
Accounts payable and other current liabilities	7,332		7,332
Total liabilities	7,332		7,332
Net Assets			
Unrestricted	4,419,782	157,819	4,577,601
Total net assets	\$ 4,419,782	\$ 157,819	\$ 4,577,601

Condensed Statement of Activities
Discretely Presented Component Unit
For the Year Ended September 30, 2007

	Governmental Activities	Business-type Activities	Total
Expenses			
Economic development	\$ 269,965		\$ 269,965
Total expenses	269,965		269,965
General revenues			
Sales taxes	805,416		805,416
Unrestricted investment earnings	117,259	17,223	134,482
Miscellaneous revenue	4,750		4,750
Transfers			
Total general revenues	927,425	17,223	944,648
Change in net assets	657,460	17,223	674,683
Net assets - October 1 (Beginning)	3,762,322	140,596	3,902,918
Net assets - September 30 (Ending)	\$ 4,419,782	\$ 157,819	\$ 4,577,601

I. Summary of significant accounting policies (Continued)

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 and its component unit. Except for interfund services provided and used which are not eliminated in the process of consolidation, the effect of other interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support. Likewise, the *primary government* is reported separately from certain legally separate *component units* for which the primary government is financially accountable.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

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

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. All other revenue items are considered to be measurable and available only when cash is received by the City.

I. Summary of significant accounting policies (Continued)

The City reports the following major governmental funds:

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

The *capital projects* fund is the City's capital projects fund into which the Certificates of Obligation are deposited. Street and drainage improvements will be accounted for in this fund.

During the year, the Community Development Block Grant fund was changed from a governmental fund to an enterprise fund.

The City reports the following major proprietary funds:

The *utility fund* accounts for the rendering of water and sewer services to the residents of the City.

The *waterworks and sewer system revenue fund* accounts for the proceeds of the sale of bonds for the purpose of improving and extending the City's waterworks and sanitary sewer system.

The *community development block grant* fund (formerly a governmental fund) accounts for grant proceeds used to construct and rehabilitate sewer lines in low to very-low income neighborhoods.

Additionally, the City reports the following fund types:

Internal service funds account for equipment replacement costs and equipment maintenance insurance costs as needed by City departments on a cost reimbursement basis.

The *private-purpose trust funds* are used to account for (1) contributions legally held in trust for the purchase of library books.

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 City has elected not to follow subsequent private-sector guidance.

As a general rule, except for interfund services provided and used which are not eliminated in the process of consolidation, the effect of other interfund activity has been eliminated from the government-wide financial statements.

Amounts reported as *program revenues* include 1) charges to customers for goods or services provided, 2) operating grants and contributions, and 3) capital grants and contributions. 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 Utility enterprise fund and of the Waterworks and Sewer System Revenue enterprise fund, and of the City's internal service funds are charges to customers for sales and services. The Utility Fund also recognizes as operating revenue the portion of tap fees intended to recover the cost of connecting new customers to the system. Operating expenses for enterprise funds and internal service 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.

I. Summary of significant accounting policies (Continued)

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

D. Assets, liabilities, and net assets or equity

1. Deposits and investments

The City'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. Investment pools, mutual funds and money market accounts are not considered cash equivalents.

State statutes authorize the City to invest in 1) obligations of the U.S. or its agencies and instrumentalities; 2) obligations of the State of Texas or its agencies; 3) other obligations guaranteed by the U.S. or the State of Texas or their agencies and instrumentalities; 4) obligations of states, agencies, counties, cities, and other political subdivisions of any state having been rated as to investment quality by a nationally recognized investment rating firm and having received a rating of not less than "A" or its equivalent; 5) guaranteed or secured certificates of deposit issued by state or national banks domiciled in Texas; 6) fully collateralized repurchase agreements; and 7) a public funds investment pool meeting the requirement of Government Code 2256.016 – 2256.019. Temporary investments are reported at fair value.

The City's investment policies and types of investments are governed by the Public Funds Investment Act (PFIA). The City did not fully comply with the requirements of the PFIA and the City's investment policies as the City's investment in Local Government Investment Pools exceeded the maximum allowed by the City's investment policy.

The La Marque Economic Development Corporation's investment policies and types of investments are governed by the Public Funds Investment Act (PFIA). The Corporation utilizes the City's investment policies and Investment Officer in lieu of separately managing its investments.

2. Receivables and payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as 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 customer and property tax receivables, including those for LMEDC, are shown net of an allowance for uncollectibles. Customer accounts receivable in excess of 120 days primarily comprise the customer accounts receivable allowance for uncollectibles. The property tax receivable allowance is equal to 4 percent of outstanding property taxes at September 30, 2007.

The property tax calendar is as follows:

Property tax levy on assessed values, which approximate 100% of market value, occurs on October 1.

Taxes are due October 1, immediately following the levy date and are delinquent February 1 of the following year.

Property taxes attach as an enforceable lien on property as of January 1.

I. Summary of significant accounting policies (Continued)

3. Inventories and Prepaid Items

Inventories are valued at cost. The General Fund inventory consists of consumable vehicle replacement parts. The consumption method of accounting is used for the governmental fund types whereby supplies are recorded as expenditures when they are consumed.

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.

For the LMEDC, inventory consists of land purchases made for sale to encourage future development.

4. Restricted Assets

Primary Government

Governmental activities restricted assets include revenue specified for economic development, urban rehabilitation and housing, debt service, various grant programs, and capital projects.

Certain proceeds of the Utility enterprise fund revenue bonds, as well as certain resources set aside for their repayment, are classified as restricted assets on the balance sheet because their use is limited by applicable bond covenants. The Water and Sewer System Revenue is used to report those proceeds of revenue bond issuances that are restricted for use in construction. The Water and Sewer System Interest and Sinking fund is used to segregate resources accumulated for debt service payments.

<u>Restricted for</u>	<u>Amount</u>
Governmental Activities:	
Hotel / Motel Occupancy Tax	\$ 632,836
Section 8	193,763
Drug Seizure	6,284
Homeland Security Grant	19,338
Home Grant	38,009
Public Improvement District	58,078
Debt Service	636,726
Capital Projects	4,622,831
Total Governmental Activities	<u>6,207,865</u>
Business-type Activities:	
Utility	1,632,634
Water and Sewer Revenue	240,000
Total Business-type Activities	<u>1,872,634</u>
Total	<u><u>\$ 8,080,499</u></u>

I. Summary of significant accounting policies (Continued)

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 are defined by the City as assets with an initial individual cost of more than \$5,000 for furniture and equipment and \$25,000 for buildings, improvements and infrastructure and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed. The total interest expense incurred by the Water and Sewer System Revenue fund during the current fiscal year was . None of this amount was included as part of the cost of capital assets under construction in connection with water and wastewater treatment facilities construction projects.

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

<u>Asset</u>	<u>Years</u>
Buildings and improvements	40
Heavy equipment	20
Light equipment - Normal use	7 - 10
Light equipment - Frequent use	5
Vehicles	10
Office furniture and equipment	7
Computer equipment	5

General infrastructure assets are defined by *Governmental Accounting Standards Board* Statement No. 34 as “long-lived assets that normally are stationary in nature and normally can be preserved for a significantly greater number of years than most capital assets” and include the following:

- | | |
|---|--|
| <ul style="list-style-type: none"> 1. Roads 2. Bridges 3. Tunnels 4. Drainage systems | <ul style="list-style-type: none"> 5. Water and sewer systems 6. Dams 7. Lighting systems |
|---|--|

I. Summary of significant accounting policies (Continued)

6. Compensated Absences

City employees earn vacation and sick leave benefits, which may be taken or accumulated within established limits until paid upon retirement, termination or death. These limits vary for City fire fighters and police officers, as their collective bargaining agreements supersede City policies.

Accumulated vacation is limited to a maximum of two years credit for all city employees, including fire fighters and police officers. Accumulated sick leave is limited to 1,040 hours for City employees, 1,378 hours for fire fighters, and is not limited for police officers. A City employee who resigns or terminates employment will be paid at the employee's regular pay scale not to exceed one month's pay. All City employees that retire from employment will be paid a lump sum of all accumulated sick leave within established limits. Fire Fighters who leave employment will be paid up to 230 hours of accumulated sick leave. Police officers who leave employment with the City for any reason other than a "just cause" termination will be paid up to 720 hours of accumulated sick leave.

The liability for compensated absences amounted to \$936,730 for governmental activities and \$123,011 for business-type activities as of September 30, 2007.

The La Marque Economic Development Corporation employs, through a contract with the City, a manager that functions as the Administrator of the Corporation. The manager's compensated absences are accounted for by the City rather than the Corporation, so the Corporation does not incur an expense or liability associated with the manager's compensated absences.

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. Statement of Cash Flows

In accordance with *Governmental Accounting Standards Board* Statement No. 34, a Statement of Cash Flows is required as part of a full set of financial statements for all Proprietary Funds. For purposes of the Statement of Cash Flows, the Proprietary Funds consider all highly liquid investments (including restricted assets) with a maturity of three months or less when purchased to be cash equivalents. Investment pools, mutual funds and money market accounts are not considered cash equivalents.

I. Summary of significant accounting policies (Continued)

10. 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

Exhibit B-2 provides the reconciliation between the fund balance for total governmental funds on the governmental fund balance sheet and the net assets for governmental activities as reported in the government-wide statement of net assets. One element of that reconciliation explains that capital assets are not financial resources and are therefore not reported in governmental funds. In addition, long-term liabilities, including bonds payable, are not due and payable in the current period and are not reported as liabilities in the funds. Also, property taxes receivable, net of the allowance for uncollectible taxes, which are deferred in the fund financial statements are reported as revenue in the government-wide financial statements.

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

Exhibit B-4 provides a reconciliation between the net changes in fund balance as shown on the governmental fund statement of revenues, expenditures, and changes in fund balances and the changes in net assets of governmental activities as reported on the government-wide statement of activities. One element of that reconciliation explains that current year capital outlays and debt principal payments are expenditures in the fund financial statements, but should be shown as increases in capital assets and decreases in long-term debt in the government-wide statements. This adjustment affects both the net asset balance and the change in net assets. The debt payments on retirement of debt are recorded as expenditures for fund basis financial statements but are a reduction of debt in the government-wide financial statements.

The capital asset additions are expenditures in the fund basis financial statements but are capitalized on the government-wide financial statements. The fund basis statements do not include depreciation expense and is therefore a deduction to reconcile to the government-wide statement of activities. New debt issues are considered sources of revenue for fund basis financial statements and increases in liabilities for government-wide financial statements. Property taxes receivable are deferred in the fund basis financial statements, as they are not considered available. Property taxes are recorded as revenue when levied in the government-wide financial statements.

III. Stewardship, compliance, and accountability

A. Budgetary information

Purpose of Budget

The budget is required by City Charter and is used to plan, monitor, and control the use of resources. The budget then:

1. Identifies resources and funds to provide for the delivery of services.
2. Appropriates funds for the level of service to be provided.
3. Provides the basis for recording and controlling revenues and expenditures.

Budget Process

The budget process is a systematic approach to providing reasonable estimates of revenues and expenditures for a certain level of activity. These revenue and expenditure estimates are based on past, current, and future anticipated activity. The information is accumulated and proceeds from the departments to the City Manager, the City Council, and the public. Therefore, budget preparation is an opportunity to review each activity and present a realistic, adequately documented budget to provide those services in a low-cost, efficient manner.

The City follows these procedures, which comply with legal requirements, in establishing the budgetary data reflected in the financial statements:

1. The general fund, the Hotel/Motel Room Occupancy Tax and Section 8 special revenue funds, the Debt Service fund, and the enterprise funds have legally adopted annual budgets. The City Manager submits to the City Council a proposed operating budget for the fiscal year commencing the following October 1. The operating budget includes proposed expenditures and the means of financing them.
2. Public hearings are conducted to obtain taxpayer comments.
3. The budget is legally enacted through passage of a resolution.
4. The City Manager is authorized to transfer budget amounts within and between departments; however, any revisions that alter the total expenditures of any category (general government, public safety, etc.) must be approved by the City Council.
5. Budgets for the general fund, the Hotel/Motel Room Occupancy Tax and Section 8 special revenue funds, the Debt Service fund, and the enterprise funds are adopted on a basis consistent with generally accepted accounting principles (GAAP).
6. All budgeted appropriations lapse at year end.

Budget amounts are as originally adopted or as amended by the City Council. Expenditures may not exceed appropriations on a functional level in the general fund, enterprise funds, Hotel/Motel Room Occupancy Tax and Section 8 special revenue funds, and the Debt Service fund. All budget amendments are brought to City Council.

Three budget amendments in the form of Resolution #1059, Resolution #1061 and Resolution #1063 were approved by City Council during the fiscal year ended September 30, 2007.

III. Stewardship, compliance, and accountability (Continued)

Expenditures exceeded appropriations in the general fund as follows:

<i>General fund:</i>	
General government	\$ 43,914
Public safety	18,764
	<u>\$ 62,678</u>
<i>Debt service fund:</i>	
Principal on long-term debt	\$ 3,301
	<u>\$ 3,301</u>

Charter Requirements

1. **Overview** - Section 6.02; "Preparation and submission of budget" of Article VI. The budget as taken from the charter of the City of La Marque, Texas states in part:

"The City Manager shall submit to the City Council a budget. For such purpose, he shall obtain from the head of each office or department estimates of revenue and expenditure of that office or department, detailed by character and object of expenditure and such other supporting data as he may request; together with an estimate of all capital projects pending or which such department head believes should be undertaken (a) within the budget year and (b) within the five next succeeding years. In preparing the budget, the City Manager shall review the estimates and may revise the estimates, as he may deem advisable."

2. **Excerpts** - from other sections of Article VI.
 - 6.13 - It shall set forth the reasons for salient changes from the previous year in cost and revenue items and shall explain any major changes in financial policy.
 - 6.15 - The City Manager shall also include a capital program of proposed capital projects for the next five fiscal years.
 - 6.16 - Attached shall be such supporting schedules, exhibits, and other explanatory material as the City Manager shall believe useful.

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. As of September 30, 2007, there were no outstanding encumbrances in the General Fund.

B. Deficit Net Assets

The Equipment Maintenance Insurance Internal Service Fund ended the year with a deficit net asset balance of \$5,378. The City plans to transfer funds in the future to cover this deficit.

IV. Detailed Notes on all Funds

A. Deposits and investments

City Policies and Legal and Contractual Provisions Governing Deposits

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

At September 30, 2007, the carrying amount of the City's deposits, (cash and interest-bearing savings accounts) was \$843,392 and the bank balance was \$1,033,627.

Custodial Credit Risk

The City's deposits are subject to custodial credit risk as \$733,627 of total deposits are uninsured and are secured by securities held by the pledging financial institutions agent in the City's name. The City's deposits were fully collateralized at year-end and throughout the year.

Cash and cash equivalents as of September 30, 2007 were as follows:

	<u>Cash on Hand</u>	<u>Equity in Pooled Cash</u>	<u>Other Deposits</u>	<u>Total</u>
Primary government				
Governmental activities:				
General fund	\$ 5,900	\$ 17,315	\$ 9,244	\$ 32,459
Capital Projects		(3,205)		(3,205)
Nonmajor governmental funds		143,245	147,051	290,296
Nonmajor internal service funds		89,094		89,094
Total governmental activities	<u>5,900</u>	<u>246,449</u>	<u>156,295</u>	<u>408,644</u>
Business-type activities:				
Utility fund	600	425,720	1,563	427,883
Water and Sewer Revenue fund		5,741		5,741
Community Development Block Grant				
Total business-type activities	<u>600</u>	<u>431,461</u>	<u>1,563</u>	<u>433,624</u>
Fiduciary funds:				
Private purpose trust funds			1,124	1,124
Total fiduciary funds			<u>1,124</u>	<u>1,124</u>
Total primary government	<u>\$ 6,500</u>	<u>\$ 677,910</u>	<u>\$ 158,982</u>	<u>\$ 843,392</u>
Discretely presented component unit				
Governmental activities:				
General fund	\$	\$ 736,369	\$	\$ 736,369
Business-type activities:				
Enterprise fund		235,593		235,593
Total discretely presented component unit	<u>\$</u>	<u>\$ 971,962</u>	<u>\$</u>	<u>\$ 971,962</u>

IV. Detailed notes on all funds (Continued)

Compliance with the Public Funds Investment Act

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 a governmental entity 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 entity 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 entity to have independent auditors perform test procedures related to investment practices as provided by the Act. The City of La Marque is not in substantial compliance with the requirements of the Act and with local policies.

