

PREPARED BY:

City of South Padre Island
Finance Department
Larry Homan,
Chief Financial Officer

City of

**South Padre
ISLAND, TEXAS**

COMPREHENSIVE ANNUAL
FINANCIAL REPORT
FOR THE FISCAL YEAR ENDED
SEPTEMBER 30, 2010

City of South Padre Island, Texas
COMPREHENSIVE ANNUAL FINANCIAL REPORT
 For The Fiscal Year Ended September 30, 2010

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CITY OF
South Padre
ISLAND, TEXAS

INTRODUCTORY SECTION



February 16, 2011

The Honorable Mayor, Council Members, and Citizens
of the City of South Padre Island, Texas:

We are pleased to submit to you the Comprehensive Annual Financial Report (CAFR) of the City of South Padre Island (City), Texas for the fiscal year ended September 30, 2010. This report was prepared from the books and records of the City of South Padre Island, Texas. All disclosures necessary to enable the reader to gain an understanding of the City's financial activities have been included.

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 reported in a manner designed to present fairly the results of operations of the various funds of the City.

The City's financial statements have been audited by Long Chilton LLP, Independent Certified Public Accountants. The goal of the independent audit was to provide reasonable assurance that the financial statements of the City for the fiscal year ended September 30, 2010, were free of material misstatement. The independent audit involved 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 is included in this document.

GASB Statement No. 34, entitled "*Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*" requires that management provide a narrative introduction, overview and analysis to accompany the Basic Financial Statements in the form of management discussion and analysis (MD&A). This letter of transmittal is intended to complement the MD&A and should be read in conjunction with it. The MD&A can be found immediately following the Independent Auditor's Report.

THE REPORT

The CAFR includes the financial activities of the primary government and its component unit. The City provides a full range of services, including general government, police and fire protection, health inspection, public improvements, building and zoning administration and tourism. Other services are provided by the Laguna Madre Water District #1 (water and sewer), Central Power & Light or First Choice Power (electric), and Allied Waste Services (sanitation).

PROFILE OF THE CITY

The City was incorporated in 1973. The City operates as a City under the constitution and Texas laws. The City is a tourist oriented resort community. The City occupies approximately 2.5 square miles and serves a full time residential population of approximately 5,900. The average daily population of the City varies greatly from this number and is estimated to be 30,000.

The City operates under the council-manager form of government. Policy making and legislative authority are vested in a governing board consisting of the Mayor and five (5) Council members. City Council is responsible for, among other things, passing ordinances, adopting the budget, appointing committees, and hiring both the City Manager and the City Attorney. The City Manager is responsible for carrying out the policies and ordinances of the

City Council, for overseeing the day-to-day operations of the City, and for appointing heads of various departments. The Mayor and the Council members serve three (3) year staggered terms and are elected at large.

MAJOR INITIATIVES

In November of 2009 the City Charter was amended and converted the town to a Home Rule City.

FACTORS AFFECTING FINANCIAL CONDITION

Local Economy

The City of South Padre Island is a tourist oriented resort community. An estimated three and a half (3.5) million visitors come to the Island annually. As a result of the City's dependence on tourism, visitor travel may reflect the swings in the national and state economy as well as the economy of northern Mexico. Despite the economic uncertainties, the City has experienced stability in revenue receipts. Stable sales tax receipts, building activity, and hotel/motel tax receipts are key indicators of the strength of the City's economic position.

POLICIES AND PRACTICES

Internal control

City management is responsible for establishing and maintaining an internal control structure designed to ensure that the assets of the City are protected from loss, theft, or misuse and to ensure that adequate accounting data are compiled to allow for the preparation of financial statements in conformity with generally accepted accounting principles.

Single Audit

As a recipient of federal assistance, the City is also responsible for ensuring that an adequate internal control structure is in place to ensure compliance with applicable laws and regulations related to those programs. This internal control structure is subject to periodic evaluation by management.

As part of the City's single audit, tests are made to determine the adequacy of the internal control structure, including that portion related to federal financial assistance programs, as well as to determine that the City has complied with applicable laws and regulations. The results of the City's single audit for the fiscal year ended September 30, 2010, identified no material weaknesses the internal control or violations of applicable laws and regulations.

OTHER INFORMATION

Independent Audit

The City is incorporated under the Laws of the State of Texas and is required to have an annual audit and prepare annual financial statements. This audit was also designed to meet the requirements of the Federal Single Audit Act as amended and the requirements of U.S. Office of Management and Budget (OMB) Circular A-133.

Awards

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the City of South Padre Island for its comprehensive annual financial report for the fiscal year ended September 30, 2009. This was the twentieth consecutive year the City 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

We would like to thank the Finance Department staff and the Department Directors for their diligent efforts in the preparation of the annual financial report. Also, we would like to thank the Mayor and Council Members. It is their leadership, and support of the City, that helped make the preparation of this report possible.

Sincerely,



Joni Clarke, City Manager



Larry Homan, Director of Finance

Certificate of Achievement for Excellence in Financial Reporting

Presented to

Town of South Padre Island
Texas

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
September 30, 2009

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.



A stylized, handwritten signature in black ink.