The following table includes portfolio balance, the weighted average maturity, and the percentage of the portfolio balance by investment type held by the City as of September 30, 2007:

	<u>Fair Value</u>	<u>Percentage of Investments</u>	<u>Weighted Average Maturity (Days)</u>
Primary government			
Governmental activities:			
Money market accounts			
Wachovia	\$ 463		1
	<u>463</u>		
Mutual funds			
DWS Institutional Shares	296,438	3.0%	46
Wachovia	258,576	<u>2.2%</u>	1
	<u>555,014</u>	<u>5.0%</u>	1
Local government investment pools			
Logic	1,441,417	12.0%	34
TexPool	6,767,335	<u>58.0%</u>	34
	<u>8,208,752</u>	<u>70.0%</u>	24
Total governmental activities	<u>8,764,229</u>	<u>75.0%</u>	25
Business-type Activities:			
Certificates of deposit			
	354,580	<u>3.0%</u>	112
	<u>354,580</u>	<u>3.0%</u>	3
Mutual funds			
DWS Institutional Shares	632,738	<u>5.4%</u>	46
	<u>632,738</u>	<u>5.4%</u>	2
Local government investment pools			
Logic	802,894	6.8%	34
TexPool	1,187,468	<u>10.1%</u>	34
	<u>1,990,362</u>	<u>17.0%</u>	6
Total business-type activities	<u>2,977,680</u>	<u>25.4%</u>	12
Total primary government	<u>\$ 11,741,909</u>	<u>100.0%</u>	37

IV. Detailed notes on all funds (Continued)

	<u>Fair Value</u>	<u>Percentage of Investments</u>	<u>Weighted Average Maturity (Days)</u>
Discretely presented component unit			
Governmental activities:			
Certificates of deposit	\$ 290,764	9.8%	328
	<u>290,764</u>	<u>9.8%</u>	32
Mutual funds			
DWS Institutional Shares	134,703	4.6%	46
	<u>134,703</u>	<u>4.6%</u>	2
Local government investment pools			
TexPool	2,193,546	74.1%	34
	<u>2,193,546</u>	<u>74.1%</u>	25
Total governmental activities	<u>2,619,013</u>	<u>88.5%</u>	60
Business-type Activities:			
Money market accounts			
Merrill Lynch	339,944	11.5%	1
	<u>339,944</u>	<u>11.5%</u>	
Total business-type activities	<u>339,944</u>	<u>11.5%</u>	
Total discretely presented component unit	<u>\$ 2,958,957</u>	<u>100.0%</u>	60

Additional policies and contractual provisions governing deposits and investments for The City of La Marque are specified below:

Interest Rate Risk

The City has an investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from interest rate changes.

Credit Risk

State law limits investments in commercial paper, corporate bonds, and mutual funds to the top two ratings issued by nationally recognized statistical rating organizations. The City has a formal investment policy that further limits its investment choices. As of September 30, 2007, the City's investment in TexPool was rated AAAM by Standard and Poors. The City's investment in Logic was rated AAAM by Standard and Poors. The City's investment in DWS was rated AAAM by Standard and Poor's.

Concentration of Credit Risk

Although there is no credit risk associated with the investments currently held, the City has a formal investment policy that places limits on the amount the City may invest in any one issuer. The following is a recap of City investments by type with maximum percentages per the formal investment policy.

	<u>Fair Value</u>	<u>Maximum</u>	<u>Percent Invested</u>
Certificates of deposit	\$ 645,344	30.0%	4.4%
Local government investment pools	12,392,660	70.0%	84.3%
Money market accounts	340,407	30.0%	2.3%
Mutual funds	1,322,455	30.0%	9.0%
	<u>\$ 14,700,866</u>		<u>100.0%</u>

IV. Detailed notes on all funds (Continued)

Custodial Credit Risk for Investments

To limit the risk that, in the event of the failure of the counterparty to a transaction, the City will not be able to recover the value of investment or collateral securities that are in possession of an outside party. The City does not have a formal policy for investment custodial risk. Of the total \$11,741,909 invested by the City, \$354,580 is exposed to custodial credit risk. The entire amount exposed was held in the City's name by the counterparty.

Adjustment to Investment Fair Values

The City's portfolio fluctuates in an inverse relationship to any change in interest rates. Accordingly, if interest rates have risen, the portfolio value will have declined. If interest rates have fallen, the portfolio value will have risen. Investments are reported by the City at fair value in accordance with Governmental Accounting Standards. The city had no gains or losses from the sale of investments. Changes in market values of investments are included in investment earnings as follows:

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
Interest income	\$ 473,411	\$ 129,410	\$ 602,821
Net decrease in investment values			
Total Investment Earnings	<u>\$ 473,411</u>	<u>\$ 129,410</u>	<u>\$ 602,821</u>

DWS Institutional Shares

DWS Institutional Shares ("DWS") is an SEC registered money market mutual fund rated AAAm by Standard & Poors. The portfolio consists exclusively of U.S. Treasury bills, notes, bonds and other obligations issued or guaranteed by the U.S. Government, its agencies or instrumentalities and related repurchase agreements. The portfolio also may consist of investments in repurchase agreements collateralized by U.S. Treasury and Agency Securities.

To maintain its money market fund status, the DWS fund seeks to maintain a stable \$1.00 share price and follows the following rules:

- individual securities must have remaining maturities of no more than 397 days and be denominated in U.S. dollars,
- the dollar-weighted average maturity of the portfolio's holdings cannot exceed 90 days, and
- all securities must be in the top two credit grades for short-term debt securities.

The fair value of DWS investments are based on quoted market values of underlying investments of the pool. DWS is a money market mutual fund. The investments are reported by the City at amortized cost in accordance with the 90-day exception rule of GASB 31. No unrealized gains are reported in the financial statements under the 90-day exception in GASB 31 to reporting unrealized gains/losses.

The investment in DWS and any accrued interest may be redeemed at the City's discretion.

IV. Detailed notes on all funds (Continued)

Wachovia Money Fund Class A (Wachovia CMF)

Wachovia Money Fund Class A (“Prudential”) is an SEC registered money market mutual fund. The fund seeks as high a level of current income as is consistent with the preservation of capital and liquidity. To maintain its money market fund status, the Prudential Fund seeks to maintain a stable \$1.00 share price and follows the following rules:

1. Individual securities must have remaining maturities of no more than 397 days and be denominated in U.S. dollars,
2. The dollar-weighted average maturity of the portfolio’s holdings cannot exceed 90 days, and
3. All securities must be in the top two credit grades for short-term debt securities.

Tex Pool

The fair value of TexPool investments is based on quoted market values of underlying investments of the pool. TexPool is an investment service authorized by the Texas Legislature and administered by the State Comptroller. The investments are reported by the City at amortized cost in accordance with the 90-day exception rule of GASB 31. All gains/losses are reported in the financial statements for realized gains/losses. No unrealized gains are reported in the financial statements under the 90-day exception in GASB 31 to reporting unrealized gains/losses.

The purpose of Texpool is to allow for the pooling of public funds to provide a higher yield on the pooled investment than would be possible with the investment of the individual public entity’s funds. These investments are subject to the same safety investment instruments for public funds, including repurchase agreements, U.S. Treasury bills and bonds, securities of other U.S. government agencies, commercial paper and other safe instruments.

The State Comptroller of Public Accounts exercises oversight responsibility over TexPool, the Texas Local Government Investment Pool. Oversight includes the ability to significantly influence operations, designation of management and accountability for fiscal matters. Additionally, the State Comptroller has established an advisory board composed of both Participants in TexPool and other persons who do not have a business relationship with TexPool. The Advisory Board members review the investment policy and management fee structure. Finally, TexPool is rated AAAM by Standard & Poors. As a requirement to maintain the rating, weekly portfolio information must be submitted to Standard & Poors, as well as the office of the Comptroller of Public Accounts for review.

TexPool operates in a manner consistent with the SEC’s rule 2a7 of the Investment Company Act of 1940 in order to ensure a more conservative investment strategy and to provide a much higher level of investment safety for local government funds.

TexPool uses amortized cost rather than market value to report net assets to compute share prices. Accordingly, the fair value of the position in TexPool is the same as the value of TexPool shares. The investment in TexPool and any accrued interest may be redeemed at the City’s discretion.

IV. Detailed notes on all funds (Continued)

Logic

LOGIC, Local Government Investment Cooperative is an investment program for local governments within the State of Texas. Investments are subject to the strict requirements of the Public Funds Investment Act and LOGIC may invest in any of the securities authorized by statute. The pool must demonstrate compliance with Chapter 2256, Sections .016, .017, .018 and .019. The fair value of LOGIC investment is based on quoted market values of underlying investments of the pool. The investments are reported by the City at amortized cost in accordance with the 90-day exception rule of GASB 31. All gains/losses are reported in the financial statements for realized gains/losses. No unrealized gains are reported in the financial statements under the 90-day exception in GASB 31 to reporting unrealized gains/losses. The fair value of the position in LOGIC is the same as the value of the pool shares. Logic is rated AAAM by Standard & Poors.

B. Property Taxes

Property taxes are levied by October 1st in conformity with Subtitle E, Texas Property Tax Code. Taxes are due on receipt of the tax bill and are delinquent if not paid before February 1st of the year following the year in which imposed. On January 1st of each year, a tax lien attaches to property to secure the payment of all taxes, penalties, and interest ultimately imposed. Appraised values are established by the Central Appraisal District (CAD) of Galveston County, Texas. Taxes are levied by City Council based on the appraised values received from Galveston Central Appraisal District. Billing and collection of tax levies are performed by the Galveston County Tax Assessor/Collector.

Property tax rates, established in accordance with state law, are levied on real and personal property within the City's boundaries for use in financing general government and debt service expenditures. Tax rates levied to finance general government and debt service expenditures for the fiscal year were \$0.43387 and \$0.08049, respectively, based on an assessed property valuation of approximately \$553 million resulting in an adjusted tax levy of approximately \$2.8 million. Allowances for uncollectible taxes are based on historical experience in collecting property taxes. Uncollectible personal property taxes are periodically reviewed and written off, but the City is prohibited from writing off real property taxes without specific statutory authority from the Texas Legislature.

Governmental funds net property taxes receivable at September 30, 2007 consisted of the following:

	<u>General</u>	<u>Debt Service</u>	<u>Total</u>
Delinquent taxes:			
Current year levy	\$ 124,586	\$ 23,115	\$ 147,701
Prior year levy	351,539	89,166	440,705
Total delinquent taxes	<u>476,125</u>	<u>112,281</u>	<u>588,406</u>
Penalties and interest on taxes	310,721	87,304	398,025
Total taxes, penalties and interest	<u>786,846</u>	<u>199,585</u>	<u>986,431</u>
Less allowance for uncollectible taxes	<u>(354,870)</u>	<u>(110,619)</u>	<u>(465,489)</u>
Net property taxes receivable	<u>\$ 431,976</u>	<u>\$ 88,966</u>	<u>\$ 520,942</u>

IV. Detailed Notes on all Funds (Continued)

C. Customer Receivables

Customer receivables consist of amounts billed to the residents of the City for refuse collection, water and sewer service, and emergency transports. Amounts receivable are reported net of an allowance for uncollectible receivables which is based upon historical collection experience.

Customer receivables at September 30, 2007 consisted of the following:

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
Refuse, water and sewer receivables			
Refuse	\$ 365,750	\$	\$ 365,750
Water and sewer		1,078,146	1,078,146
Total refuse, water and sewer	<u>365,750</u>	<u>1,078,146</u>	<u>1,443,896</u>
Less allowance for uncollectible accounts	<u>(87,346)</u>	<u>(255,402)</u>	<u>(342,748)</u>
Net refuse, water and sewer receivables	<u>278,404</u>	<u>822,744</u>	<u>1,101,148</u>
Emergency transport receivables			
EMS transport receivables	883,926		883,926
Less allowance for uncollectible accounts	<u>(832,869)</u>		<u>(832,869)</u>
Net emergency transport receivables	<u>51,057</u>		<u>51,057</u>
Net customer receivables	<u>\$ 329,461</u>	<u>\$ 822,744</u>	<u>\$ 1,152,205</u>

IV. Detailed notes on all funds (Continued)

D. Capital Assets

Capital asset activity for the year ended September 30, 2007 was as follows:

	Balance October 1, 2006	Additions	Retirements and Transfers	Balance September 30, 2007
Primary government				
Governmental activities:				
Capital assets, not being depreciated:				
Land	\$ 210,370	\$	\$	\$ 210,370
Construction in progress	363,884	2,621,222		2,985,106
Total capital assets, not being depreciated	574,254	2,621,222		3,195,476
Capital assets, being depreciated:				
Buildings and structures	2,858,392			2,858,392
Improvements other than buildings	18,648,363			18,648,363
Vehicles	1,119,713	214,899	(80,400)	1,254,212
Machinery and equipment	2,579,509	17,246		2,596,755
Furniture and office equipment	234,114	15,160		249,274
Total Capital assets, being depreciated	25,440,091	247,305	(80,400)	25,606,996
Less accumulated depreciation for:				
Buildings and structures	(1,397,269)	(69,744)		(1,467,013)
Improvements other than buildings	(11,390,269)	(480,863)		(11,871,132)
Vehicles	(696,056)	(92,669)	52,341	(736,384)
Machinery and equipment	(1,652,488)	(113,195)		(1,765,683)
Furniture and office equipment	(109,625)	(30,161)		(139,786)
Total accumulated depreciation	(15,245,707)	(786,632)	52,341	(15,979,998)
Governmental capital assets	\$ 10,768,638	\$ 2,081,895	\$ (28,059)	\$ 12,822,474

IV. Detailed Notes on all Funds (Continued)

	Balance October 1, 2006	Additions	Retirements and Transfers	Balance September 30, 2007
Business-type activities:				
Capital assets, not being depreciated:				
Land	\$ 209,774	\$	\$	\$ 209,774
Construction in progress	102,989	349,409	(102,989)	349,409
Total capital assets, not being depreciated	312,763	349,409	(102,989)	559,183
Capital assets, being depreciated:				
Buildings and structures	116,805			116,805
Improvements other than buildings	33,148,281	239,820	102,989	33,491,090
Vehicles	1,058,966	93,968		1,152,934
Machinery and equipment	532,628	51,177		583,805
Total capital assets, being depreciated	34,856,680	384,965	102,989	35,344,634
Less accumulated depreciation for:				
Buildings and structures	(82,417)	(2,979)		(85,396)
Improvements other than buildings	(16,252,129)	(1,133,899)		(17,386,028)
Vehicles	(957,893)	(30,202)		(988,095)
Machinery and equipment	(510,007)	(19,386)		(529,393)
Total Accumulated depreciation	(17,802,446)	(1,186,466)		(18,988,912)
Business-type capital assets	\$ 17,366,997	\$ (452,092)	\$	\$ 16,914,905
Discretely presented component unit				
Governmental activities:				
Machinery and equipment	\$ 28,012	\$	\$	\$ 28,012
Less accumulated depreciation	(28,012)			(28,012)
Total capital assets, net	\$	\$	\$	\$

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

	Depreciation Expense
Governmental activities:	
General government	\$ 34,343
Public safety	174,631
Public works	577,658
Total Governmental activities	786,632
Business-type activities:	
Utility	1,027,004
Water and sewer system revenue	159,462
Total Business-type activities:	1,186,466
Total	\$ 1,973,098

IV. Detailed Notes on all Funds (Continued)

Construction Commitments

The City has active construction projects as of September 30, 2007. The projects include sanitary sewer rehabilitation in various areas of the City and various street improvements. At year end, the City's commitments with contractors are as follows:

<u>Project</u>	<u>Approved Construction Budget</u>	<u>Construction in Progress</u>	<u>Estimated Remaining Commitment</u>
Sanitary sewer rehab projects	\$ 468,104	\$ 372,315	\$ 95,789
Street improvements	79,028	79,028	
Drainage improvements	3,143,655	2,883,172	260,483
	<u>\$ 3,690,787</u>	<u>\$ 3,334,515</u>	<u>\$ 356,272</u>

E. Interfund Receivables, Payables, and Transfers

Interfund receivables and payables are utilized as an offset to a fund's deficit cash with another fund's positive cash. The composition of interfund balances as of September 30, 2007, is as follows:

	<u>Due From Other Funds</u>	<u>Due To Other Funds</u>	<u>Net</u>
Primary government			
Governmental activities:			
General fund	\$ 155,482	\$ (405,223)	\$ (249,741)
Capital Projects		(2,562)	(2,562)
Nonmajor governmental funds	44,091	(186,000)	(141,909)
Nonmajor internal service funds	114,338	(5,237)	109,101
Total governmental activities	<u>313,911</u>	<u>(599,022)</u>	<u>(285,111)</u>
Business-type activities:			
Utility fund	1,528,723	(1,040,264)	488,459
Water and Sewer Revenue fund	11,615	(103,558)	(91,943)
Community Development Block Grant		(111,405)	(111,405)
Total business-type activities	<u>1,540,338</u>	<u>(1,255,227)</u>	<u>285,111</u>
Total primary government	<u>\$ 1,854,249</u>	<u>\$ (1,854,249)</u>	<u>\$</u>
Discretely presented component unit			
Governmental activities:			
General fund	\$ 933,904	\$	\$ 933,904
Business-type activities:			
Enterprise fund		(933,904)	(933,904)
Total discretely presented component unit	<u>\$ 933,904</u>	<u>\$ (933,904)</u>	<u>\$</u>

IV. Detailed Notes on all Funds (Continued)

The principal purpose of interfund transfers is to fund the equipment replacement and equipment maintenance insurance funds and to cover the cost of equipment purchased in the general fund.

	<u>Transfers In</u>	<u>Transfers Out</u>	<u>Net</u>
Primary government			
Governmental activities:			
General fund	\$ 231,628	\$ (26,000)	\$ 205,628
Capital Projects			
Nonmajor governmental funds		(18,172)	(18,172)
Nonmajor internal service funds	26,690	(318,882)	(292,192)
Total governmental activities	<u>258,318</u>	<u>(363,054)</u>	<u>(104,736)</u>
Business-type activities:			
Utility fund	715,474	(941,874)	(226,400)
Water and Sewer Revenue fund	366,954	(35,818)	331,136
Total business-type activities	<u>1,082,428</u>	<u>(977,692)</u>	<u>104,736</u>
Total primary government	<u>\$ 1,340,746</u>	<u>\$ (1,340,746)</u>	<u>\$</u>

F. Leases

Operating Leases

Commitments under operating (noncapitalized) lease agreements for facilities and equipment are classified as State of Texas Rental Contracts and are cancelable contingent upon budget funding approval. The City is therefore not obligated for any future minimum rental payments at September 30, 2007.

The imputed interest on the leases is not readily determinable.

Rental expenditures during the year ended September 30, 2007 were \$15,795.

IV. Detailed Notes on all Funds (Continued)

G. Long-term Debt

1. Changes in Long-term Liabilities

Long-term liability activity for the year ended September 30, 2007, was as follows:

	Balance September 1, 2006	Additions	Retirements	Balance August 31, 2007	Due Within One Year
Primary government					
Governmental activities:					
Certificates of obligation	\$ 3,625,000	\$ 3,750,000	\$ (320,000)	\$ 7,055,000	\$ 145,000
Compensated absences	824,141	545,208	(432,619)	936,730	398,530
Supplemental annuities	86,697	74,486	(25,401)	135,782	30,365
Total governmental activities	4,535,838	4,369,694	(778,020)	8,127,512	573,895
Business-type activities					
Bonds and contracts payable:					
Revenue bonds	7,065,000		(495,000)	6,570,000	515,000
Long-term contracts	2,860,000		(40,000)	2,820,000	40,000
Total bonds and contracts payable	9,925,000		(535,000)	9,390,000	555,000
Compensated absences	117,554	76,314	(70,857)	123,011	67,120
Total business-type activities	10,042,554	76,314	(605,857)	9,513,011	622,120
Total primary government	\$ 14,578,392	\$ 4,446,008	\$ (1,383,877)	\$ 17,640,523	\$ 1,196,015

For the governmental activities, compensated absences are generally liquidated by the general fund.

2. Certificates of Obligation

The City issues general obligation bonds to provide funds for the acquisition and construction of major capital facilities and major equipment. Certificates of obligation have been issued for governmental activities. The original amount of certificates of obligation issued in prior years was \$4,415,000. During the year, certificates of obligation were issued in the amount of \$3,750,000. The proceeds are to be used for street and drainage improvements as well as water and sewer system improvements.

Certificates of obligation are direct obligations and pledge the full faith and credit of the City. These certificates were issued as 25-year, 22-year and 15-year certificates with various amounts of principal maturing each year.

IV. Detailed notes on all funds (Continued)

Certificates of obligations outstanding at year-end are as follows:

<u>Issue</u>	<u>Original Issuance Amount</u>	<u>Interest Rate</u>	<u>Maturity Date</u>	<u>Debt Outstanding</u>
Certificates of obligation - Series 1993	\$ 925,000	5.00% to 6.70%	2008	\$ 80,000
Certificates of obligation - Series 2005	3,490,000	4.00% to 5.00%	2029	3,225,000
Certificates of obligation - Series 2007	3,750,000	4.50% to 4.75%	2029	3,750,000
			Total certificates of obligation payable	7,055,000
			Less current portion	(145,000)
			Long-term portion	<u>\$ 6,910,000</u>

Annual debt service requirements to maturity for certificates of obligation are as follows:

<u>Year Ending September 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Totals</u>
2008	\$ 145,000	\$ 339,263	\$ 484,263
2009	200,000	293,306	493,306
2010	210,000	283,569	493,569
2011	220,000	273,356	493,356
2012	230,000	262,656	492,656
2013	240,000	251,469	491,469
2014	250,000	240,944	490,944
2015	265,000	230,269	495,269
2016	280,000	218,944	498,944
2017	290,000	206,994	496,994
2018	305,000	195,713	500,713
2019	315,000	183,856	498,856
2020	330,000	171,251	501,251
2021	345,000	158,037	503,037
2022	365,000	143,837	508,837
2023	380,000	128,813	508,813
2024	400,000	113,000	513,000
2025	415,000	96,353	511,353
2026	435,000	79,070	514,070
2027	455,000	60,850	515,850
2028	480,000	41,790	521,790
2029	500,000	21,322	521,322
	<u>7,055,000</u>	<u>\$ 3,994,662</u>	<u>\$ 11,049,662</u>
	(145,000)	Less Current Portion	
	<u>\$ 6,910,000</u>	Long-term portion	

IV. Detailed notes on all funds (Continued)

3. Revenue Bonds and other Long-term Debt

The City also issues bonds for which the City pledges income derived from the acquired or constructed assets to pay debt service. Revenue bonds have been issued for business -type activities. The original amount of revenue bonds issued in prior years was \$9,040,000. During the year, no revenue bonds were issued.

The City has also entered into contracts for which the City pledges sufficient sums to retire the water contract revenue bonds of the Gulf Coast Water Authority. These contracts are for business-type activities. The original amount of contracts entered into in prior years was \$3,040,000. During the year, the City entered into no new contracts.

Primary Government

Revenue bonds and other long-term debt outstanding at year-end are as follows:

<u>Issue</u>	<u>Original Issuance Amount</u>	<u>Interest Rate</u>	<u>Maturity Date</u>	<u>Debt Outstanding</u>
Revenue bonds:				
Revenue bonds - Series 1996	\$ 4,440,000	3.00% to 4.55%	2016	\$ 2,970,000
Revenue bonds - Series 1998	\$ 4,600,000	2.50% to 3.65%	2018	<u>3,600,000</u>
	Total revenue bonds payable			6,570,000
	Less current portion			<u>(515,000)</u>
	Long-term portion			<u><u>\$ 6,055,000</u></u>
Long-term contracts:				
Water system contract refunding bonds - Series 1998-D	\$ 3,040,000	4.15% to 5.00%	2018	\$ 2,820,000
	Total long-term contracts payable			<u>2,820,000</u>
	Less current portion			<u>(40,000)</u>
	Long-term portion			<u><u>\$ 2,780,000</u></u>

IV. Detailed notes on all funds (Continued)

Revenue bond and long-term contracts debt service requirements to maturity are as follows:

<u>Year Ending September 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Totals</u>
2008	\$ 555,000	\$ 394,640	\$ 949,640
2009	680,000	374,188	1,054,188
2010	705,000	347,583	1,052,583
2011	730,000	319,398	1,049,398
2012	760,000	289,597	1,049,597
2013	790,000	258,058	1,048,058
2014	825,000	224,767	1,049,767
2015	860,000	189,593	1,049,593
2016	895,000	152,630	1,047,630
2017	780,000	113,975	893,975
2018	790,000	82,737	872,737
2018	225,000	51,000	276,000
2019	240,000	39,750	279,750
2020	250,000	27,750	277,750
2021	305,000	15,250	320,250
	<u>9,390,000</u>	<u>\$ 2,880,916</u>	<u>\$ 12,270,916</u>
	(555,000)	Less Current Portion	
	<u>\$ 8,835,000</u>	Long-term portion	

4. Long-term contracts payable

Gulf Coast Water Authority

According to the contract between the City of La Marque and the Gulf Coast Water Authority (GCWA), the City agreed to provide sufficient sums to retire the water contract revenue bonds of the GCWA. In return, the proceeds of the contract revenue bonds have been used to finance the construction of a water transmission main from a water treatment plant located in the City of Texas City to the City of La Marque and upgrade the City of La Marque's water supply and distribution system. The improvements were necessary to convert the City of La Marque to a surface water supply. The project was completed in November, 1982.

On July 1, 1998, the City of La Marque entered into a long-term contract with the Gulf Coast Water Authority (GCWA), formerly Galveston County Water Authority, to build and improve facilities for potable water transportation to the City of La Marque. The GCWA is, a conservation and reclamation district created by Chapter 712, Acts of the 59th Texas Legislature, 1965, as amended (compiled as Article 8280-339, Vernon's Texas Civil Statutes, as amended). The GCWA issued bonds totaling \$3,040,000 in 1998 under the title "Gulf Coast Water Authority Water System Contract Revenue Bonds, Series 1998 D - City of La Marque Project". Under the contract, the City agreed to provide sufficient sums to retire the bonds.

Additionally, the City entered into a contract to purchase water from the Gulf Coast Water Authority which includes an agreement to provide funds to cover bonds obtained by the GCWA for waterline improvements within the corporate boundaries of the City. This commitment amounted to \$666,148 as of September 30, 2007 and will be paid as part of water purchases expense in the Utility fund.

IV. Detailed notes on all funds (Continued)

5. Restricted Net Assets for Revenue Bond Debt Service

Water Contract Refunding Bonds, Series 1998-D	\$ 297,143
Total revenue bond debt service reserve	<u>\$ 297,143</u>

As required by a city ordinance adopted on August 26, 1996, the City agreed to maintain reserve funds for Series 1996 and 1998 Water and Sewer Revenue Bonds, based upon the average debt requirements of \$361,975 and \$342,477, respectively. The City had a sixty-month period to accumulate the required reserves.

Once attained, the reserves were to remain level until the bonds were paid in full. However, on July 13, 1998 a new ordinance was passed which allowed the City to satisfy the Reserve Fund Requirements by obtaining Reserve Fund Surety Policies. A Reserve Fund Surety Policy was purchased on August 13, 1998 which allowed funded amounts in the Reserve Funds to be released for any of the purposes for which such funds may be lawfully applied. Therefore, no interest and sinking fund reserves are required.

Additionally, a restriction for Water Contract Revenue Bonds, Series 1998D, in the amount of \$297,143, has been recorded as of September 30, 2007.

H. Revaluation of Utility Plant

A surplus arising in the amount of \$959,359, from revaluation of the Utility Plant in service is based on an appraisal by Chas. R. Haile Associates, Inc., Consulting Engineers, as of April 1, 1959. This was prior to the dissolution of Galveston County W.C.I.D. #3, which was acquired by the City of La Marque. The surplus is included in invested in capital assets, net of related debt.

I. Designated Fund Balances - Self Insurance

Primary Government

Self-Insurance - A designation for self-insurance has been established in the General and Utility Funds to provide a designation of funds to cover the risk of loss for physical damage to vehicles. This designation is not, nor is it intended to be a traditional self-insurance program. It is rather a designation of funds established to meet deductibles under the City's commercial insurance coverage. The designation for all funds totaled \$47,500 at September 30, 2007.

Discretely presented component unit

Fund balance in the General Fund has been reserved in an amount equal to amounts due from the Mark 45 Business Park Fund.

IV. Detailed notes on all funds (Continued)

J. Budgeted Special Revenue Funds

The City legally adopts annual budgets for only two of the City's five Special Revenue Funds - Hotel/Motel Room Occupancy Tax Fund and Section 8 Fund. The Schedules of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual on pages 88 and 89 presents only those two funds.

	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
Budgeted special revenue funds			
Total revenues	\$ 399,035	\$ 468,543	\$ 69,508
Total expenditures	427,974	387,650	40,324
Excess revenues over (under) expenditures	<u>(28,939)</u>	<u>80,893</u>	<u>109,832</u>
Fund balance - October 1 (Beginning)	592,785	592,785	
Prior period adjustment		108,274	108,274
Fund balance - Beginning (As restated)	<u>592,785</u>	<u>701,059</u>	<u>108,274</u>
Fund balance - September 30 (Ending)	<u>563,846</u>	<u>781,952</u>	<u>218,106</u>
Unbudgeted special revenue funds			
Total revenues		338,141	338,141
Total expenditures		337,448	(337,448)
Excess revenues over (under) expenditures		<u>693</u>	<u>693</u>
Fund balance - October 1 (Beginning)	11,386	11,386	22,772
Fund balance - September 30 (Ending)	<u>11,386</u>	<u>12,079</u>	<u>23,465</u>
All special revenue funds			
Total revenues	399,035	806,684	407,649
Total expenditures	427,974	725,098	(297,124)
Excess revenues over (under) expenditures	<u>(28,939)</u>	<u>81,586</u>	<u>110,525</u>
Fund balance - October 1 (Beginning)	604,171	604,171	
Prior period adjustment		108,274	108,274
Fund balance - Beginning (As restated)	<u>604,171</u>	<u>712,445</u>	<u>108,274</u>
Fund balance - September 30 (Ending)	<u>\$ 575,232</u>	<u>\$ 794,031</u>	<u>\$ 218,799</u>

IV. Detailed Notes on all Funds (Continued)

K. Deferred Revenue

Deferred revenue represents assets that are not available for use by the City to liquidate current year liabilities. Deferred revenue by fund as of September 30, 2007 follows:

	<u>General Fund</u>	<u>Nonmajor Governmental Funds</u>	<u>Community Development Block Grant</u>	<u>Total</u>
Net property taxes receivable	\$ 296,580	\$ 63,044	\$	\$ 359,624
Proceeds - Expenditure driven grants				
Home grant		38,009		38,009
CDBG grant matching			22,309	22,309
Other unearned revenue	431			431
Total	<u>\$ 297,011</u>	<u>\$ 101,053</u>	<u>\$ 22,309</u>	<u>\$ 420,373</u>

A summary of unavailable and unearned deferred revenue are as follows:

	<u>Unavailable</u>	<u>Unearned</u>	<u>Total</u>
Governmental Activities:			
General fund	\$ 296,580	\$ 431	\$ 297,011
Community Development Block Grant		22,309	22,309
Nonmajor governmental funds	63,044	38,009	101,053
Total	<u>\$ 359,624</u>	<u>\$ 60,749</u>	<u>\$ 420,373</u>

IV. Detailed Notes on all Funds (Continued)

L. Deferred Charges

Costs related to obtaining revenue bonds and long-term contracts are capitalized and amortized over the term of the related debt using the straight-line method. Costs, accumulated amortization and amortization expense are as follows:

	Governmental Activities	Business-type Activities		
		Utility	Water and Sewer Revenue	Total
Deferred charges:				
Bond issue costs	\$ 117,797	\$ 388,521	\$ 136,374	\$ 524,895
Accumulated amortization	(6,433)	(262,575)	(62,789)	(325,364)
Bond issue costs, net of accumulated amortization	111,364	125,946	73,585	199,531
Premium received on bond issue		55,908		55,908
Accumulated amortization		(21,160)		(21,160)
Premium received on bond issue, net of accumulated amortization		34,748		34,748
Deferred charges, net of accumulated amortization	<u>\$ 111,364</u>	<u>\$ 160,694</u>	<u>\$ 73,585</u>	<u>\$ 234,279</u>
Current year amortization:				
Bond issue costs	\$ 3,385	\$ 10,770	\$ 6,819	\$ 17,589
Premium received on bond issue		1,941		1,941
Total current year amortization	<u>\$ 3,385</u>	<u>\$ 12,711</u>	<u>\$ 6,819</u>	<u>\$ 19,530</u>

When a bond or long-term contract is paid in full, any unamortized deferred costs are written off as current expenditures.

M. Prior Period Adjustment

During the year, the City implemented the retroactive reporting of general infrastructure assets in accordance with GASB 34. Additionally, Section 8 revenue was recorded as a liability in prior years. The results of these prior period adjustments is to increase net assets as follows:

	Governmental Activities
Beginning Net Assets - As Originally Presented	\$ 7,677,384
Restatements due to:	
Retroactive recording of general infrastructure assets in accordance with GASB 34	7,258,094
Reclassify Section 8 revenue recorded as deferred revenue in prior year	108,274
Total adjustments to beginning net assets	<u>7,366,368</u>
Beginning net assets - As restated	<u>\$ 15,043,752</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. In addition, a designation for self-insurance has been established in the General and Enterprise Funds to provide a reservation of funds to cover the risk of loss for physical damage to vehicles. This designation is not, nor is it intended to be a traditional self-insurance program. It is rather a designation of funds established to meet deductibles under the City's commercial insurance coverage. The Enterprise Fund designation is reported as unrestricted net assets.

	<u>Designated for Self Insurance</u>			
	<u>General Fund</u>	<u>Enterprise Funds</u>	<u>September 30, 2007</u>	<u>September 30, 2006</u>
Balance, October 1, 2006	\$ 40,000	\$ 7,500	\$ 47,500	\$ 47,500
Additions				
Reductions				
Balance, September 30, 2007	<u>\$ 40,000</u>	<u>\$ 7,500</u>	<u>\$ 47,500</u>	<u>\$ 47,500</u>

For insured programs, there have been no significant reductions in insurance coverage. Settlement amounts have not exceeded insurance coverage for the current year or the three prior years.

B. Health care Coverage

During the year ended September 30, 2007, employees of the City of La Marque, Texas were covered by a health insurance plan. The City paid \$953,617 in annual premiums to the Plan. All premiums were paid to a licensed insurer. The policy is renewable on an annual basis.

C. Deferred Compensation Plan

The City offers its employees the opportunity to participate in a deferred compensation plan created in accordance with Internal Revenue Code Section 457. All assets and income of the plan are held in trust for the exclusive benefit of participants and their beneficiaries. The City provides neither administrative services nor investment advice for the plan. Accordingly, no assets or liabilities are reported in the financial statements of the City.

D. Subsequent Events

Primary Government

Subsequent to year end, the City entered into an agreement with the La Marque Economic Development Corporation ("EDC") to sell the City's Public Works facility to the EDC for \$250,000. The EDC will re-market the property for industrial development.

V. Other Information (Continued)

E. Contingent Liabilities

Primary Government

Grants - The City receives significant financial assistance from numerous federal, state, and local governmental agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions, specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the General Fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material effect on any of the financial statements of the individual fund types included herein or on the overall financial position of the City of La Marque, Texas at September 30, 2007.

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

Discretely Presented Component Unit

At September 30, 2007, there are no lawsuits pending against the Corporation which would in the opinion of legal counsel, result in claims which would have a material effect on the financial statements of the Corporation.

F. Other Post Employment Benefits

The City provides post-employment healthcare benefits as mandated by the Consolidated Omnibus Budget Reconciliation Act (COBRA) to all employees who retire from the City of La Marque. Insurance premiums are fully funded by the City as required by council policy. During the year ended September 30, 2007 sixteen participants were eligible to receive benefits. The City paid \$58,041 in premiums to insure former employees.

G. Employee Retirement Systems and Pension Plans

Plan Description

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

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

V. Other Information (Continued)

The plan provisions are adopted by the governing body of the City, within the options available in the state statutes governing TMRS. Plan provisions for the City were as follows (as of 4/4/07*):

Deposit Rate:	5%
Matching Ratio (City to Employee):	2 to 1
A member is vested after	5 years

Members can retire at certain ages, based on the years of service with the City.