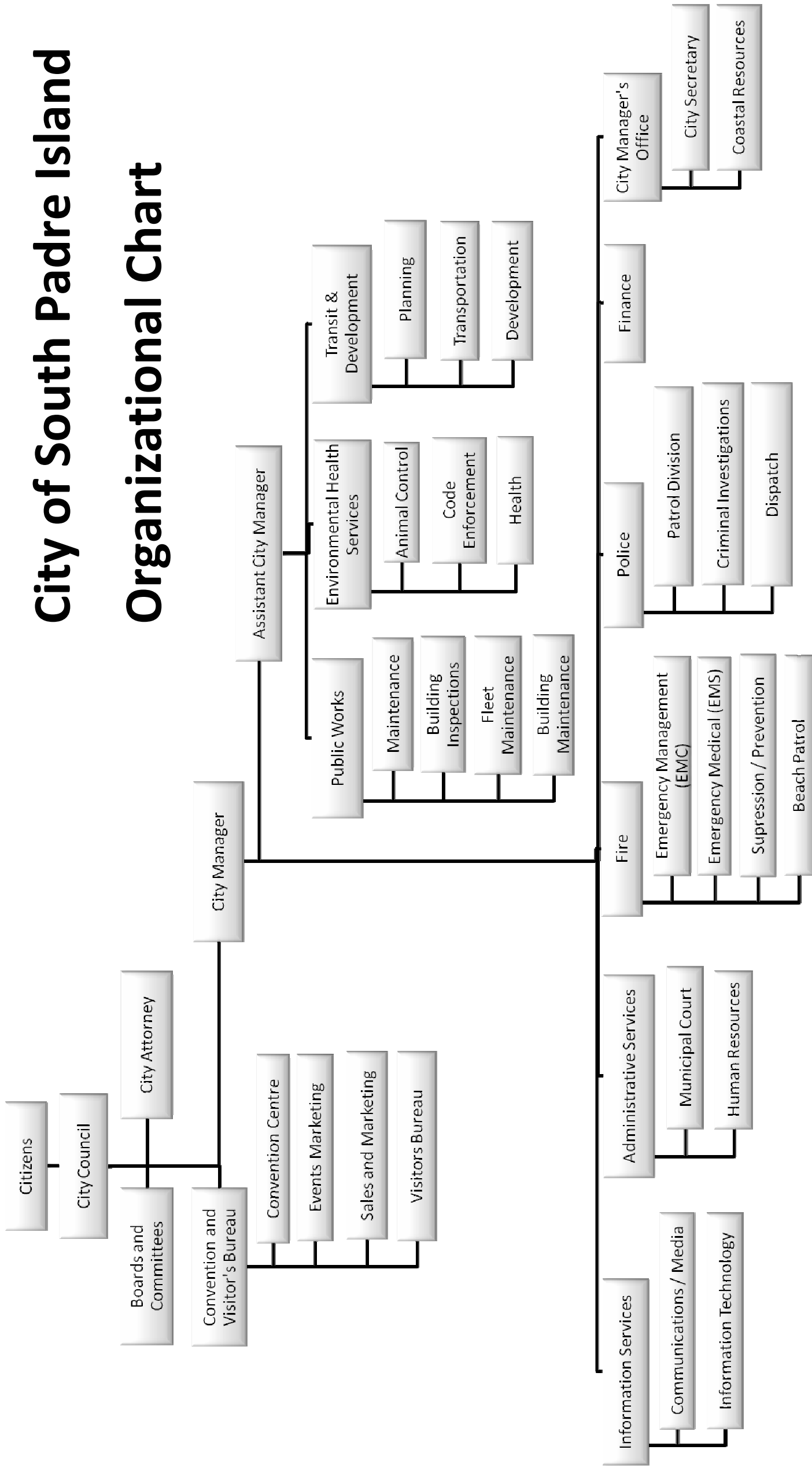
President

A handwritten signature in black ink, appearing to read "Jeffrey R. Emer".

Executive Director

City of South Padre Island

Organizational Chart



City of South Padre Island, Texas
LIST OF PRINCIPAL OFFICIALS

ELECTED OFFICIALS

| <u>NAME</u> | <u>TITLE</u> |
|-------------------------|--------------------------------------|
| ROBERT N. PINKERTON JR. | <i>MAYOR</i> , COUNCIL MEMBER |
| JO ANN EVANS | MAYOR PRO TEM, COUNCIL MEMBER |
| SAM A. LISTI | COUNCIL MEMBER |
| ALITA BAGLEY | COUNCIL MEMBER |
| RICK RIDOLFI | COUNCIL MEMBER |
| COURTNEY HAYDEN | COUNCIL MEMBER |

APPOINTED OFFICIALS

| <u>NAME</u> | <u>TITLE</u> |
|-------------------------|---|
| JONI CLARKE | <i>CITY MANAGER</i> |
| DARLA JONES | ASSISTANT CITY MANAGER |
| LARRY HOMAN | CHIEF FINANCIAL OFFICER |
| RODRIGO GIMENEZ | FINANCE DEPARTMENT SENIOR ACCOUNTANT |
| DAN QUANDT | EXECUTIVE DIRECTOR OF CONVENTION AND VISITOR BUREAU |
| RANDY SMITH | POLICE CHIEF |
| BURNEY BASKETT | FIRE CHIEF |
| SCOTT FRY | DIRECTOR OF PUBLIC WORKS |
| TIM HOWELL | INFORMATION SERVICES DIRECTOR |
| WENDY DELGADO | ADMINISTRATIVE SERVICES DIRECTOR |
| VICTOR BALDOUINOS | ENVIRONMENTAL SERVICES DIRECTOR |
| SUSAN HILL | CITY SECRETARY |
| PAUL Y. CUNNINGHAM, JR. | CITY ATTORNEY |
| DAVID COLWELL | MUNICIPAL COURT JUDGE |

CITY OF
South Padre
ISLAND, TEXAS

FINANCIAL SECTION

INDEPENDENT AUDITORS' REPORT

The Honorable Mayor and
Members of the City Council
City of South Padre Island, Texas

We have audited the accompanying financial statements of the governmental activities, the aggregate discretely presented component unit, each major fund and the aggregate remaining fund information of the City of South Padre Island ("the City") as of and for the year ended September 30, 2010, which collectively comprise the City's basic financial statements as listed in the Table of Contents. These basic financial statements are the responsibility of the City of South Padre Island, Texas' management. Our responsibility is to express an opinion on these financial statements based on our audit. The prior year, partial and summarized comparative information has been derived from the City's 2009 financial statements and, in our report dated March 8, 2010, we expressed unqualified opinions on the respective financial statements of the governmental activities, the aggregate discretely presented component unit, each major fund, and the aggregate remaining fund information.