The Service Retirement Eligibilities for the City (expressed as years of service/age) are:
5 yrs/age 60, 20 yrs/any age

The City of La Marque is one of 821 municipalities having the benefit plan administered by TMRS. Each of the 821 Municipalities have an annual, individual actuarial valuation performed. All assumptions for the 12/31/06 valuations are contained in the 2006 TMRS Comprehensive Annual Financial Report, a copy of which may be obtained by writing to P.O. Box 149153, Austin, Texas 78714-9153.

Contributions

Under the state law governing TMRS, the actuary annually determines the City contribution rate. This rate consists of the normal cost contribution rate and the prior service cost contribution rate, both of which are calculated to be a level percent of payroll from year to year. The normal cost contribution rate finances the currently accruing monetary credits due to the City matching percent, which are the obligation of the City as of an employee's retirement date, not at the time the employee's contributions are made. The normal cost contribution rate is the actuarially determined percent of payroll necessary to satisfy the obligation of the City to each employee at the time his/her retirement becomes effective. The prior service contribution rate amortizes the unfunded (overfunded) actuarial liability (asset) over the remainder of the plan's 25-year amortization period. The unit credit actuarial cost method is used for determining the City contribution rate.

Both the employees and the City make contributions monthly. Since the City needs to know its contribution rate in advance for budgetary purposes, there is a one-year delay between the actuarial valuation that serves as the basis for the rate and the calendar year when the rate goes into effect. (i.e. December 31, 2006 valuation is effective for rates beginning January 2008).

(* To ensure the most accurate future rates are determined for the City, TMRS provided plan provisions as of 4/4/07 to the actuary in calculating the 12/31/06 valuation).

V. Other Information (Continued)

Schedule of Actuarial Liabilities and Funding Progress

Actuarial valuation date	12/31/06	12/31/05	12/31/04	12/31/03	12/31/02	12/31/01	12/31/00	12/31/99	12/31/98	12/31/97
Actuarial value of plan assets	\$ 7,142,772	\$ 8,057,692	\$ 8,485,418	\$ 8,132,647	\$ 7,460,033	\$ 6,598,262	\$ 5,993,116	\$ 5,503,361	\$ 4,889,425	\$ 4,903,039
Actuarial accrued liability	\$ 8,717,257	\$ 9,352,571	\$ 9,892,519	\$ 9,332,163	\$ 8,667,939	\$ 7,662,137	\$ 7,143,243	\$ 6,552,868	\$ 5,950,921	\$ 6,155,335
Percentage funded	81.94%	86.15%	85.78%	87.15%	86.06%	86.12%	83.90%	83.98%	82.16%	79.66%
Unfunded (over-funded) actuarial accrued liability (AAL)	\$ 1,574,485	\$ 1,294,879	\$ 1,407,101	\$ 1,199,516	\$ 1,207,906	\$ 1,063,875	\$ 1,150,127	\$ 1,049,507	\$ 1,061,496	\$ 1,252,296
Annual covered payroll	\$ 4,106,101	\$ 4,162,216	\$ 3,752,132	\$ 3,291,494	\$ 3,319,943	\$ 2,719,416	\$ 2,867,148	\$ 2,632,846	\$ 2,654,234	\$ 2,710,100
UAAL as a percentage of covered payroll	38.35%	31.11%	37.50%	36.44%	36.38%	39.12%	40.11%	39.86%	39.99%	46.21%
Net pension obligation (NPO) at the beginning of the period	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
Annual pension costs:										
Annual required contribution (ARC)	\$ 369,246	\$ 362,411	\$ 356,150	\$ 303,530	\$ 311,582	\$ 244,482	\$ 239,599	\$ 261,248	265,176	\$ 219,471
Interest on NPO										
Adjustment to ARC										
Total annual pension costs	<u>369,246</u>	<u>362,411</u>	<u>356,150</u>	<u>303,530</u>	<u>311,582</u>	<u>244,482</u>	<u>239,599</u>	<u>261,248</u>	<u>265,176</u>	<u>219,471</u>
Annual reductions in NPO										
Contributions made	369,246	362,411	356,150	303,530	311,582	244,482	239,599	261,248	265,176	219,471
Increase in NPO										
Total annual reductions in NPO	<u>369,246</u>	<u>362,411</u>	<u>356,150</u>	<u>303,530</u>	<u>311,582</u>	<u>244,482</u>	<u>239,599</u>	<u>261,248</u>	<u>265,176</u>	<u>219,471</u>
NPO at the end of the period	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>

General System-wide Actuarial Assumptions

Actuarial cost method -	Unit credit
Amortization method -	Level percent of payroll
Remaining amortization period -	25 years - Open period
Asset valuation method	Amortized cost (to accurately reflect the requirements of GASB statement No. 25, paragraphs 36e and 38)
Investment rate of return -	7%
Projected salary increases -	None
Includes inflation at -	3.5%
Cost-of-living adjustments -	None

V. Other Information (Continued)

Pension Plan B Supplemental Annuity Program

Description Of Plan And Terms

Plan - The City maintains a supplemental annuity program, a single-employer defined benefit pension plan.

Plan Membership - All permanent employees of the City are eligible to qualify for the annuity program. The City funds and administers the annuity program. All employees of the City, who have a total of "80" points or more are eligible for the annuity program.

The calculation to determine the amount of points for an employee is to add the employee's number of years of service with the City as a full-time employee to the age of the employee at the time of retirement. This program is limited to full-time employees and seven annuitants, currently.

Plan Benefits - After an eligible employee has selected his retirement option under the Texas Municipal Retirement System and a determination of his monthly TMRS Annuity has been finalized, then that monthly TMRS Annuity would be multiplied by twenty-five percent (25%) to equal the amount of the Supplement the retiree would receive twelve (12) times each year. The amount of the Supplement would be revised annually should the TMRS Annuity change.

The Supplemental Annuity would cease when the employee reaches age sixty-five (65). In the event of death prior to age sixty-five (65), the surviving spouse would receive the Supplemental Annuity until age sixty (60).

Funding Requirements - The cost of the annuity program is funded by the employer. Annuity payments for the year ended September 30, 2007 were \$25,401. The annuity program is a limited program; therefore, unfunded liabilities will remain immaterial, and funding will remain approximately level over time. Annual contributions to the annuity program are from current resources.



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Required Supplementary Information



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CITY OF LA MARQUE, TEXAS
TEXAS MUNICIPAL RETIREMENT SYSTEM
SCHEDULE OF FUNDING PROGRESS

Exhibit F-1

	(1)	(2)	(1)/(2)	(1)-(2)	(3)	(2)-(1)/(3)	(4)	(4)/(3)
Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Funded Ratio	Unfunded AAL (UAAL)	Covered Payroll	UAAL as a Percentage of Covered Payroll	Annual Pension Cost (September 30)	Average City Rate
12/31/1997	\$ 4,903,039	\$ 6,155,335	79.7%	\$ 1,252,296	\$ 2,710,100	46.2%	\$ 219,471	8.1%
12/31/1998	4,889,425	5,950,921	82.2%	1,061,496	2,654,234	40.0%	265,176	10.0%
12/31/1999	5,503,361	6,552,868	84.0%	1,049,507	2,632,846	39.9%	261,248	9.9%
12/31/2000	5,993,116	7,143,243	83.9%	1,150,127	2,867,148	40.1%	239,599	8.4%
12/31/2001	6,598,262	7,662,137	86.1%	1,063,875	2,719,416	39.1%	244,482	9.0%
12/31/2002	7,460,033	8,667,939	86.1%	1,207,906	3,319,943	36.4%	311,582	9.4%
12/31/2003	8,132,647	9,332,163	87.1%	1,199,516	3,291,494	36.4%	303,530	9.2%
12/31/2004	8,485,418	9,892,519	85.8%	1,407,101	3,752,132	37.5%	356,150	9.5%
12/31/2005	8,057,692	9,352,571	86.2%	1,294,879	4,162,216	31.1%	362,411	8.7%
12/31/2006	7,142,772	8,717,257	81.9%	1,574,485	4,106,101	38.3%	369,246	9.0%

Analysis of the dollar amounts of actuarial value of assets, actuarial accrued liability, and unfunded actuarial accrued liability in isolation can be misleading. Expressing the actuarial value of assets as a percentage of the actuarial accrued liability provides one indication of Texas Municipal Retirement System's funding status on a going-concern basis. Analysis of this percentage over time indicates whether the system is becoming financially stronger or weaker. Generally, the greater this percentage, the stronger the Public Employee Retirement System. Trends in unfunded actuarial accrued liability and covered payroll are both affected by inflation. Expressing the unfunded actuarial accrued liability and covered payroll approximately adjusts for the effects of inflation and aids analysis of Texas Municipal Retirement System's progress made in accumulating sufficient assets to pay benefits when due. Generally, the smaller this percentage, the stronger the Public Employee Retirement System.



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Other Supplementary Information



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Nonmajor Governmental Funds

Special Revenue Funds

Special revenue funds are used to account for specific revenues that are legally restricted to expenditure for particular purposes.

Hotel/Motel Room Occupancy Tax Fund - This fund accounts for revenues derived from the City Room Occupancy Tax. State Statutes require that such revenues be used for (a) the acquisition of sites for and the construction, improvement, operation, and maintenance of convention center facilities; (b) advertising for general promotion and tourist advertising of the City; (c) the encouragement, promotion, improvement, and application of the site; and (d) historical preservation and restoration.

Section 8 Fund - This fund accounts for a federal grant from the United States Department of Housing and Urban Development used for housing assistance and utility payments.

Drug Seizure Fund - This fund accounts for money and property forfeitures arising out of the Health and Safety Code (formerly the Controlled Substance Act). Proceeds are used only for law enforcement purposes.

Home Grant - This fund accounts for grants received to increase available funding to provide affordable housing and related services.

Homeland Security Grant - This fund accounts for a federal grant from the U. S. Department of Homeland Security that is used to improve emergency response and homeland security.

Public Improvement District - This fund accounts for assessments levied on property within Public Improvement Districts. The funds are used to pay debt related to infrastructure improvements within the City.

Debt Service Fund

This fund is used to account for the accumulation of resources for the payment of interest and principal on long-term debt.

CITY OF LA MARQUE, TEXAS
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
September 30, 2007

	Hotel/Motel Occupancy Tax	Section 8 Fund	Drug Seizure	Home Grant
Assets				
Cash and cash equivalents	\$ 35,376	\$ 147,051	\$ 6,284	\$ 38,006
Investments	579,177			
Property taxes receivable, net				
Other taxes receivable, net	18,283			
Due from other funds				
Due from other governments		46,712		3
Other receivables				
Total assets	<u>\$ 632,836</u>	<u>\$ 193,763</u>	<u>\$ 6,284</u>	<u>\$ 38,009</u>
Liabilities				
Accounts payable	\$	\$ 44,647	\$	\$
Accrued expenditures				
Accrued interest payable				
Due to other funds				
Deferred revenue				38,009
Total liabilities		<u>44,647</u>		<u>38,009</u>
Fund Balance				
Reserved for:				
Debt service				
Special revenue funds		149,116		
Unreserved:				
Designated for:				
Future expenditures:				
Reported in special revenue funds	632,836		6,284	
Total fund balance	<u>632,836</u>	<u>149,116</u>	<u>6,284</u>	
Total liabilities and fund balances	<u>\$ 632,836</u>	<u>\$ 193,763</u>	<u>\$ 6,284</u>	<u>\$ 38,009</u>

Exhibit G-1

Homeland Security Grant	Public Improvement District	Total Nonmajor Special Revenue Funds	Debt Service Fund	Total Nonmajor Governmental Funds
\$ 19,338	\$ 16,549	\$ 262,604	\$	\$ 262,604
		579,177	545,096	1,124,273
			88,966	88,966
		18,283		18,283
	41,529	41,529	2,562	44,091
		46,715		46,715
			102	102
<u>\$ 19,338</u>	<u>\$ 58,078</u>	<u>\$ 948,308</u>	<u>\$ 636,726</u>	<u>\$ 1,585,034</u>
\$	\$ 52,295	\$ 96,942	\$ 225	\$ 97,167
			1,565	1,565
			4,261	4,261
19,326		19,326	166,674	186,000
		38,009	63,044	101,053
<u>19,326</u>	<u>52,295</u>	<u>154,277</u>	<u>235,769</u>	<u>390,046</u>
			400,957	400,957
12	5,783	154,911		154,911
		639,120		639,120
<u>12</u>	<u>5,783</u>	<u>794,031</u>	<u>400,957</u>	<u>1,194,988</u>
<u>\$ 19,338</u>	<u>\$ 58,078</u>	<u>\$ 948,308</u>	<u>\$ 636,726</u>	<u>\$ 1,585,034</u>

CITY OF LA MARQUE, TEXAS

COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES

NONMAJOR GOVERNMENTAL FUNDS

For the Year Ended September 30, 2007

	Hotel/Motel Occupancy Tax	Section 8 Fund	Drug Seizure	Home Grant
Revenues				
Taxes:				
Property	\$	\$	\$	\$
Other	90,007			
Intergovernmental revenue		319,108		281,576
Investment earnings	53,803		3	21
Other revenue		5,625	2,106	
Total revenues	143,810	324,733	2,109	281,597
Expenditures				
Current:				
General government:	61,534	36,066		
Public safety			839	
Public works				281,597
Urban rehabilitation and housing		290,050		
Debt service:				
Principal on long-term debt				
Interest and fiscal charges				
Total expenditures	61,534	326,116	839	281,597
Excess (Deficiency) of revenues over (under) expenditures	82,276	(1,383)	1,270	
Other Financing Sources (Uses)				
Transfer in				
Transfers (out)				
Total other financing sources (uses)				
Net change in fund balances	82,276	(1,383)	1,270	
Fund balances - October 1 (Beginning)	550,560	42,225	5,014	
Prior period adjustment		108,274		
Fund balances - Beginning (As restated)	550,560	150,499	5,014	
Fund balances - September 30 (Ending)	\$ 632,836	\$ 149,116	\$ 6,284	\$

Homeland Security Grant	Public Improvement District	Total Nonmajor Special Revenue Funds	Debt Service Fund	Total Nonmajor Governmental Funds
\$	\$ 54,416	\$ 54,416	\$ 456,340	\$ 510,756
		90,007		90,007
		600,684		600,684
12	7	53,846	43,366	97,212
		7,731		7,731
<u>12</u>	<u>54,423</u>	<u>806,684</u>	<u>499,706</u>	<u>1,306,390</u>
		97,600		97,600
		839		839
	55,012	336,609		336,609
		290,050		290,050
			345,401	345,401
			162,204	162,204
	<u>55,012</u>	<u>725,098</u>	<u>507,605</u>	<u>1,232,703</u>
<u>12</u>	<u>(589)</u>	<u>81,586</u>	<u>(7,899)</u>	<u>73,687</u>
			(18,172)	(18,172)
			(18,172)	(18,172)
12	(589)	81,586	(26,071)	55,515
	6,372	604,171	427,028	1,031,199
		108,274		108,274
	<u>6,372</u>	<u>712,445</u>	<u>427,028</u>	<u>1,139,473</u>
<u>\$ 12</u>	<u>\$ 5,783</u>	<u>\$ 794,031</u>	<u>\$ 400,957</u>	<u>\$ 1,194,988</u>

CITY OF LA MARQUE, TEXAS
HOTEL / MOTEL OCCUPANCY TAX FUND
STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
For the Year Ended September 30, 2007

Exhibit G-3

	<u>Budgeted Amounts</u>			Variance With Final Budget (Negative)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
Revenues				
Taxes:				
Other	\$ 25,000	\$ 25,000	\$ 90,007	\$ 65,007
Investment earnings	7,500	7,500	53,803	46,303
Total revenues	<u>32,500</u>	<u>32,500</u>	<u>143,810</u>	<u>111,310</u>
Expenditures				
Current:				
General government	66,000	66,000	61,534	4,466
Total expenditures	<u>66,000</u>	<u>66,000</u>	<u>61,534</u>	<u>4,466</u>
Excess (Deficiency) of revenues over (under) expenditures	<u>(33,500)</u>	<u>(33,500)</u>	<u>82,276</u>	<u>115,776</u>
Other Financing Sources (Uses)				
Transfer in				
Transfers (out)				
Total other financing sources (uses)				
Net change in fund balances	(33,500)	(33,500)	82,276	115,776
Fund balances - Beginning	<u>550,560</u>	<u>550,560</u>	<u>550,560</u>	
Fund balances - Ending	<u>\$ 517,060</u>	<u>\$ 517,060</u>	<u>\$ 632,836</u>	<u>\$ 115,776</u>

CITY OF LA MARQUE, TEXAS

Exhibit G-4

SECTION 8 FUND

STATEMENT OF REVENUES, EXPENDITURES, AND

CHANGES IN FUND BALANCES - BUDGET AND ACTUAL

For the Year Ended September 30, 2007

	Budgeted Amounts			Variance With Final Budget (Negative)
	Original	Final	Actual	
Revenues				
Intergovernmental revenue	\$ 366,535	\$ 366,535	\$ 319,108	\$ (47,427)
Other revenue			5,625	5,625
Total revenues	<u>366,535</u>	<u>366,535</u>	<u>324,733</u>	<u>(41,802)</u>
EXPENDITURES				
Current:				
General government	21,691	21,691	36,066	(14,375)
Urban rehabilitation and housing	340,283	340,283	290,050	50,233
Total expenditures	<u>361,974</u>	<u>361,974</u>	<u>326,116</u>	<u>35,858</u>
Excess (Deficiency) of revenues over (under) expenditures	<u>4,561</u>	<u>4,561</u>	<u>(1,383)</u>	<u>(5,944)</u>
Other Financing Sources (Uses)				
Transfer in				
Transfers (out)				
Total other financing sources (uses)				
Net change in fund balances	<u>4,561</u>	<u>4,561</u>	<u>(1,383)</u>	<u>(5,944)</u>
Fund balances - Beginning	42,225	42,225	42,225	
Prior period adjustment			108,274	108,274
Fund balances - Beginning (As restated)	<u>42,225</u>	<u>42,225</u>	<u>150,499</u>	<u>108,274</u>
Fund balances - Ending	<u>\$ 46,786</u>	<u>\$ 46,786</u>	<u>\$ 149,116</u>	<u>\$ 102,330</u>

CITY OF LA MARQUE, TEXAS

Exhibit G-5

DEBT SERVICE

STATEMENT OF REVENUES, EXPENDITURES, AND

CHANGES IN FUND BALANCES - BUDGET AND ACTUAL

For the Year Ended September 30, 2007

	<u>Budgeted Amounts</u>			Variance With Final Budget (Negative)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
Revenues				
Taxes:				
Property	\$ 416,280	\$ 416,280	\$ 456,340	\$ 40,060
Investment earnings	6,000	6,000	43,366	37,366
Total revenues	<u>422,280</u>	<u>422,280</u>	<u>499,706</u>	<u>77,426</u>
Expenditures				
Debt service:				
Principal on long-term debt	342,100	342,100	345,401	(3,301)
Interest and fiscal charges	162,780	162,780	162,204	576
Total expenditures	<u>504,880</u>	<u>504,880</u>	<u>507,605</u>	<u>(2,725)</u>
Excess (Deficiency) of revenues over (under) expenditures	<u>(82,600)</u>	<u>(82,600)</u>	<u>(7,899)</u>	<u>74,701</u>
Other Financing Sources (Uses)				
Transfer in	10,500	67,550		(67,550)
Transfers (out)	(18,874)	(18,874)	(18,172)	702
Total other financing sources (uses)	<u>(8,374)</u>	<u>48,676</u>	<u>(18,172)</u>	<u>(66,848)</u>
Net change in fund balances	(90,974)	(33,924)	(26,071)	7,853
Fund balances - Beginning	<u>427,028</u>	<u>427,028</u>	<u>427,028</u>	
Fund balances - Ending	<u>\$ 336,054</u>	<u>\$ 393,104</u>	<u>\$ 400,957</u>	<u>\$ 7,853</u>

Internal Service Funds

Internal Service Funds are used to account for the financing of goods or services provided by one department or agency to other departments or agencies of the government and to other government units, on a cost reimbursement basis.

Equipment Replacement - to account for the internal cash funding for equipment replacement costs as needed by City departments.

Equipment Maintenance Insurance - to account for the internal cash funding for equipment maintenance insurance costs as needed by City departments.

CITY OF LA MARQUE, TEXAS
COMBINING STATEMENT OF NET ASSETS
INTERNAL SERVICE FUNDS
September 30, 2007

Exhibit H-1

	<u>Equipment Replacement</u>	<u>Equipment Maintenance Insurance</u>	<u>Total</u>
Assets			
Current assets:			
Unrestricted:			
Cash and cash equivalents	\$ 89,094	\$	\$ 89,094
Investments	1,108,555		1,108,555
Due from other funds	114,338		114,338
Total current assets	<u>1,311,987</u>		<u>1,311,987</u>
Total assets	<u>\$ 1,311,987</u>	<u>\$</u>	<u>\$ 1,311,987</u>
Liabilities			
Current liabilities:			
Accounts payable	\$	\$ 141	\$ 141
Due to other funds		5,237	5,237
Total current liabilities		<u>5,378</u>	<u>5,378</u>
Total liabilities		<u>5,378</u>	<u>5,378</u>
Net Assets			
Unrestricted	<u>1,311,987</u>	<u>(5,378)</u>	<u>1,306,609</u>
Total net assets	<u>\$ 1,311,987</u>	<u>\$ (5,378)</u>	<u>\$ 1,306,609</u>

CITY OF LA MARQUE, TEXAS

Exhibit H-2

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

INTERNAL SERVICE FUNDS

For The Year Ended September 30, 2007

	Equipment Replacement	Equipment Maintenance Insurance	Total
Operating revenues			
Charges for services	\$ 92,440	\$	\$ 92,440
Total operating revenues	<u>92,440</u>		<u>92,440</u>
Operating expenses			
Miscellaneous services		11,276	11,276
Total operating expenses		<u>11,276</u>	<u>11,276</u>
Operating income	<u>92,440</u>	<u>(11,276)</u>	<u>81,164</u>
Non-operating revenues (expenses)			
Investment earnings	<u>88,285</u>		<u>88,285</u>
Total non-operating revenues (expenses)	<u>88,285</u>		<u>88,285</u>
Income before contributions and transfers	<u>180,725</u>	<u>(11,276)</u>	<u>169,449</u>
Contributions and transfers			
Transfer in		26,690	26,690
Transfers (out)	<u>(318,882)</u>		<u>(318,882)</u>
Total contributions and transfers	<u>(318,882)</u>	<u>26,690</u>	<u>(292,192)</u>
Change in net assets	(138,157)	15,414	(122,743)
Total net assets - Beginning	<u>1,450,144</u>	<u>(20,792)</u>	<u>1,429,352</u>
Total net assets - Ending	<u>\$ 1,311,987</u>	<u>\$ (5,378)</u>	<u>\$ 1,306,609</u>

CITY OF LA MARQUE, TEXAS
COMBINING STATEMENT OF CASH FLOWS
INTERNAL SERVICE FUNDS
For the Year Ended September 30, 2007

	<u>Equipment Replacement</u>	<u>Equipment Maintenance Insurance</u>	<u>Total</u>
Cash flows from operating activities:			
Receipts from interfund services provided	\$ 92,440	\$	\$ 92,440
Cash paid to suppliers for goods and services		(11,667)	(11,667)
Net cash provided by operating activities	<u>92,440</u>	<u>(11,667)</u>	<u>80,773</u>
Cash flows from non-capital financing activities:			
Transfers in		26,690	26,690
Transfers (out)	(318,882)		(318,882)
Interfund cash payments	(437,332)	(15,023)	(452,355)
Interfund cash receipts	17,860		17,860
Net cash used for non-capital financing activities	<u>(738,354)</u>	<u>11,667</u>	<u>(726,687)</u>
Cash flows from investing activities:			
Purchase of investments			
Proceeds - sale and maturity of investments	734,000		734,000
Interest received from investments	1,008		1,008
Net cash from investing activities	<u>735,008</u>		<u>735,008</u>
Net increase (decrease) in cash and cash equivalents	89,094		89,094
Cash and cash equivalents, beginning of year			
Cash and cash equivalents, end of year	<u>\$ 89,094</u>	<u>\$</u>	<u>\$ 89,094</u>

	<u>Equipment Replacement</u>	<u>Equipment Maintenance Insurance</u>	<u>Total</u>
Reconciliation of net operating income to net cash provided by operating activities:			
Net operating income (loss)	\$ 92,440	\$ (11,276)	\$ 81,164
Adjustments to reconcile net operating income (loss) to net cash provided by operating activities:			
Change in assets and liabilities:			
Increase (decrease) in accounts payable		(391)	(391)
Total adjustments		(391)	(391)
Net cash provided by operating activities	<u>\$ 92,440</u>	<u>\$ (11,667)</u>	<u>\$ 80,773</u>



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Supplemental Schedules

CITY OF LA MARQUE, TEXAS
COMBINED SCHEDULE OF INVESTMENTS - ALL FUNDS
September 30, 2007

Description	Account Number	Interest Rate	Maturity Date	Book Value	Fair Value
General fund					
Texpool	12640-00001	5.13	N/A	\$ 1,884,190	\$ 1,884,190
Logic	746012995-01	5.39	N/A	48,867	48,867
Total general fund				<u>1,933,057</u>	<u>1,933,057</u>
Special revenue fund					
<i>Hotel / Motel Occupance Tax fund</i>					
Texpool	12640-00001	5.13	N/A	28,290	28,290
Logic	746012995-01	5.39	N/A	550,887	550,887
Total Hotel / Motel Occupancy Tax fund				<u>579,177</u>	<u>579,177</u>
Total special revenue fund				<u>579,177</u>	<u>579,177</u>
Debt service fund					
Texpool	12640-00001	5.13	N/A	175,294	175,294
Logic	746012995-01	5.39	N/A	110,763	110,763
Wachovia money market	2036-3475	4.37	N/A	463	463
Wachovia mutual fund	2036-3475	5.37	N/A	258,576	258,576
Total debt service fund				<u>545,096</u>	<u>545,096</u>
Capital projects					
Texpool	12640-00002	5.13	N/A	869,334	869,334
Texpool	12640-00003	5.13		3,729,010	3,729,010
Total capital projects				<u>4,598,344</u>	<u>4,598,344</u>
Enterprise funds					
<i>Utility fund</i>					
Restricted investments:					
Revenue bond debt service					
Certificate of deposit	74-0068338	4.96	2008	16,600	16,600
Certificate of deposit	74-0068338	4.89	2008	14,200	14,200
Certificate of deposit	74-0068338	4.45	2008	14,100	14,100
Certificate of deposit	74-0068338	5.09	2008	14,100	14,100
Certificate of deposit	74-0068346	4.96	2008	295,580	295,580
				<u>354,580</u>	<u>354,580</u>
Plant and lines reserve					
Logic	746012995-01	5.39	N/A	421,510	421,510
				<u>421,510</u>	<u>421,510</u>
Meter replacement reserve					
DWS	654-0001279	4.93	N/A	392,738	392,738
Texpool	12640-00001	5.13	N/A	104,743	104,743
				<u>497,481</u>	<u>497,481</u>
Total restricted investments				<u>1,273,571</u>	<u>1,273,571</u>
Unrestricted investments:					
Texpool	12640-00001	5.13	N/A	1,082,725	1,082,725
Logic	746012995-01	5.39	N/A	381,384	381,384
Total unrestricted investments				<u>1,464,109</u>	<u>1,464,109</u>
Total utility fund				<u>2,737,680</u>	<u>2,737,680</u>

Description	Account Number	Interest Rate	Maturity Date	Book Value	Fair Value
Enterprise funds (Continued)					
<i>Waterworks and sewer system fund</i>					
Restricted investments:					
DWS	654-000-1312	4.93	N/A	240,000	240,000
Total restricted investments				<u>240,000</u>	<u>240,000</u>
Total waterworks and sewer system fund				<u>240,000</u>	<u>240,000</u>
Total enterprise funds				<u>2,977,680</u>	<u>2,977,680</u>
Internal service funds					
<i>Equipment replacement fund</i>					
Texpool	12640-00001	5.13	N/A	81,217	81,217
DWS	654-0001279	4.93	N/A	296,438	296,438
Logic	746012995-01	5.39	N/A	730,900	730,900
Total Hotel / Motel Occupancy Tax fund				<u>1,108,555</u>	<u>1,108,555</u>
Total internal service fund				<u>1,108,555</u>	<u>1,108,555</u>
Total - all funds				<u>\$ 11,741,909</u>	<u>\$ 11,741,909</u>



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CITY OF LA MARQUE, TEXAS
SCHEDULE OF CHANGES IN PROPERTY TAXES RECEIVABLE
(modified accrual basis of accounting)
For the Year Ended September 30, 2007

Exhibit I-2

Taxes to account for:			
Delinquent taxes, October 1, 2006		\$ 577,633	
Additions and deletions, net		<u>(2,759)</u>	
Delinquent taxes, October 1, 2006			\$ 574,874
Current taxes levied, per 2006 tax roll			<u>2,835,349</u>
Total taxes to account for			\$ 3,410,223
Less collections:			
Current taxes		2,687,648	
delinquent taxes		<u>134,169</u>	
Total collections			<u>2,821,817</u>
Ending balance to account for			<u>\$ 588,406</u>
Accounted for by:			
Delinquent taxes, from 2006 tax roll		\$ 147,701	
Delinquent taxes receivable, all previous years		<u>440,705</u>	
Delinquent taxes receivable, September 30, 2007			<u>\$ 588,406</u>

	<u>2007</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>	<u>2003</u>	<u>2002</u>
Collection rates:						
Current year levy	94.79%	94.31%	94.47%	94.22%	94.12%	92.58%
Prior year levies	23.34%	23.72%	18.59%	20.30%	26.29%	22.58%

Note: See Table 7 for assessed taxable value information and Table 8 for tax rate information.

CITY OF LA MARQUE, TEXAS**COMBINED SCHEDULE OF BONDS AND OTHER LONG-TERM DEBT***September 30, 2007*

Description	Interest Rates	Interest Dates	Issue Date
Revenue bonds			
Water and sewer revenue bonds - Series 1996	3.00% to 4.55%	3/1; 9/1	9/26/1996
Water and sewer revenue bonds - Series 1998	2.50% to 3.65%	3/1; 9/1	7/15/1998
Total revenue bonds			
Long-term contracts payable			
Water system contract revenue bonds - Series 1998D	4.15% to 5.00%	2/15; 8/15	7/1/1998
Total long-term contracts payable			
Certificates of obligation			
Series 1993	5.00% to 6.7%	3/1; 9/1	3/1/1993
Series 2005	4.00% to 5.00%	3/1; 9/1	6/1/2005
Series 2007	4.50% to 4.75%	3/1; 9/1	5/14/2007
Total revenue bonds			

Final Maturity Date	Authorized and Issued	Outstanding, September 30, 2007	2007 - 2008 Requirements		
			Principal	Interest	Total
9/1/2016	\$ 4,440,000	\$ 2,970,000	\$ 275,000	\$ 130,785	\$ 405,785
9/1/2018	<u>4,600,000</u>	<u>3,600,000</u>	<u>240,000</u>	<u>124,290</u>	<u>364,290</u>
	<u><u>\$ 9,040,000</u></u>	<u><u>\$ 6,570,000</u></u>	<u><u>\$ 515,000</u></u>	<u><u>\$ 255,075</u></u>	<u><u>\$ 770,075</u></u>
8/15/2022	<u>\$ 3,040,000</u>	<u>\$ 2,820,000</u>	<u>\$ 40,000</u>	<u>\$ 139,565</u>	<u>\$ 179,565</u>
	<u><u>\$ 3,040,000</u></u>	<u><u>\$ 2,820,000</u></u>	<u><u>\$ 40,000</u></u>	<u><u>\$ 139,565</u></u>	<u><u>\$ 179,565</u></u>
9/1/2008	\$ 925,000	\$ 80,000	\$ 80,000	\$ 4,000	\$ 84,000
9/1/2029	3,490,000	3,225,000	15,000	140,480	155,480
9/1/2029	<u>3,750,000</u>	<u>3,750,000</u>	<u>50,000</u>	<u>194,783</u>	<u>244,783</u>
	<u><u>\$ 8,165,000</u></u>	<u><u>\$ 7,055,000</u></u>	<u><u>\$ 145,000</u></u>	<u><u>\$ 339,263</u></u>	<u><u>\$ 484,263</u></u>



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CITY OF LA MARQUE, TEXAS*Exhibit I-4***DEBT SERVICE REQUIREMENTS TO MATURITY****WATER AND SEWER REVENUE BONDS - SERIES 1996***September 30, 2007*

WATERWORKS AND SEWER SYSTEM REVENUE BONDS, SERIES 1996, dated September 26, 1996, issued for the purpose of improving and extending the City's waterworks and sanitary sewer system, issued in denominations of \$5,000 each, aggregating \$4,440,000, bearing interest at the respective rates per annum shown below, interest payable on March 1 and September 1 of each year until maturity or prior redemption as follows:

Due During Fiscal Year	Interest Rate	Maturities		
		Principal	Interest	Total
2008	4.15%	\$ 275,000	\$ 130,785	\$ 405,785
2009	4.25	285,000	119,373	404,373
2010	4.30	300,000	107,260	407,260
2011	4.35	315,000	94,360	409,360
2012	4.40	330,000	80,657	410,657
2013	4.45	340,000	66,138	406,138
2014	4.50	360,000	51,007	411,007
2015	4.55	375,000	34,808	409,808
2016	4.55	390,000	17,745	407,745
		<u>\$ 2,970,000</u>	<u>\$ 702,133</u>	<u>\$ 3,672,133</u>

CITY OF LA MARQUE, TEXAS*Exhibit I-5***DEBT SERVICE REQUIREMENTS TO MATURITY****WATER AND SEWER REVENUE BONDS - SERIES 1998***September 30, 2007*

WATERWORKS AND SEWER SYSTEM REVENUE BONDS, SERIES 1998, dated July 15, 1998, issued for the purpose of constructing improvements and extending the City's sanitary sewer system, issued in denominations of \$5,000 each, aggregating \$4,600,000, bearing interest at the respective rates per annum shown below, interest payable on March 1 and September 1 of each year until maturity or prior redemption as follows:

Due During Fiscal Year	Interest Rate	Maturities		
		Principal	Interest	Total
2008	2.95%	\$ 240,000	\$ 124,290	\$ 364,290
2009	3.00	250,000	117,090	367,090
2010	3.10	255,000	109,340	364,340
2011	3.20	260,000	101,180	361,180
2012	3.30	270,000	92,600	362,600
2013	3.40	280,000	83,420	363,420
2014	3.45	285,000	73,760	358,760
2015	3.50	300,000	63,785	363,785
2016	3.55	310,000	53,135	363,135
2017	3.60	575,000	41,975	616,975
2018	3.65	575,000	20,987	595,987
		<u>\$ 3,600,000</u>	<u>\$ 881,562</u>	<u>\$ 4,481,562</u>