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 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 consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over financial reporting. Accordingly, we express no such opinion. 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, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the aggregate discretely presented component unit, each major fund and the aggregate remaining fund information of the City of South Padre Island, Texas at September 30, 2010, and the respective changes in financial position for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated February 9, 2011 on our consideration of the City of South Padre Island, Texas' internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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Management's Discussion and Analysis on pages 15 through 23, budgetary comparison schedules for major funds and information on the Texas Municipal Retirement System on pages 58 through 65 are not a required part of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. 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 South Padre Island, Texas' 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 Nonprofit 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 basic financial statements taken as a whole.

The introductory section, combining nonmajor fund financial statements, nonmajor fund budgetary schedules, component unit financial statements and statistical data as listed in the Table of Contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining nonmajor fund financial statements, nonmajor fund budgetary schedules and component unit financial statements have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The introductory section and statistical data, as listed in the Table of Contents herein, have been summarized from City of South Padre Island, Texas' records and were not subjected to the audit procedures applied in the audit of the basic financial statements; accordingly, we do not express an opinion on such data.



LONG CHILTON, LLP
Certified Public Accountants

Harlingen, Texas
February 9, 2011

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Management's Discussion and Analysis

As management of the City of South Padre Island (the City), we offer readers of the City's financial statements this narrative overview and analysis as of September 30, 2010. We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in our letter of transmittal, which can be found on pages 5-7 of this report.

Financial Highlights

- The assets of the City of South Padre Island exceeded its liabilities at the close of the most recent fiscal year by \$28,717,788 (net assets). Of this amount, \$9,779,765 (unrestricted net assets) may be used to meet the government's ongoing obligations to citizens and creditors.
- Total net assets for the City of South Padre Island decreased by (\$936,485) during the fiscal year.
- As of the close of the current fiscal year, the City of South Padre Island governmental funds reported combined ending fund balances of \$11,154,593. Approximately 93% of this amount, \$10,426,506 is available for spending at the government's discretion (unreserved fund balance).
- At the end of the current fiscal year, unreserved fund balance for the general fund was \$6,144,362.
- The City of South Padre Island's bonded debt decreased by \$375,000 during the current fiscal year. This decrease is the net effect of the retirement of debt during the fiscal year and the issuance of the General Obligation Refunding Bonds 2009.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the City's basic financial statements. The City of South Padre Island's basic financial statements are comprised of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements, including information on individual funds.

Government-wide financial statements. The government-wide financial statements include the Statement of Net Assets and the Statement of Activities. These statements are designed to provide readers with a broad overview of the City of South Padre Island finances, in a manner similar to a private-sector business.

The statement of net assets presents information on all of the City's assets and liabilities, including capital assets and long-term obligations. The difference between the two is reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating. Other indicators of the City's financial position should also be taken into consideration, such as the change in the City's property tax base and condition of the City's infrastructure (i.e. roads and drainage systems), in order to more accurately assess the overall financial condition of the City.

The statement of activities presents information showing how the City's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

Both of the government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the City of South Padre Island include general government, public safety, public works, transportation, and community service. There are no business-type activities of the City of South Padre Island.

The government-wide financial statements include not only the City of South Padre Island itself (known as the primary government), but also a legally separate Economic Development Corporation for which the City of South Padre Island 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. The fund financial statements are designed to report information about groupings of related accounts which are used to maintain control over resources that have been segregated for specific activities or objectives. The City of South Padre Island, 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 are considered governmental funds.

Governmental funds. Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. Most of the City's basic services are reported in governmental funds, which focus on how cash and other financial assets can readily be converted to available resources and on the available balances left at year-end. This information may be useful in determining what financial resources are available in the near future to finance the City's programs. Other funds are referred to as non-major funds and are presented as summary data.

Because the focus of governmental fund level statements is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. In addition to the governmental fund balance sheet and the statement of revenues, expenditures, and changes in fund balance, separate statements are provided that reconcile between the government-wide and fund level statements.

The City of South Padre Island maintains 18 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, the Hotel/Motel Fund, the Convention Centre Fund and the Beach Nourishment Fund all of which are considered to be major funds. Data for the other governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these non-major governmental funds is provided in the form of combining statements elsewhere in this report.

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, The City of South Padre Island adopts an annual appropriated budget for its General Fund, certain Special Revenue Funds, and its Debt Service Fund. Budgetary comparison statements have been provided for these funds to demonstrate compliance with budget. This report also presents certain required supplementary information concerning the City's progress in funding its obligation to provide pension benefits to its employees.

Government-wide Financial Analysis

The following table reflects a summary of Net Assets compared to prior year (in thousands):

**Table 1
NET ASSETS
September 30
(in thousands)**

| | Total Governmental Activities <u>2010</u> | Total Governmental Activities <u>2009</u> |
|---|--|--|
| <u>ASSETS</u> | | |
| Current and other assets | \$12,957 | \$14,540 |
| Capital assets | <u>23,555</u> | <u>25,272</u> |
| Total assets | <u>36,512</u> | <u>39,812</u> |
| <u>LIABILITIES</u> | | |
| Long-term liabilities outstanding | 6,545 | 6,879 |
| Other liabilities | <u>1,249</u> | <u>3,279</u> |
| | <u>7,794</u> | <u>10,158</u> |
| <u>NET ASSETS</u> | | |
| Invested in capital assets, net of related debt | 17,915 | 19,257 |
| Restricted | 1,023 | 1,072 |
| Unrestricted | <u>9,780</u> | <u>9,325</u> |
| Total net assets | <u>\$28,718</u> | <u>\$29,654</u> |

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 South Padre Island, assets exceeded liabilities by \$28,717,788 at the close of the most recent fiscal year.