CITY OF LA MARQUE, TEXAS
DEBT SERVICE REQUIREMENTS TO MATURITY
ALL WATER AND SEWER REVENUE BONDS
September 30, 2007

Exhibit I-6

Due During Fiscal Year	Net Debt Outstanding, September 30	Principal	Interest	Total Requirements
2008	\$ 6,055,000	\$ 515,000	\$ 255,075	\$ 770,075
2009	5,520,000	535,000	236,463	771,463
2010	4,965,000	555,000	216,600	771,600
2011	4,390,000	575,000	195,540	770,540
2012	3,790,000	600,000	173,257	773,257
2013	3,170,000	620,000	149,558	769,558
2014	2,525,000	645,000	124,767	769,767
2015	1,850,000	675,000	98,593	773,593
2016	1,150,000	700,000	70,880	770,880
2017	575,000	575,000	41,975	616,975
2018		575,000	20,987	595,987
		<u>\$ 6,570,000</u>	<u>\$ 1,583,695</u>	<u>\$ 8,153,695</u>

CITY OF LA MARQUE, TEXAS*Exhibit I-7***SUMMARY OF DEBT SERVICE REQUIREMENTS TO MATURITY****ALL LONG-TERM DEBT***September 30, 2007*

Due During Fiscal Year	Revenue Bonds	Certificates of Obligation	Water Contract Revenue Bonds	Total Requirements
2008	\$ 770,075	\$ 484,263	\$ 179,565	\$ 1,433,903
2009	771,463	493,306	282,725	1,547,494
2010	771,600	493,569	280,983	1,546,152
2011	770,540	493,356	278,858	1,542,754
2012	773,257	492,656	276,340	1,542,253
2013	769,558	491,469	278,500	1,539,527
2014	769,767	490,944	280,000	1,540,711
2015	773,593	495,269	276,000	1,544,862
2016	770,880	498,944	276,750	1,546,574
2017	616,975	496,994	277,000	1,390,969
2018	595,987	500,713	276,750	1,373,450
2019		498,856	276,000	774,856
2020		501,251	279,750	781,001
2021		503,037	277,750	780,787
2022		508,837	320,250	829,087
2023		508,813		508,813
2024		513,000		513,000
2025		511,353		511,353
2026		514,070		514,070
2027		515,850		515,850
2028		521,790		521,790
2029		521,322		521,322
	<u>\$ 8,153,695</u>	<u>\$ 11,049,662</u>	<u>\$ 4,117,221</u>	<u>\$ 23,320,578</u>

CITY OF LA MARQUE TEXAS
STATISTICAL SECTION

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

Contents	Page
<i>Financial Trends</i>	110
These schedules contain trend information to help the reader understand how the government’s financial performance and well-being have changed over time.	
<i>Revenue Capacity</i>	117
These schedules contain information to help the reader access the government’s most significant local revenue source, the property tax.	
<i>Debt Capacity</i>	132
These schedules present information, to help the reader assess the affordability of the government’s, current levels, of outstanding debt and the government’s ability to issue additional debt in the future.	
<i>Demographic and Economic Information</i>	139
These schedules offer demographic and economic indicators to help the reader understand the environment within which the government’s financial activities take place.	
<i>Operating Information</i>	144
These schedules contain service and infrastructure data to help the reader understand how the information in the government’s financial report relates to the services the government provides and the activities it performs.	

Sources: Unless otherwise noted, the information in these schedules is derived from the comprehensive annual financial reports for the relevant year.

CITY OF LA MARQUE, TEXAS

NET ASSETS BY COMPONENT

LAST TEN FISCAL YEARS

(accrual basis of accounting)

	<u>2007*</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>
Governmental activities				
Invested in capital assets, net of related debt	\$ 10,126,850	\$ 3,072,404	\$ 2,726,395	\$ 2,690,543
Restricted	901,932	3,621,242	418,911	387,551
Unrestricted	3,545,879	983,738	3,217,289	3,064,707
Total governmental activities net assets	<u>\$ 14,574,661</u>	<u>\$ 7,677,384</u>	<u>\$ 6,362,595</u>	<u>\$ 6,142,801</u>
Business-type activities				
Invested in capital assets, net of related debt	\$ 7,721,479	\$ 7,656,487	\$ 8,253,056	\$ 8,285,324
Restricted	297,143	297,404	297,191	301,553
Unrestricted	3,624,165	4,067,153	3,629,381	3,536,111
Total business-type activities net assets	<u>\$ 11,642,787</u>	<u>\$ 12,021,044</u>	<u>\$ 12,179,628</u>	<u>\$ 12,122,988</u>
Primary government				
Invested in capital assets, net of related debt	\$ 17,848,329	\$ 10,728,891	\$ 10,979,451	\$ 10,975,867
Restricted	1,199,075	3,918,646	716,102	689,104
Unrestricted	7,170,044	5,050,891	6,846,670	6,600,818
Total primary government net assets	<u>\$ 26,217,448</u>	<u>\$ 19,698,428</u>	<u>\$ 18,542,223</u>	<u>\$ 18,265,789</u>

Note:

Governmental Accounting Standards Board Statement No. 34 implemented during the fiscal year ended September, 30, 2003, therefore no government-wide information is presented prior to that date.

* During the year ended September 30, 2007, the City retroactively reported its general infrastructure assets in accordance with GASB 34.

Table 1

<u>2003</u>	<u>2002</u>	<u>2001</u>	<u>2000</u>	<u>1999</u>	<u>1998</u>
\$ 2,279,987	\$	\$	\$	\$	\$
374,052					
2,744,373					
<u>\$ 5,398,412</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>
<u><u>\$ 5,398,412</u></u>	<u><u>\$</u></u>	<u><u>\$</u></u>	<u><u>\$</u></u>	<u><u>\$</u></u>	<u><u>\$</u></u>
\$ 8,689,599	\$	\$	\$	\$	\$
752,129					
3,064,490					
<u>\$ 12,506,218</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>
<u><u>\$ 12,506,218</u></u>	<u><u>\$</u></u>	<u><u>\$</u></u>	<u><u>\$</u></u>	<u><u>\$</u></u>	<u><u>\$</u></u>
\$ 10,969,586	\$	\$	\$	\$	\$
1,126,181					
5,808,863					
<u>\$ 17,904,630</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>
<u><u>\$ 17,904,630</u></u>	<u><u>\$</u></u>	<u><u>\$</u></u>	<u><u>\$</u></u>	<u><u>\$</u></u>	<u><u>\$</u></u>

CITY OF LA MARQUE, TEXAS

CHANGES IN NET ASSETS

LAST TEN FISCAL YEARS

(Accrual basis of accounting)

	<u>2007</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>
Expenses				
Governmental activities:				
General government	\$ 1,446,482	\$ 1,278,647	\$ 1,648,150	\$ 1,129,942
Public safety	5,017,928	4,645,576	4,013,207	3,559,871
Public works	2,344,263	1,338,798	1,455,906	1,461,246
Sanitation	1,189,657	968,143	949,185	908,298
Urban rehabilitation and housing	290,050	257,455	334,786	342,723
Interest on long-term debt	183,369	181,040	87,263	52,032
Total governmental activities expenses	<u>10,471,749</u>	<u>8,669,659</u>	<u>8,488,497</u>	<u>7,454,112</u>
Business-type activities:				
Utility	4,415,293	4,130,361	3,635,149	3,537,456
Water and sewer	297,685	302,266	312,753	319,698
Total business-type activities expenses	<u>4,712,978</u>	<u>4,432,627</u>	<u>3,947,902</u>	<u>3,857,154</u>
Total primary government expenses	<u>\$ 15,184,727</u>	<u>\$ 13,102,286</u>	<u>\$ 12,436,399</u>	<u>\$ 11,311,266</u>
Program revenues:				
Governmental activities:				
Charges for services:				
General government	\$ 31,813	\$ 30,382	\$ 89,357	\$ 59,007
Public safety	1,340,956	1,072,680	808,234	726,167
Public works	52,038	12,833	3,430	3,400
Sanitation	1,072,582	1,279,813	1,216,847	1,151,260
Operating grants and contributions	626,748	696,743	684,501	465,416
Total governmental activities program revenues	<u>3,124,137</u>	<u>3,092,451</u>	<u>2,802,369</u>	<u>2,405,250</u>
Business-type activities:				
Charges for services:				
Utility	3,565,565	4,233,425	3,957,986	3,451,286
Operating grants and contributions	349,362	14,557		
Total business-type activities program revenues	<u>3,914,927</u>	<u>4,247,982</u>	<u>3,957,986</u>	<u>3,451,286</u>
Total primary government program revenues	<u>\$ 7,039,064</u>	<u>\$ 7,340,433</u>	<u>\$ 6,760,355</u>	<u>\$ 5,856,536</u>
Net (expense) revenue:				
Governmental activities	\$ (7,347,612)	\$ (5,577,208)	\$ (5,686,128)	\$ (5,048,862)
Business-type activities	(798,051)	(184,645)	10,084	(405,868)
Total primary government net (expense) revenue	<u>\$ (8,145,663)</u>	<u>\$ (5,761,853)</u>	<u>\$ (5,676,044)</u>	<u>\$ (5,454,730)</u>

Note: Governmental Accounting Standards Board Statement No. 34 implemented during the fiscal year ended September, 30, 2003, therefore no government-wide information is presented prior to that date.

Table 2
(Page 1 of 2)

<u>2003</u>	<u>2002</u>	<u>2001</u>	<u>2000</u>	<u>1999</u>	<u>1998</u>
\$ 997,260	\$	\$	\$	\$	\$
3,319,003					
1,416,337					
860,492					
294,493					
65,367					
6,952,952					
3,561,305					
298,928					
3,860,233					
\$ 10,813,185	\$	\$	\$	\$	\$
\$ 59,911	\$	\$	\$	\$	\$
583,627					
2,029					
1,110,206					
396,030					
2,151,803					
3,428,313					
3,428,313					
\$ 5,580,116	\$	\$	\$	\$	\$
\$ (4,801,149)	\$	\$	\$	\$	\$
(431,920)					
\$ (5,233,069)	\$	\$	\$	\$	\$

CITY OF LA MARQUE, TEXAS

CHANGES IN NET ASSETS

LAST TEN FISCAL YEARS

(Accrual basis of accounting)

	<u>2007</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>
General revenues and other changes in net assets:				
Governmental activities:				
Taxes:				
Property taxes	\$ 2,912,427	\$ 2,840,318	\$ 2,461,204	\$ 2,245,048
Sales taxes	2,416,247	2,461,681	2,230,748	2,217,799
Gross receipts taxes	816,018	824,017	824,016	812,450
Hotel / Motel taxes	90,007	50,222	55,734	27,095
Other taxes	63,442	68,803	78,420	80,147
Unrestricted grants and contributions	63,473			
Unrestricted investment earnings	473,411	379,188	135,922	44,655
Gain (loss) on disposal of assets			(10,050)	
Other revenue	148,232	146,038	58,758	64,322
Transfers	(104,736)	121,730	71,170	20,128
Total governmental activities	<u>6,878,521</u>	<u>6,891,997</u>	<u>5,905,922</u>	<u>5,511,644</u>
Business-type activities:				
Unrestricted investment earnings	129,410	144,351	78,336	37,824
Other revenue	185,648	3,440	39,390	31,383
Transfers	104,736	(121,730)	(71,170)	(20,128)
Total business-type activities	<u>419,794</u>	<u>26,061</u>	<u>46,556</u>	<u>49,079</u>
Total primary government	<u>\$ 7,298,315</u>	<u>\$ 6,918,058</u>	<u>\$ 5,952,478</u>	<u>\$ 5,560,723</u>
Change in net assets:				
Governmental activities	\$ (469,091)	\$ 1,314,789	\$ 219,794	\$ 462,782
Business-type activities	(378,257)	(158,584)	56,640	(356,789)
Total primary government net (expense) revenue	<u>\$ (847,348)</u>	<u>\$ 1,156,205</u>	<u>\$ 276,434</u>	<u>\$ 105,993</u>

Note: Governmental Accounting Standards Board Statement No. 34 implemented during the fiscal year ended September, 30, 2003, therefore no government-wide information is presented prior to that date.

Table 2
(Page 2 of 2)

<u>2003</u>	<u>2002</u>	<u>2001</u>	<u>2000</u>	<u>1999</u>	<u>1998</u>
\$ 2,211,075	\$	\$	\$	\$	\$
1,589,965					
792,836					
28,434					
91,927					
57,630					
24,517					
(31,120)					
4,765,264					
63,880					
27,726					
31,120					
122,726					
\$ 4,887,990	\$	\$	\$	\$	\$
\$ (35,885)	\$	\$	\$	\$	\$
(309,194)					
\$ (345,079)	\$	\$	\$	\$	\$



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CITY OF LA MARQUE, TEXAS
GOVERNMENTAL ACTIVITIES TAX REVENUES BY SOURCE
LAST TEN FISCAL YEARS
(accrual basis of accounting)

Table 3

Fiscal Year	Property Tax	Sales Tax	Gross Receipts Tax	Hotel / Motel Tax	Other Tax	Total
1998	\$	\$	\$	\$	\$	\$
1999						
2000						
2001						
2002						
2003	2,211,075	1,589,965	792,836	28,434	91,927	4,714,237
2004	2,245,048	2,217,799	812,450	27,095	80,147	5,382,539
2005	2,461,204	2,230,748	824,016	55,734	78,420	5,650,122
2006	2,840,318	2,461,681	824,017	50,222	68,803	6,245,041
2007	2,912,427	2,416,247	816,018	90,007	63,442	6,298,141

Note:

Governmental Accounting Standards Board Statement No. 34 implemented during the fiscal year ended September, 30, 2003, therefore no government-wide information is presented prior to that date.

CITY OF LA MARQUE, TEXAS*FUND BALANCES OF GOVERNMENTAL FUNDS**LAST TEN FISCAL YEARS**(modified accrual basis of accounting)*

	<u>2007</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>
General fund				
Reserved	\$ 179,444	\$ 185,556	\$ 167,446	\$ 238,891
Unreserved	2,162,233	2,274,188	1,674,720	1,458,327
Total general fund	<u>\$ 2,341,677</u>	<u>\$ 2,459,744</u>	<u>\$ 1,842,166</u>	<u>\$ 1,697,218</u>
All other governmental funds:				
Reserved	\$ 5,147,178	\$ 3,766,692	\$ 3,878,009	\$ 415,224
Unreserved	639,120	583,247	540,843	532,913
Total all other governmental funds	<u>\$ 5,786,298</u>	<u>\$ 4,349,939</u>	<u>\$ 4,418,852</u>	<u>\$ 948,137</u>

Note:

Certificates of obligation totalling \$3,432,853 and \$3,750,000 were issued in the years ended September 30, 2005 and 2007, respectively. The proceeds are to be used for street and drainage improvements

Table 4

2003	2002	2001	2000	1999	1998
\$ 191,810	\$ 188,788	\$ 252,612	\$ 310,508	\$ 269,372	\$ 67,971
993,291	595,053	711,821	573,894	760,320	871,772
<u>\$ 1,185,101</u>	<u>\$ 783,841</u>	<u>\$ 964,433</u>	<u>\$ 884,402</u>	<u>\$ 1,029,692</u>	<u>\$ 939,743</u>
\$ 375,537	\$ 267,843	\$ 155,740	\$ 163,705	\$ 131,586	\$ 138,860
623,873	625,983	688,897	683,616	808,629	812,223
<u>\$ 999,410</u>	<u>\$ 893,826</u>	<u>\$ 844,637</u>	<u>\$ 847,321</u>	<u>\$ 940,215</u>	<u>\$ 951,083</u>

CITY OF LA MARQUE, TEXAS

CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS

LAST TEN FISCAL YEARS

(modified accrual basis of accounting)

	<u>2007</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>
Revenues				
Taxes:				
Property	\$ 2,975,204	\$ 2,925,715	\$ 2,474,554	\$ 2,237,288
Sales	2,416,247	2,461,681	2,230,748	2,217,799
Gross receipts	816,018	824,017	824,016	812,450
Other	153,449	119,025	134,154	107,242
Licenses and permits	268,421	203,605	158,350	140,755
Intergovernmental revenue	673,399	488,268	502,684	435,500
Charges for services	1,603,149	1,583,328	1,224,084	1,151,260
Fines and forfeitures	605,707	588,903	649,884	585,412
Investment earnings	385,126	303,105	97,101	26,350
Reimbursement from component unit	93,854	82,816	89,357	59,007
Other revenue	93,210	292,152	244,133	97,638
Total revenues	<u>10,083,784</u>	<u>9,872,615</u>	<u>8,629,065</u>	<u>7,870,701</u>
Expenditures				
Current:				
General government:	1,457,136	1,242,516	1,527,317	1,088,775
Public safety	4,821,812	4,511,025	3,859,833	3,381,168
Public works	1,739,410	1,243,538	1,346,103	1,347,499
Sanitation	1,065,018	958,372	949,185	908,298
Urban rehabilitation and housing	290,050	257,455	334,786	342,723
Debt service:				
Principal on long-term debt	345,401	292,054	244,275	224,769
Interest and fiscal charges	223,868	214,161	39,690	53,984
Capital outlay:				
General government			9,737	
Public safety	196,546	285,840	39,415	32,409
Public works	2,671,981	335,429	74,024	123,339
Total expenditures	<u>12,811,222</u>	<u>9,340,390</u>	<u>8,424,365</u>	<u>7,502,964</u>
Excess (Deficiency) of revenues over (under) expenditures	<u>(2,727,438)</u>	<u>532,225</u>	<u>204,700</u>	<u>367,737</u>
Other financing sources (uses)				
Transfer in	231,628	71,101	51,729	198,250
Transfers (out)	(44,172)	(55,681)	(73,619)	(85,630)
Proceeds from the disposal of assets		1,020		
Proceeds from issuance of long-term debt, net	3,750,000		3,432,853	
Total other financing sources (uses)	<u>3,937,456</u>	<u>16,440</u>	<u>3,410,963</u>	<u>112,620</u>
Net change in fund balances	<u>\$ 1,210,018</u>	<u>\$ 548,665</u>	<u>\$ 3,615,663</u>	<u>\$ 480,357</u>
Debt service as a percentage of noncapital expenditures	5.7%	5.8%	3.4%	3.8%