A large portion of the City's net assets (62%) reflects its investment in capital assets (e.g., land, buildings, machinery, and equipment), less any related debt used to acquire those assets that is still outstanding. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

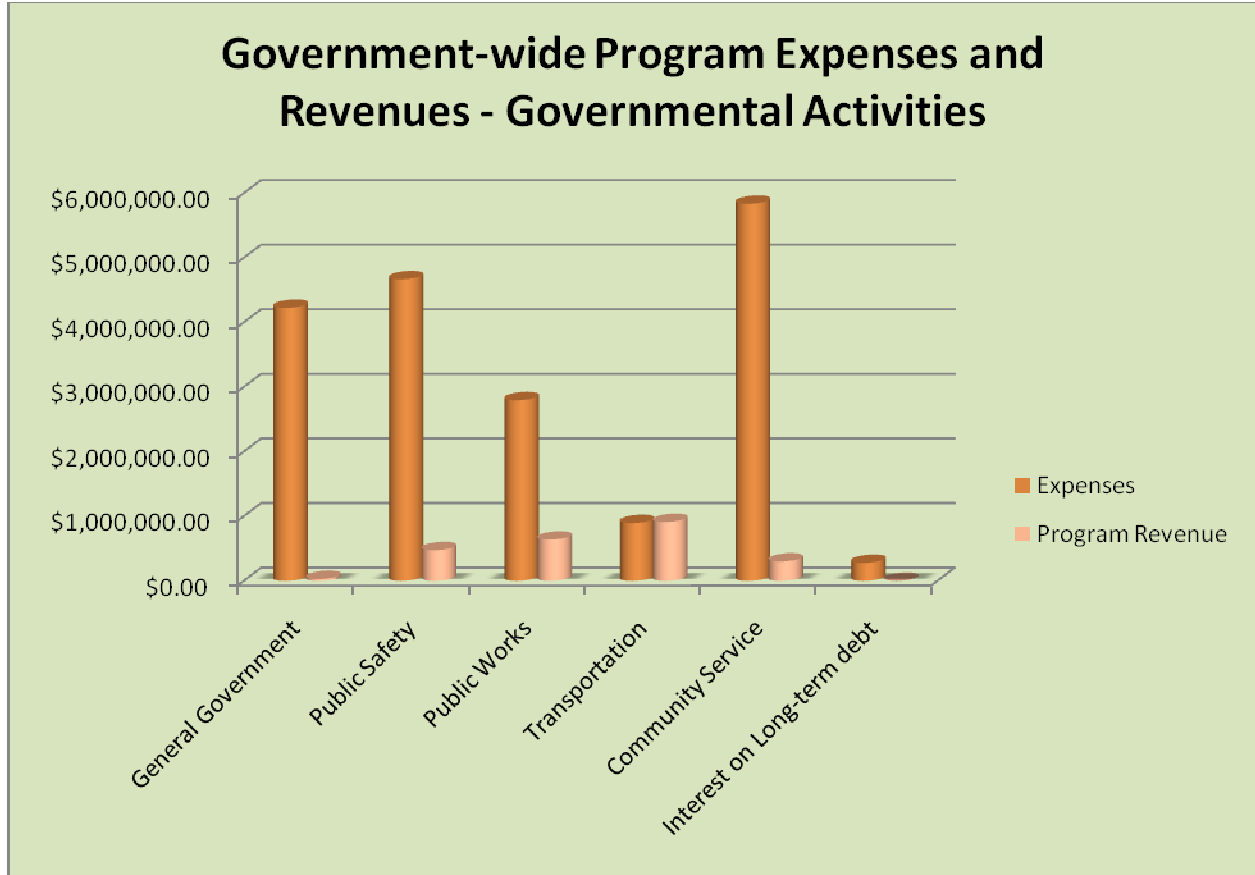
Changes in Net Assets. Governmental activities decreased the City’s net assets by \$936,485. Revenues decreased approximately \$4.1 million as a result of a decrease of insurance proceeds – during fiscal period 2008-2009 insurance proceeds were collected for hurricane Dolly. The decrease on program revenues (12.5% or \$337,139) and sales tax (12.8% or \$293,859) was offset by an increase in hotel motel tax (\$600,646 or 13% increase). In the Beach Maintenance Fund, revenues are received from the state portion of the hotel motel tax (\$193,100 increase). Expenditures during the fiscal period increased by \$53,929.

Table 2
Changes in Net Assets

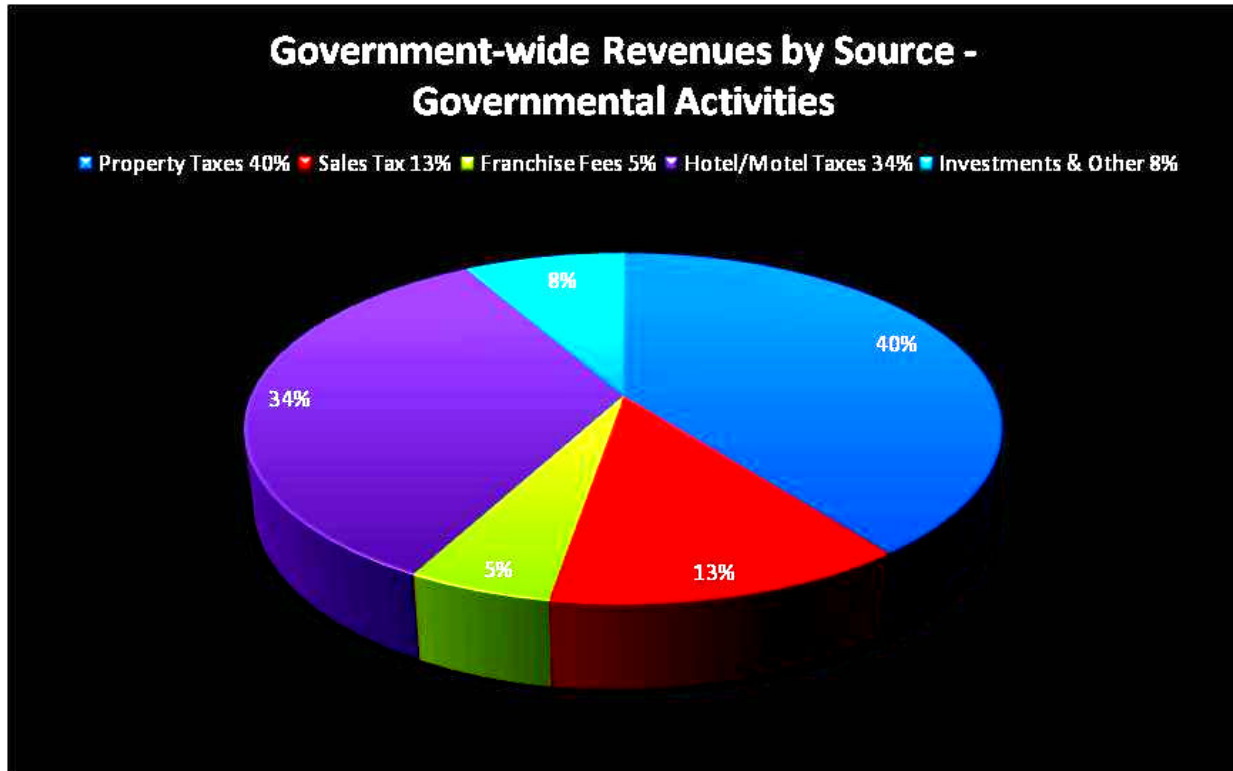
| | Total Governmental Activities | Total Governmental Activities |
|-----------------------------------|--|--|
| | 2010 | 2009 |
| Program Revenues: | | |
| Charges for Services | \$1,466,992 | \$1,086,485 |
| Operating Grants & Contributions | 714,938 | 1,373,380 |
| Capital Grants & Contributions | 190,604 | 249,808 |
| General Revenues: | | |
| Property Tax | 6,098,437 | 6,089,968 |
| Sales Tax | 2,001,606 | 2,295,465 |
| Franchise Tax | 802,819 | 792,501 |
| Hotel Motel Tax | 5,238,745 | 4,638,099 |
| Hotel Motel Beach Mtn. Tax | 945,050 | 751,950 |
| Gain on Sale of Capital Assets | 16,810 | 14,234 |
| Insurance Recoveries | 16,510 | 4,401,118 |
| Interest & Other | 361,596 | 300,492 |
| Total Revenues | <u>17,854,107</u> | <u>21,993,500</u> |
| Program Expenses: | | |
| General Government | 4,244,372 | 3,680,425 |
| Public Safety | 4,675,136 | 4,358,811 |
| Public Works | 2,818,149 | 2,761,388 |
| Transportation | 899,298 | 647,664 |
| Community Service | 5,875,066 | 6,992,455 |
| Interest on long-term debt | 278,571 | 295,920 |
| Total Expenses | <u>18,790,592</u> | <u>18,736,663</u> |
| Increase (decrease) in net assets | (936,485) | 3,256,837 |
| Beginning Net Assets | <u>29,654,273</u> | <u>26,397,436</u> |
| Ending Net Assets | <u>\$28,717,788</u> | <u>\$29,654,273</u> |

Note: The Community Service expense category represents expenses incurred in the Hotel Motel fund, Convention Centre fund and the Beach Nourishment Fund.

The chart below illustrates the City's governmental expense and revenues by function: general government; public safety; public works; transportation; community service and interest on long-term debt.



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



Financial Analysis of the Government's Funds

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

Governmental funds. The focus of the City of South Padre Island'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.

As of the end of the current fiscal year, the City of South Padre Island's governmental funds reported combined ending fund balances of \$11,154,593, an increase of \$394,435 in comparison with the prior year. Approximately 93 %, or \$10,426,506, constitutes unreserved fund balance, which is available for spending at the government's discretion. Portions of this fund balance even though unreserved are designated for specific purposes. \$2,590,794 is designated for special revenue funds and \$1,691,350 is designated for capital projects funds. The remainder of the fund balance, \$728,087 is reserved and is not available for new spending because it has already been committed to pay for debt service, beach maintenance and prepaid expenditures.

The General Fund is the chief operating fund of the City. At the end of the current fiscal year, unreserved fund balance of the General Fund was \$6,144,362, while total fund balance reached \$6,175,985. As a measure of the general fund's liquidity, it may be useful to compare both unreserved fund balance and total fund balance to total fund expenditures. Unreserved fund balance represents 62.4% of total general fund expenditures, while total fund balance represents 62.7% of that same amount.

The fund balance of the City General Fund decreased by \$336,156 during the current fiscal year. Key factors in this increase are as follows:

- In comparison with last year, the total actual expenditures increased by \$663,682 mainly due to professional services for the design of the new fire station (\$265,136) and professional planning services for the Entertainment Urban Design District and Padre Blvd (\$393,660). Management implemented budget cuts during the fiscal year in order to reduce the impact (\$361,000) of decreased sales tax collections.
- Total revenues were only \$26,493 less than budgeted.