Table 5

<u>2003</u>	<u>2002</u>	<u>2001</u>	<u>2000</u>	<u>1999</u>	<u>1998</u>
\$ 2,253,635	\$ 2,138,063	\$ 2,065,128	\$ 1,980,710	\$ 1,947,710	\$ 1,903,247
1,589,965	1,172,970	1,206,633	1,226,579	1,224,439	1,238,785
792,836	793,618	790,649	731,792	745,031	746,782
120,361	127,368	156,394	175,369	175,541	267,278
113,615	90,605	47,280	74,195	57,806	91,220
365,912	378,653	385,798	464,606	707,476	581,298
1,110,206	1,091,164	1,047,684	1,070,856	987,559	988,262
470,012	316,370	389,849	285,010	301,346	248,891
34,658	38,181	96,220	97,446	101,664	90,784
59,911	50,737	41,914	58,043	38,902	36,895
56,664	107,878	73,854	112,619	90,979	68,462
<u>6,967,775</u>	<u>6,305,607</u>	<u>6,301,403</u>	<u>6,277,225</u>	<u>6,378,453</u>	<u>6,261,904</u>
918,144	881,701	846,718	964,507	845,071	899,887
3,107,561	2,797,286	2,476,738	2,501,253	2,448,073	2,315,277
1,243,217	1,305,363	1,136,505	1,099,941	1,069,704	1,095,057
860,492	787,813	798,300	818,648	779,101	765,194
294,493	278,919	279,565	314,872	327,210	288,075
216,383	251,856	274,520	288,260	303,937	264,465
66,291	79,317	94,203	107,442	126,523	134,412
31,385		16,822	17,653	32,773	18,500
235,131		78,144	185,321	169,169	147,803
117,718		448,578	447,421	350,925	509,702
<u>7,090,815</u>	<u>6,382,255</u>	<u>6,450,093</u>	<u>6,745,318</u>	<u>6,452,486</u>	<u>6,438,372</u>
<u>(123,040)</u>	<u>(76,648)</u>	<u>(148,690)</u>	<u>(468,093)</u>	<u>(74,033)</u>	<u>(176,468)</u>
309,496		401,913	452,579	470,495	274,456
(55,000)	(22,930)	(189,650)	(222,670)	(337,190)	(281,950)
				15,000	
					300,000
<u>254,496</u>	<u>(22,930)</u>	<u>212,263</u>	<u>229,909</u>	<u>148,305</u>	<u>292,506</u>
<u>\$ 131,456</u>	<u>\$ (99,578)</u>	<u>\$ 63,573</u>	<u>\$ (238,184)</u>	<u>\$ 74,272</u>	<u>\$ 116,038</u>
4.2%	5.2%	6.2%	6.5%	7.3%	6.9%



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CITY OF LA MARQUE, TEXAS*Table 6**GENERAL GOVERNMENTAL TAX REVENUES BY SOURCE**LAST TEN FISCAL YEARS**(modified accrual basis of accounting)*

Fiscal Year	Property Tax	Sales Tax	Gross Receipts Tax	Hotel / Motel Tax	Other Tax	Total
1998	\$ 1,903,247	\$ 1,238,785	\$ 746,782	\$ 97,020	\$ 170,258	\$ 4,156,092
1999	1,947,710	1,224,439	745,031	118,456	57,085	4,092,721
2000	1,980,710	1,226,579	731,792	48,185	127,184	4,114,450
2001	2,065,128	1,206,633	790,649	51,811	104,583	4,218,804
2002	2,138,063	1,172,970	793,618	45,558	81,810	4,232,019
2003	2,253,635	1,589,965	792,836	28,052	92,309	4,756,797
2004	2,237,288	2,217,799	812,450	28,434	78,808	5,374,779
2005	2,474,554	2,230,748	824,016	27,095	107,059	5,663,472
2006	2,925,715	2,461,681	824,017	55,734	63,291	6,330,438
2007	2,975,204	2,416,247	816,018	90,007	63,442	6,360,918

CITY OF LA MARQUE, TEXAS
ASSESSED VALUE AND ESTIMATED ACTUAL VALUE OF TAXABLE PROPERTY
LAST TEN FISCAL YEARS

Fiscal Year Ended September 30,	Real Property			
	Land	Improvements	Personal Property	Less: Tax Exempt Real Property
1998	\$ 87,461,330	\$ 310,712,895	\$ 68,130,781	\$ (106,044,394)
1999	86,736,510	305,654,699	67,255,837	(106,432,224)
2000	86,665,940	318,643,507	65,401,355	(107,221,892)
2001	89,660,343	324,370,831	65,480,826	(108,527,922)
2002	90,916,033	341,366,524	68,934,587	(109,962,540)
2003	96,715,143	346,678,679	63,940,950	(110,837,373)
2004	100,372,893	380,697,869	64,691,455	(117,174,189)
2005	106,094,630	392,875,009	83,523,116	(108,425,181)
2006	116,928,330	418,733,999	74,636,095	(112,466,032)
2007	151,422,970	466,193,004	73,323,043	(138,045,187)

(1) Tax rates are per \$100 of taxable assessed value.

Source: Galveston Central Appraisal District.

Table 7

Total Taxable Assessed Value	Total Direct Tax Rate (1)	Estimated Actual Taxable Value	Assess Value as a Percentage of Actual Value
\$ 360,260,612	\$ 0.5230	\$ 360,260,612	100%
353,214,822	0.53300	353,214,822	100%
363,488,910	0.52300	363,488,910	100%
370,984,078	0.54610	370,984,078	100%
391,254,604	0.53610	391,254,604	100%
396,497,399	0.53610	396,497,399	100%
428,588,028	0.51034	428,588,028	100%
474,067,574	0.51030	474,067,574	100%
497,832,392	0.55330	497,832,392	100%
552,893,830	0.51436	552,893,830	100%

CITY OF LA MARQUE, TEXAS

PROPERTY TAX RATES - DIRECT AND OVERLAPPING* GOVERNMENTS

LAST TEN FISCAL YEARS

Taxing Authority	2007	2006	2005	2004
Overlapping Rates:				
La Marque Independent School District	\$ 1.570000	\$ 1.724000	\$ 1.743000	\$ 1.730000
Dickinson Independent School District	1.724000	1.751000	1.748000	1.743000
Hitchcock Independent School District	1.121505	1.695000	1.710000	1.710000
Santa Fe Independent School District	1.160000	1.565000	1.570000	1.570000
College of the Mainland	0.233745	0.243020	0.245250	0.263060
County of Galveston	0.598750	0.628750	0.638750	0.640000
Public Improvement District No. 1	1.000045	1.000045 ⁽¹⁾		
Galveston County Drainage District No. 2	0.055740	0.055200	0.058800	0.058800
Total	<u><u>\$ 7.463785</u></u>	<u><u>\$ 8.662015</u></u>	<u><u>\$ 7.713800</u></u>	<u><u>\$ 7.714860</u></u>
District Direct Rates:				
Maintenance and Operations	\$ 0.433870	\$ 0.473000	\$ 0.440000	\$ 0.432400
Debt Service	0.080490	0.080300	0.070300	0.077940
Total District Direct Rates	<u><u>\$ 0.514360</u></u>	<u><u>\$ 0.553300</u></u>	<u><u>\$ 0.510300</u></u>	<u><u>\$ 0.510340</u></u>

* Overlapping rates are those of local and county governments that apply to property owners within the City of La Marque, Texas. Not all overlapping rates apply to all City of La Marque, Texas property owners (e.g. the rates of special districts apply only to the portion of the government's property owners whose property is located within the geographic boundaries of the special district.

(1) Newly created special district.

Note:

All tax rates are per \$100 assessed valuation.

Source: Galveston Central Appraisal District

Table 8

2003	2002	2001	2000	1999	1998
\$ 1.650000	\$ 1.625005	\$ 1.625010	\$ 1.615959	\$ 1.644100	\$ 1.644100
1.764000	1.747000	1.754000	1.751000	1.710000	1.710000
1.710000	1.710000	1.663600	1.705900	1.710000	1.693500
1.570000	1.510000	1.422000	1.367000	1.494000	1.444000
0.231870	0.218000	0.218000	0.215762	0.198815	0.198815
0.606300	0.553000	0.545000	0.545000	0.520000	0.520000
0.058800	0.588000	0.056273	0.054294	0.054419	0.052586
<u>\$ 7.590970</u>	<u>\$ 7.951005</u>	<u>\$ 7.283883</u>	<u>\$ 7.254915</u>	<u>\$ 7.331334</u>	<u>\$ 7.263001</u>
\$ 0.427500	\$ 0.427500	\$ 0.430080	\$ 0.410000	\$ 0.405081	\$ 0.392231
0.108600	0.108600	0.116020	0.113000	0.127919	0.130769
<u>\$ 0.536100</u>	<u>\$ 0.536100</u>	<u>\$ 0.546100</u>	<u>\$ 0.523000</u>	<u>\$ 0.533000</u>	<u>\$ 0.523000</u>

CITY OF LA MARQUE, TEXAS
PRINCIPAL PROPERTY TAXPAYERS
CURRENT YEAR AND NINE YEARS AGO

Taxpayer	2007		
	Taxable Assessed Value	Rank	Percentage of Total Taxable Assessed Value
Wal-mart Stores East, Inc.	\$ 14,803,730	1	2.68%
Gulf Greyhound Partners, Ltd.	10,219,010	2	1.85%
Wal-mart Stores Texas, LP	8,354,855	3	1.51%
Saltgrass 300, Ltd.	6,971,730	4	1.26%
Texas-New Mexico Power Co.	6,788,070	5	1.23%
Shouthwestern Bell Telephone Co.	6,143,690	6	1.11%
Univest - La Marque Center, LLP	4,824,270	7	0.87%
Comcast of Houston, LLC	4,193,630	8	0.76%
La Marque Outlet Dev. LP	3,700,000	9	0.67%
Cimarex Energy Co.	3,569,208	10	0.65%
F.S.A. Properties, Inc.			0.00%
Triconex			0.00%
Motco Trust Group			0.00%
La Quinta Development Partners, L.P.			0.00%
Houston Lighting and Power Co.			0.00%
Private Mini Storage			0.00%
United States National Bank			0.00%
	<u>\$ 69,568,193</u>		<u>12.58%</u>

(1) Taxpayer either did not exist or merged with another taxpayer, therefore taxable assessed values and ranking is not available.

(2) Taxpayer was not ranked in the top 10 of all District taxpayers.

Source: Galveston Central Appraisal District

Table 9

1998		
Taxable Assessed Value	Rank	Percentage of Total Taxable Assessed Value
\$		0.00%
22,350,000	1	6.20%
		0.00%
		0.00%
7,157,020	4	1.99%
10,498,510	2	2.91%
		0.00%
		0.00%
		0.00%
		0.00%
9,380,500	3	2.60%
4,347,630	5	1.21%
3,253,330	6	0.90%
2,442,260	7	0.68%
2,224,900	8	0.62%
2,150,880	9	0.60%
2,054,460	10	0.57%
<u>\$ 65,859,490</u>		<u>18.28%</u>



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CITY OF LA MARQUE, TEXAS
PROPERTY TAX LEVIES AND COLLECTIONS
LAST TEN FISCAL PERIODS

Table 10

Fiscal Year Ended September 30,	Total Tax Levy for Fiscal Year (1)	Collected Within the Fiscal Year of the Levy		Collections in Subsequent Years	Total Collections to Date (2)	
		Amount	Percentage of Levy		Amount	Percentage of Levy
1998	\$ 1,884,399	\$ 1,750,988	92.92%	\$ 114,655	\$ 1,865,643	99.00%
1999	1,878,243	1,756,321	93.51%	99,174	1,855,495	98.79%
2000	1,898,351	1,766,278	93.04%	110,505	1,876,783	98.86%
2001	2,026,898	1,876,529	92.58%	123,742	2,000,271	98.69%
2002	2,096,482	1,941,944	92.63%	124,228	2,066,172	98.55%
2003	2,121,524	2,001,305	94.33%	89,422	2,090,727	98.55%
2004	2,182,395	2,061,779	94.47%	83,318	2,145,097	98.29%
2005	2,417,196	2,286,462	94.59%	80,634	2,367,096	97.93%
2006	2,754,196	2,597,962	94.33%	76,901	2,674,863	97.12%
2007	2,835,349	2,687,648	94.79%		2,687,648	94.79%

(1) Appraised value less exemptions equal taxable assessed value. The beginning taxable value net of adjustments times the tax rate set by City Council each fall equals the total net tax levy. The net tax levy for prior years reflects ongoing adjustments applied to that year's tax levy.

(2) Excludes the subsequent 60 days tax collections recorded as revenue in the fund financial statements in accordance with the modified accrual basis of accounting.

CITY OF LA MARQUE, TEXAS
RATIOS OF OUTSTANDING DEBT BY TYPE
LAST TEN FISCAL YEARS

Fiscal Year	Governmental Activities			Business-type Activities	
	General Obligation Bonds	Certificates of Obligation	Capital Leases	Revenue Bonds	Capital Leases
1998	\$	\$ 2,072,275	\$	\$ 13,705,000	\$
1999		1,792,425		13,380,000	
2000		1,527,500		12,975,000	
2001		1,277,500		12,550,000	
2002		1,050,000		12,060,000	
2003		850,000		11,540,000	
2004		635,000		11,000,000	
2005		3,895,000		10,440,000	
2006		3,625,000		9,925,000	
2007		7,055,000		9,390,000	

(1) See Table 16 for population data and personal income.

Table 11

Total Primary Government	Percentage of Personal Income (1)	Per Capita (1)
\$ 15,777,275	7.35%	\$ 1,130
15,172,425	7.07%	1,087
14,502,500	6.68%	1,027
13,827,500	6.58%	1,011
13,110,000	5.47%	958
12,390,000	5.17%	906
11,635,000	4.85%	850
14,335,000	5.98%	1,048
13,550,000	5.65%	990
16,445,000	6.62%	1,160

CITY OF LA MARQUE, TEXAS
RATIOS OF GENERAL BONDED DEBT OUTSTANDING
LAST TEN FISCAL YEARS

Table 12

Fiscal Year	Certificates of Obligation	Less: Amounts Available in Debt Service Fund	Total	Percentage of Estimated Actual Taxable Value of Property (1)	Per Capita (2)
1998	\$ 2,072,275	\$ 112,258	\$ 1,960,017	0.54%	\$ 140
1999	1,792,425	104,984	1,687,441	0.48%	121
2000	1,527,500	136,661	1,390,839	0.38%	99
2001	1,277,500	128,298	1,149,202	0.31%	84
2002	1,050,000	240,216	809,784	0.21%	59
2003	850,000	369,339	480,661	0.12%	35
2004	635,000	387,551	247,449	0.06%	18
2005	3,895,000	418,911	3,476,089	0.73%	254
2006	3,625,000	427,028	3,197,972	0.64%	234
2007	7,055,000	400,957	6,654,043	1.20%	469

(1) See Table 7 for assessed value information.

(2) See Table 16 for population data.

CITY OF LA MARQUE, TEXAS
DIRECT AND OVERLAPPING GOVERNMENTAL ACTIVITIES DEBT
As of September 30, 2007

Table 13

Governmental Unit	Net Debt			Amount of Overlapping Debt
	Amount	As Of	Percentage Overlapping	
La Marque Independent School District	\$ 32,948,601	8/31/2007	82.47%	\$ 27,172,711
Dickinson Independent School District	139,793,615	8/31/2007	23.21%	32,446,098
Hitchcock Independent School District	7,725,791	8/31/2007	1.79%	138,292
Santa Fe Independent School District	17,725,790	8/31/2007	18.00%	3,190,642
College of the Mainland	2,255,000	8/31/2007	56.69%	1,278,360
County of Galveston	232,163,000	9/30/2007	39.24%	91,100,761
Public Improvement District No. 1		9/30/2007	100.00%	
Galveston County Drainage District No. 2	226,806	9/30/2007	100.00%	226,806
				<hr/>
				Subtotal, overlapping debt 155,553,670
				<hr/>
				City of La Marque Direct Debt 16,445,000
				<hr/>
				Total Direct and Overlapping Debt \$ 171,998,670
				<hr/> <hr/>

Sources:

Amounts of debt outstanding were obtained from each of the governmental entities.

Estimation of percent overlapping derived from various sources, including information contained in "Texas Municipal Reports", published by the Municipal Advisory Council of Texas.

Note: Overlapping governments are those that coincide, at least in part, with the geographic boundaries of the City. This schedule estimates the portion of the outstanding debt of those overlapping governments that is borne by the residents and businesses of the City of La Marque, Texas. This process recognizes that, when considering the government's ability to issue and repay long-term debt, the entire debt burden borne by the residents and businesses should be taken into account. However, this does not imply that every taxpayer is a resident, and therefore responsible for paying the debt, of each overlapping government.