The Hotel Motel Fund is used to account for occupancy tax collections used for tourism, advertising and promotion. At the end of the current fiscal year, the unreserved fund balance of the Hotel Motel Fund was \$250,258, while the total fund balance was increased to \$343,218. Unreserved fund balance represents 7% of the total Hotel Motel Fund expenditures.

The fund balance of the Hotel Motel Fund increased by \$798,948 during the current fiscal year. Key factors in this increase are as follows:

- Hotel Motel tax revenues were more than budgeted approximately by \$94,000.
- The final adopted budget for 2009-2010 established a positive change in fund balance of \$761,336. Revenues and expenditures deviations from budgeted were less than 1.5 %.

The Convention Centre Fund is used to account for occupancy tax collections used for Convention Centre operations. At the end of the current fiscal year, unreserved fund balance of the Convention Centre Fund was \$1,684,900, while total fund balance reached \$1,707,101. Unreserved fund balance represents 120% of total Convention Centre expenditures. The fund balance for the Convention Centre decreased by \$193,086.

The Beach Nourishment fund was established to account for nourishment efforts on the beach. Fund balance was increased by \$387,657 mainly due to an increase in occupancy tax collections of \$194,934 and an increase of \$50,000 transferred from the Economic Development Corporation. Effective July 2009, 0.5% occupancy tax rate is allocated to this fund so fiscal year ending September 30, 2010 was the first full year of tax collections

General Fund budgetary highlights

The original budget of the General Fund was amended sixteen times during fiscal year 2010 by a net of \$1,036,825. Expenditures were increased by \$1,100,575. Of this amount, \$466,625 is for professional planning services for the Entertainment Urban Design District and Padre Boulevard, \$363,200 was for the cost of the Architectural design of the new Fire Station, \$51,000 for earnest money forfeiture, \$45,000 legal services and \$39,000 for lobbying services.

During the year, revenues were \$26,493 lower than budgeted. The decrease in sales tax revenue by \$317,166 was offset by an increase of \$283,972 in building permits.

Capital Asset and Debt Administration

Capital Assets. The City’s investment in capital assets for its governmental activities as of September 30, 2010 amounts to \$23,554,448 (net of accumulated depreciation). This investment in capital assets includes land, buildings, equipment, streets and construction in progress. Additional information on capital assets can be found in Note E. Capital asset balances are as follows:

**Capital Assets, Net of Accumulated Depreciation
September 30**

| | Total Governmental Activities | Total Governmental Activities |
|-------------------------|--|--|
| | 2010 | 2009 |
| Land | 1,497,793 | \$1,497,793 |
| Buildings | 14,868,811 | 15,718,192 |
| Improvements | 2,413,185 | 218,856 |
| Furniture and equipment | 2,475,104 | 2,910,962 |
| Infrastructure | 2,299,555 | 4,926,476 |
| Total net assets | \$23,554,448 | \$25,272,279 |

Long-term debt. At the end of the current fiscal year, the City had total bonded debt outstanding of \$5,640,000. The table below reflects the outstanding debt at September 30. Additional information can be found in Note I. The City’s outstanding bonds underlying rating is “A+” by Standard and Poor’s Rating Service and Aa3 Moody’s rating

**Outstanding Debt
September 30**

| | Total Governmental Activities | Total Governmental Activities |
|--------------------------|--|--|
| | 2010 | 2009 |
| General Obligation Bonds | \$4,895,000 | \$4,255,000 |
| Revenue Bonds | - | 785,000 |
| Tax Anticipation Notes | 745,000 | 975,000 |
| | \$5,640,000 | \$6,015,000 |

The City of South Padre Island’s total debt decreased by \$375,000 during the current fiscal year. This decrease is the net effect of the retirement of debt during the fiscal year and the issuance of the General Obligation Refunding Bonds 2009.

Economic Factors and Next Year's Budgets and Rates

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

Certified property tax values for the City decreased by 3.78% from the preceding year and tax rates stayed constant at a rate of 0.24561 cents per hundred. The tax rate has been split with .219321 per hundred for maintenance and operations and .026289 per hundred for interest and sinking fund for the retirement of the tax anticipation note and the general obligation bond.

Overall, the General Fund is budgeted to end fiscal year 2010-2011 with an estimated fund balance of \$5,664,732. This is approximately 70.05% of General Fund budgeted expenditures.

Requests for Information

This financial report is designed to provide a general overview of the City's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Office of the Finance Director, 4601 Padre Blvd., South Padre Island, TX, 78597.

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City of South Padre Island, Texas
STATEMENT OF NET ASSETS
September 30, 2010

| | Primary Government Total | Component Unit |
|---|--------------------------------|-------------------|
| ASSETS | Governmental Activities | Unit |
| Cash and cash equivalents | \$ 8,905,030 | \$ 745,156 |
| Investments | 2,077,634 | - |
| Receivables, net | 945,685 | - |
| Due from component units | 13,070 | - |
| Due from other governments | 738,567 | 67,901 |
| Prepaid expenses | 147,363 | 22,201 |
| Inventory | - | 17,338 |
| Bond issue costs | 129,834 | 56,659 |
| Capital assets, net | | |
| Non-depreciable assets | 1,497,793 | 657,236 |
| Depreciable assets | 22,056,655 | 6,260,769 |
| TOTAL ASSETS | \$ 36,511,631 | \$ 7,827,260 |
| LIABILITIES AND NET ASSETS | | |
| Liabilities | | |
| Accounts payable | \$ 1,063,287 | \$ 10,543 |
| Other liabilities | 145,715 | 1,908 |
| Due to primary government | - | 13,070 |
| Unearned revenues | 40,231 | - |
| Non-current liabilities | | |
| Due within one year | 1,452,094 | 125,000 |
| Due in more than one year | 5,092,516 | 4,896,617 |
| Total liabilities | 7,793,843 | 5,047,138 |
| Net assets | | |
| Invested in capital assets, net of related debt | 17,914,448 | 1,898,005 |
| Restricted for: | | |
| Debt service | 857,102 | 674,386 |
| Beach maintenance | 166,473 | - |
| Unrestricted | 9,779,765 | 207,731 |
| | 28,717,788 | 2,780,122 |
| TOTAL LIABILITIES AND NET ASSETS | \$ 36,511,631 | \$ 7,827,260 |

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

City of South Padre Island, Texas
STATEMENT OF ACTIVITIES
For the Year Ended September 30, 2010

| | | Program Revenues | |
|---------------------------------|--------------|-------------------------|--|
| Functions/Programs | Expenses | Charges for Services | Operating Grants and Contributions |
| Governmental activities: | | | |
| General government | \$ 4,244,372 | \$ 27,973 | \$ - |
| Public safety | 4,675,136 | 424,681 | 5,973 |
| Public works | 2,818,149 | 639,148 | - |
| Transportation | 899,298 | 74,500 | 708,965 |
| Community service | 5,875,066 | 300,690 | - |
| Interest on long-term debt | 278,571 | - | - |
| Total governmental activities | 18,790,592 | 1,466,992 | 714,938 |
| Component unit: | | | |
| Economic development services | 675,443 | 219,693 | - |
| Interest expense | 225,064 | - | - |
| Total component unit | \$ 900,507 | \$ 219,693 | \$ - |

General revenues:

- Property taxes, levied for general purposes
- Property taxes, levied for debt service
- Sales tax
- Franchise taxes
- Hotel motel taxes
- Hotel motel beach maintenance taxes
- Unrestricted investment earnings
- Gain (loss) on sale of capital assets
- Insurance recoveries
- Miscellaneous

Total general revenues, special items, and transfers

Change in net assets

Net assets - beginning

Net assets - ending

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

| Program Revenues | Net (Expense) Revenue and Changes in Net Assets | |
|---------------------|--|---------------------|
| | Primary Government | |
| | Total Governmental Activities | Component Unit |
| \$ - | \$ (4,216,399) | \$ - |
| 61,725 | (4,182,757) | - |
| - | (2,179,001) | - |
| 128,879 | 13,046 | - |
| - | (5,574,376) | - |
| - | (278,571) | - |
| <u>190,604</u> | <u>(16,418,058)</u> | <u>-</u> |
| 34,438 | - | (421,312) |
| - | - | (225,064) |
| <u>\$ 34,438</u> | <u>\$ -</u> | <u>\$ (646,376)</u> |

| | |
|----------------------|---------------------|
| 5,426,117 | - |
| 672,320 | - |
| 2,001,606 | 594,251 |
| 802,819 | - |
| 5,238,745 | - |
| 945,050 | - |
| 143,463 | 3,273 |
| 16,810 | - |
| 16,510 | - |
| <u>218,133</u> | <u>8,041</u> |
| <u>15,481,573</u> | <u>605,565</u> |
| (936,485) | (40,811) |
| <u>29,654,273</u> | <u>2,820,933</u> |
| <u>\$ 28,717,788</u> | <u>\$ 2,780,122</u> |

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City of South Padre Island, Texas
STATEMENT OF NET ASSETS
September 30, 2009

| | Primary Government Total Governmental Activities | Component Unit |
|---|--|-------------------|
| ASSETS | | |
| Cash and cash equivalents | \$ 4,023,701 | \$ 717,727 |
| Investments | 7,644,835 | - |
| Receivables, net | 1,985,994 | - |
| Due from component units | 2,540 | 290 |
| Due from other governments | 690,295 | 71,780 |
| Prepaid expenses | 79,338 | 239,881 |
| Bond issue costs | 113,465 | 60,200 |
| Capital assets, net | | |
| Non-depreciable assets | 1,497,793 | 657,236 |
| Depreciable assets | 23,774,486 | 6,194,634 |
| TOTAL ASSETS | \$ 39,812,447 | \$7,941,748 |
| LIABILITIES AND NET ASSETS | | |
| Liabilities | | |
| Accounts payable | \$ 3,107,152 | \$ - |
| Other liabilities | 106,307 | 1,793 |
| Due to primary government | - | 2,540 |
| Due to component unit | - | 290 |
| Unearned revenues | 65,918 | - |
| Non-current liabilities | | |
| Due within one year | 1,544,809 | 100,000 |
| Due in more than one year | 5,333,988 | 5,021,192 |
| Total liabilities | 10,158,174 | 5,125,815 |
| Net assets | | |
| Invested in capital assets, net of related debt | 19,257,279 | 1,730,678 |
| Restricted for: | | |
| Debt service | 764,132 | 648,944 |
| Beach maintenance | 308,130 | - |
| Unrestricted | 9,324,732 | 436,311 |
| | 29,654,273 | 2,815,933 |
| TOTAL LIABILITIES AND NET ASSETS | \$ 39,812,447 | \$7,941,748 |