CITY OF LA MARQUE, TEXAS
LEGAL DEBT MARGIN INFORMATION
LAST TEN FISCAL YEARS

	<u>2007</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>
Debt Limit	\$ 69,093,902	\$ 61,029,842	\$ 47,428,807	\$ 42,877,513
Total Net Debt Applicable to Limit	<u>(6,654,043)</u>	<u>(3,197,972)</u>	<u>(3,476,089)</u>	<u>(247,449)</u>
Legal Debt Margin	<u><u>\$ 62,439,859</u></u>	<u><u>\$ 57,831,870</u></u>	<u><u>\$ 43,952,718</u></u>	<u><u>\$ 42,630,064</u></u>
Total Net Debt Applicable to the Limit As a Percentage of Debt Limit	9.63%	5.24%	7.33%	0.58%

Legal debt margin calculation for fiscal year 2007

Assessed taxable value	\$ 552,893,830
Add back:	
Exempt real property	<u>138,045,187</u>
Total assessed value	690,939,017
Debt Limit (10% of total assessed value)	69,093,902
Debt applicable to limit:	
Total bonded debt	(7,055,000)
Less: Amount set aside for repayment of bonds	<u>(400,957)</u>
Total net debt applicable to limit	<u><u>(6,654,043)</u></u>
Legal debt margin	<u><u>\$ 62,439,859</u></u>

Note: Although there is no legal debt limit in the State of Texas, most municipal finance officers in the State hold the opinion that the opinion that the Attorney General would not approve bonded indebtedness on excess of 10 percent of assessed value.

Table 14

2003	2002	2001	2000	1999	1998
\$ 39,664,279	\$ 39,125,460	\$ 37,098,408	\$ 36,348,891	\$ 35,321,482	\$ 36,026,061
<u>(475,727)</u>	<u>(361,758)</u>	<u>(330,491)</u>	<u>(234,578)</u>	<u>(207,310)</u>	<u>(191,178)</u>
<u>\$ 39,188,552</u>	<u>\$ 38,763,702</u>	<u>\$ 36,767,917</u>	<u>\$ 36,114,313</u>	<u>\$ 35,114,172</u>	<u>\$ 35,834,883</u>
1.20%	0.92%	0.89%	0.65%	0.59%	0.53%

CITY OF LA MARQUE, TEXAS
PLEDGED REVENUE COVERAGE
LAST TEN FISCAL YEARS

Table 15

Fiscal Year	Gross Operating Revenue	Operating Expenses (1)	Net Available Revenue	Debt Service		Coverage
				Principal	Interest	
1998	\$ 3,428,286	\$ 2,222,000	\$ 1,206,286	\$ 105,000	\$ 184,787	4.16
1999	3,829,059	2,149,459	1,679,600	110,000	341,661	3.72
2000	4,219,178	2,344,330	1,874,848	185,000	330,521	3.64
2001	3,763,480	2,176,059	1,587,421	190,000	324,960	3.08
2002	3,778,051	2,188,502	1,589,549	210,000	319,043	3.00
2003	3,419,284	2,324,236	1,095,048	225,000	312,353	2.04
2004	3,443,461	2,348,941	1,094,520	235,000	305,040	2.03
2005	3,952,248	2,449,694	1,502,554	240,000	295,389	2.81
2006	4,211,225	2,801,233	1,409,992	475,000	288,938	1.85
2007	3,532,125	3,087,876	444,249	495,000	283,005	0.57

(1) Details regarding the City's outstanding debt can be found in the notes to financial statements. Gross operating revenue does not include investment earnings. Operating expenses do not include interest or depreciation.

CITY OF LA MARQUE, TEXAS
DEMOGRAPHIC AND ECONOMIC STATISTICS
LAST TEN FISCAL YEARS

Table 16

Fiscal Year	Population (1)	Personal Income (2)	Per Capita Personal Income (2)	Median Age		School Enrollment (3)	Unemployment Rate (4)
1998	13,960	\$ 214,565,200	\$ 15,370	34.4	(2)	4,297	9.0%
1999	13,960	214,565,200	15,370	34.0	(2)	4,119	8.2%
2000	14,120	217,024,400	15,370	37.7	(2)	4,090	8.2%
2001	13,682	210,292,340	15,370	37.7	(1)	4,003	8.6%
2002	13,682	239,681,276	17,518	37.7	(1)	3,915	10.0%
2003	13,682	239,681,276	17,518	37.7	(1)	3,748	11.2%
2004	13,682	239,681,276	17,518	37.7	(1)	3,750	10.2%
2005	13,682	239,681,276	17,518	37.7	(1)	3,105	10.2%
2006	13,682	239,681,276	17,518	37.1	(1)	3,518	10.2%
2007	14,182	248,440,276	17,518	37.7	(1)	3,383	9.8%

(1) Population and median age statistics are compiled from census taken every 10 years.

(2) Estimated by the Tax Payers' Research Council and the Texas City - La Marque Chamber of Commerce.

(3) Obtained from local school district.

(4) Obtained from the Texas Workforce Commission.



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CITY OF LA MARQUE, TEXAS
PRINCIPAL EMPLOYERS
CURRENT YEAR AND NINE YEARS AGO

Table 17

Taxpayer	2007			1997 (1)		
	Employees	Rank*	Percentage of Principal Employers	Employees	Rank*	Percentage of Principal Employers
Wal-mart	385	1	35.42%			
La Marque Independent School District	289	2	26.59%			
City of La Marque	123	3	11.32%			
Gulf Greyhound Park	84	4	7.73%			
Conhagen	60	5	5.52%			
Associated Credit Union	48	6	4.42%			
Allied Waste Services	35	7	3.22%			
A & A Machine	47	8	4.32%			
Boo's Pump Rental	16	9	1.47%			

(1) Information not readily available, due to companies not willing or able to provide this information from nine years ago.

* Ranking is optional

Source: La Marque Economic Development Corporation

CITY OF LA MARQUE, TEXAS**FULL-TIME EQUIVALENT CITY GOVERNMENT EMPLOYEES BY FUNCTION****LAST TEN FISCAL YEARS**

Function	2007	2006	2005	2004
General government	22	21	21	18
Public Safety				
Police:				
Officers	28	28	28	28
Civilians	10	9	7	7
Fire:				
Firefighters and officers	15	18	16	13
Civilians	1	1	0	0
Public Works	21	23	25	25
Utility	17	17	17	18
Water and sewer	9	8	9	9
Total	<u>123</u>	<u>125</u>	<u>123</u>	<u>118</u>

Source: Various city departments

Table 18

<u>2003</u>	<u>2002</u>	<u>2001</u>	<u>2000</u>	<u>1999</u>	<u>1998</u>
18	18	17	17	17	16
28	28	28	26	26	26
7	7	7	7	7	7
13	13	10	10	10	10
0	0	0	0	0	0
25	25	25	25	25	25
18	18	17	17	17	16
9	9	10	9	8	8
<u>118</u>	<u>118</u>	<u>114</u>	<u>111</u>	<u>110</u>	<u>108</u>

CITY OF LA MARQUE, TEXAS
OPERATING INDICATORS BY FUNCTION
LAST TEN FISCAL YEARS

Function	2007	2006	2005	2004
Public safety				
Police:				
Physical arrests	1,714	1,809	1,645	1,595
Traffic violations	3,881	5,439	5,525	4,913
Calls for service	21,364	21,632	21,522	19,323
Fire:				
Number of calls answered	1,935	1,935	1,450	1,250
Inspections *	100	100	100	125
Public works				
Street resurfacing (miles)		1	0	
Potholes repaired	3,403	1,122	1,316	1,349
Community room rentals	46	47	58	69
Park pavillion rentals	41	13	17	27
Water				
New connections	149	129	53	51
Water main breaks	352	511	518	277
Average daily consumption (thousands of gallons)	1,680	1,827	1,614	1,641
Wastewater				
Average daily sewage treatment (thousands of gallons)	1,756	1,722	2,112	2,248

Source: Various city departments.

Note: Indicators are not available for the general government or urban rehabilitation and housing functions.

(1) Information not available

* Estimated

Table 19

2003	2002	2001	2000	1999	1998
1,789	1,400	1,171	844	2,305	1,165
6,230	4,518	4,550	2,537	2,306	1,775
22,930	18,128	19,212	18,680	20,693	16,668
1,385	1,350	1,331	1,151	1,152	1,193
100	100	100	100	75	75
		1	2	(1)	(1)
1,762	1,200	1,448	1,673	(1)	(1)
5					
28	32	23	33	(1)	(1)
241	223	399	370	(1)	(1)
1,374	1,504	1,745	2,001	(1)	(1)
2,450	2,168	2,312	1,376	(1)	(1)

CITY OF LA MARQUE, TEXAS
CAPITAL ASSET STATISTICS BY FUNCTION
LAST TEN FISCAL YEARS

Function	2007	2006	2005	2004
Public safety				
Police:				
Stations	1	1	1	1
Patrol units	22	24	26	28
Fire:				
Stations	1	1	1	1
Fire trucks	4	4	4	4
Ambulances *	2	2		
Public works				
Streets (miles)	90	90	85	85
Traffic signals	12	12	12	12
Water				
Water mains (miles)	180	180	175	175
Fire hydrants	422	422	422	422
Maximum daily capacity (thousands of gallons)	2,780	2,041	1,886	1,917
Wastewater				
Sanitary sewers (miles)	76	76	71	71
Maximum daily treatment capacity (thousands of gallons)	3,000	3,000	3,000	3,000

Source: Various city departments.

Note: No capital asset indicators are available for the general government or urban rehabilitation and housing functions.

* City of La Marque assumed responsibility for EMS transport during the year ended September 30, 2006.

(1) Information not available

Table 20

<u>2003</u>	<u>2002</u>	<u>2001</u>	<u>2000</u>	<u>1999</u>	<u>1998</u>
1	1	1	1	1	1
28	28	28	26	26	26
1	1	1	1	1	1
4	4	4	4	4	4
80	80	78	78	78	78
12	12	12	12	12	12
170	170	170	170	167	167
408	400	398	398	395	395
1,626	1,601	2,093	2,397	(1)	(1)
66	66	66	66	65	65
3,000	3,000	3,000	3,000	3,000	3,000



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Government Auditing Standards



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Independent Auditor's Report On Internal Control Over Financial Reporting And On Compliance And Other Matters Based On An Audit Of Financial Statements Performed In Accordance With *Government Auditing Standards*

The Honorable Larry E. Crow, Sr., Mayor
Members of the City Council
1111 Bayou Road
La Marque, Texas 77568-4299

We have audited the financial statements of the governmental activities, the business type activities, each major fund, and the aggregate remaining fund information of City of La Marque, Texas (the "City") as of and for the year ended September 30, 2007 which collectively comprise the City's basic financial statements and have issued our report thereon dated April 29, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

A *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 an entity'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 entity's financial statements 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 a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

The Honorable Larry E. Crow, Sr., Mayor
Members of the City Council

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and questioned costs as finding numbers 07-01 and 07-02. The City's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit the City's response and, accordingly, we express no opinion on it.

Closing

This report is intended solely for the information and use of the city council, management, others within the organization and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Null-Lairson, PC

A handwritten signature in black ink that reads "Null-Lairson, PC". The signature is written in a cursive, flowing style.

Texas City, Texas

April 29, 2008



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**Independent Auditor's Report On Compliance With Requirements Applicable
To Each Major Program And On Internal Control Over Compliance
In Accordance With OMB Circular A-133**

The Honorable Larry E. Crow, Sr., Mayor
Members of the City Council
1111 Bayou Road
La Marque, Texas 77568-4299

Compliance

We have audited the compliance of City of La Marque, 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 federal programs for the year ended September 30, 2007. The City's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the City's management. Our responsibility is to express an opinion on the City's compliance based on our audit.

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

In our opinion, the City complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended September 30, 2007.

Internal Control Over Compliance

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

The Honorable Larry E. Crow, Sr., Mayor
Members of the City Council

A *control deficiency* in an entity's internal control over compliance 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 noncompliance with a type of compliance requirement of a federal 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 federal program such that there is a more than a remote likelihood that noncompliance with a type of compliance requirement of a federal 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 federal program will not be prevented or detected by the entity's internal control.

Our consideration of the 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 internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

Closing

This report is intended solely for the information and use of the city council, management, others within the organization and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Null-Lairson, PC

A handwritten signature in black ink that reads "Null-Lairson, PC". The signature is written in a cursive, flowing style.

Texas City, Texas
April 29, 2008

Federal Awards Section



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CITY OF LA MARQUE, TEXAS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
September 30, 2007

I. Summary Of Auditors' Results

Financial Statements

Type of auditors' report issued:	Unqualified
Internal control over financial reporting:	
Material weakness(es) identified?	No
Significant deficiencies identified that are not considered to be material weaknesses?	No
Noncompliance material to financial statements noted?	Yes

Federal Awards

Internal control over major programs:	
Material weakness(es) identified?	No
Significant deficiencies identified that are not considered to be material weaknesses?	None Noted
Type of auditors' report issued on compliance with major programs:	Unqualified
Any audit findings disclosed that are required to be reported in accordance with section 510(a) OMB Circular A-133?	None
Identification of major programs	
Name of Federal Program or Cluster	CFDA Numbers

U.S. Department of Housing and Urban Development

CDBG State Administered Small Cities Program	14.228
Home Investment Partnerships Program	14.239
Dollar Threshold Considered Between Type A and Type B Federal Programs	\$300,000
Auditee qualified as low-risk auditee?	Yes

CITY OF LA MARQUE, TEXAS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
 September 30, 2007

II. Financial Statement Findings

Compliance and other matters

Finding 07-01

Condition: Expenditures exceeded appropriations in the general fund and the debt service fund as follows:

General fund:	
General government	\$ 43,914
Public safety	18,764
	<u>\$ 62,678</u>
Debt service fund:	
Principal on long-term debt	\$ 3,301
	<u>\$ 3,301</u>

Criteria: State law mandates that expenditures not exceed appropriations on a functional level.

Cause: Inadequate procedures to insure that expenditures are not made in excess of appropriations.

Effect: Non-compliance with state law.

Recommendation: The City should implement procedures to review budget to actual comparisons prior to year end so that necessary budget amendments may be presented to council. Additionally, encumbrance accounting should be utilized to ensure that Budget Managers do not exceed their budget.

Finding 07-02

Condition: The City's investment in public funds investment pools exceeded the maximum allowed by the council approved investment policy.

Criteria: The City's council approved investment policy limits the percentage that the City may invest in public funds investment pools to 70 percent.

Cause: Inadequate monitoring of the diversification of City investments.

Effect: Non-compliance with the City's investment policy.

Recommendation: The City should maintain diversification of its investments as required by the council approved investment policy, or change the investment policy to increase the maximum allowed investment for public funds investment pools.

CITY OF LA MARQUE, TEXAS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
September 30, 2007

III. Federal Awards Findings And Questioned Costs

The audit disclosed no findings or questioned costs required to be reported.

IV. Summary Schedule Of Prior Audit Findings

No prior year findings

V. Corrective Action Plan

Finding 07-01

Expenditures in excess of appropriations

Response: Budget amendments will be presented to Council for approval prior to the expenditure of funds.

Estimated Date of Completion: May 1, 2008

Contact: Susan Lang, Finance Director

Finding 07-02

Non-compliance with local investment policies

Response: The City's local investment policy will be modified to allow a higher investment percentage in local government investment pools. Until that time, these funds will be transferred to other investment types.

Estimated Date of Completion: June 30, 2008

Contact: Susan Lang, Finance Director

CITY OF LA MARQUE, TEXAS
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended September 30, 2007

Exhibit J-1

Federal Grantor / Pass-through Grantor / Program Title	Federal CFDA Number	Federal Expenditures
U.S. Department of Housing and Urban Development		
<i>Direct Program:</i>		
Section 8 Housing Assistance Program	14.871	\$ 326,116
Total direct programs		<u>326,116</u>
<i>Passed through the Texas Office of Rural and Community Affairs:</i>		
Community Development Block Grant - Small Cities Program	14.228	<u>301,671</u>
		<u>301,671</u>
<i>Passed through the Texas Department of Housing and Community Affairs:</i>		
Homr Investment Partnerships Program	14.239	<u>281,576</u>
		<u>281,576</u>
Total U.S. Department of Housing and Urban Development		<u>909,363</u>
U.S. Department of Homeland Security		
<i>Direct Program:</i>		
Public Assistance Grant	97.036	<u>1,038</u>
Total direct programs		<u>1,038</u>
Total U.S. Department of Homeland Security		<u>1,038</u>
Total Expenditures of Federal Awards		<u><u>\$ 910,401</u></u>

CITY OF LA MARQUE, TEXAS

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For the Year Ended September 30, 2007

1. **Basis of Presentation:** The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of City of La Marque, Texas and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of State, Local Governments, and Non-Profit Organizations. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of the basic financial statements.
2. The City utilizes the fund types and accounting policies as detailed in Note I of notes to the financial statements.

Special revenue funds – These funds are established to account for federally-financed or expenditures legally restricted for specified purposes. Generally, any unused balances are returned to the grantor at the close of specified project periods. Project accounting is utilized to maintain integrity for the various sources of funds.

Expenditures for the Community Development Block Grant are accounted for in a separate fund. Expenditures were booked as increases to capital assets.

3. The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. The governmental fund types are accounted for using a current financial resources measurement focus. Within this measurement focus, only current assets and current liabilities are generally included on the balance sheet. Operating statements of these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in net current assets.

The modified accrual basis of accounting is used for governmental fund types. This basis of accounting recognized revenues in the accounting period in which they become susceptible to accrual, i.e., both measurable and available, and expenditures are recorded in the accounting period in which the fund liability is incurred, if measurable.

Federal grant funds are considered to be earned to the extent of expenditures made under the provisions of the grant, and, accordingly, when such funds are received, they are recorded as deferred revenues until earned.

4. The period of availability for federal grant funds for the purpose of liquidation of outstanding obligations made on or before the ending date of the federal project period extended 90 days beyond the federal project period ending date, in accordance with provisions in Section H, Period of Availability of Federal Funds, Part 3, OMB Circular A-133 Compliance Supplement (March 2007).