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

City of South Padre Island, Texas
STATEMENT OF ACTIVITIES
For the Year Ended September 30, 2009

| Functions/Programs | Expenses | Program Revenues | |
|---------------------------------|--------------|-------------------------|--|
| | | Charges for Services | Operating Grants and Contributions |
| Governmental activities: | | | |
| General government | \$ 3,680,425 | \$ 28,222 | \$ 566,420 |
| Public safety | 4,358,811 | 410,295 | 2,337 |
| Public works | 2,761,388 | 280,498 | 36,535 |
| Transportation | 647,664 | 30,000 | 768,088 |
| Community service | 6,992,455 | 337,470 | - |
| Interest on long-term debt | 295,920 | - | - |
| Total governmental activities | 18,736,663 | 1,086,485 | 1,373,380 |
| Component unit: | | | |
| Economic development services | 569,313 | - | - |
| Interest expense | 229,023 | - | - |
| Total component unit | \$ 798,336 | \$ - | \$ - |

General revenues:

- Property taxes, levied for general purposes
- Property taxes, levied for debt service
- Sales tax
- Franchise taxes
- Hotel motel taxes
- Hotel motel beach maintenance taxes
- Unrestricted investment earnings
- Gain on sale of capital assets
- Insurance recoveries
- Miscellaneous
- Total general revenues, special items, and transfers
- Change in net assets

Net assets - beginning

Net assets - ending

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

| Program Revenues Capital Grants and Contributions | Net (Expense) Revenue and Changes in Net Assets | |
|--|---|---------------------|
| | Primary Governmental Activities | Component Unit |
| \$ - | \$ (3,085,783) | \$ - |
| - | (3,946,179) | - |
| 249,808 | (2,194,547) | - |
| - | 150,424 | - |
| - | (6,654,985) | - |
| - | (295,920) | - |
| <u>249,808</u> | <u>(16,026,990)</u> | <u>-</u> |
| 426,571 | - | (142,742) |
| - | - | (229,023) |
| <u>\$ 426,571</u> | <u>\$ -</u> | <u>\$ (371,765)</u> |

| | |
|----------------------|---------------------|
| 5,433,571 | - |
| 656,397 | - |
| 2,295,465 | 699,973 |
| 792,501 | - |
| 4,638,099 | - |
| 751,950 | - |
| 198,941 | 14,508 |
| 14,234 | - |
| 4,401,118 | - |
| 101,551 | - |
| <u>19,283,827</u> | <u>714,481</u> |
| 3,256,837 | 342,716 |
| <u>26,397,436</u> | <u>2,473,217</u> |
| <u>\$ 29,654,273</u> | <u>\$ 2,815,933</u> |

Town of South Padre Island, Texas
BALANCE SHEET
GOVERNMENTAL FUNDS
September 30, 2010

| | General Fund | Hotel Motel Fund | Convention Centre Fund | Beach Nourishment Fund | Other Governmental Funds | Total Governmental Funds |
|---|--------------------|------------------------|------------------------------|------------------------------|--------------------------------|--------------------------------|
| ASSETS | | | | | | |
| Cash and cash equivalents | \$4,573,778 | \$ 46,335 | \$1,615,146 | \$1,463,619 | \$ 1,206,152 | \$ 8,905,030 |
| Investments | 2,077,634 | - | - | - | - | 2,077,634 |
| Receivables (net of allowance for uncollectibles) | | | | | | |
| Taxes | 460,716 | - | - | - | 57,400 | 518,116 |
| Accounts | 47,351 | 229,682 | 117,417 | 20,929 | 12,190 | 427,569 |
| Due from other governments | 197,265 | - | - | - | 541,302 | 738,567 |
| Due from other funds | 321,124 | - | - | - | - | 321,124 |
| Due from component unit | 13,070 | - | - | - | - | 13,070 |
| Prepaid items | 31,623 | 92,960 | 22,201 | - | 579 | 147,363 |
| TOTAL ASSETS | \$7,722,561 | \$ 368,977 | \$1,754,764 | \$1,484,548 | \$ 1,817,623 | \$13,148,473 |
| LIABILITIES AND FUND BALANCES | | | | | | |
| Liabilities | | | | | | |
| Accounts payable | \$1,046,415 | \$ 16,010 | \$ 862 | \$ - | \$ - | \$ 1,063,287 |
| Due to other funds | - | - | - | - | 321,124 | 321,124 |
| Other liabilities | 100,627 | 9,749 | 6,887 | - | 9,124 | 126,387 |
| Deferred revenues | 399,534 | - | 39,914 | - | 43,634 | 483,082 |
| Total liabilities | 1,546,576 | 25,759 | 47,663 | - | 373,882 | 1,993,880 |
| Fund balance | | | | | | |
| Reserved for | | | | | | |
| Debt service | - | - | - | - | 414,251 | 414,251 |
| Beach maintenance | - | - | - | - | 166,473 | 166,473 |
| Prepaid expenditures | 31,623 | 92,960 | 22,201 | - | 579 | 147,363 |
| Unreserved, reported in non-major funds | | | | | | |
| Special revenue funds | - | 250,258 | 1,684,900 | - | 655,636 | 2,590,794 |
| Capital projects funds | - | - | - | 1,484,548 | 206,802 | 1,691,350 |
| Unreserved | 6,144,362 | - | - | - | - | 6,144,362 |
| Total fund balances | 6,175,985 | 343,218 | 1,707,101 | 1,484,548 | 1,443,741 | 11,154,593 |
| TOTAL LIABILITIES AND FUND BALANCE | \$7,722,561 | \$ 368,977 | \$1,754,764 | \$1,484,548 | \$ 1,817,623 | \$13,148,473 |

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

City of South Padre Island, Texas
**RECONCILIATION OF THE BALANCE SHEET OF THE GOVERNMENTAL FUNDS
 TO THE STATEMENT OF NET ASSETS**
 September 30, 2010

| | |
|---|-----------------------------|
| Fund balances of governmental funds | \$ 11,154,593 |
| Amounts reported for <i>governmental activities</i> in the statement of net assets are different because: | |
| Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds. | 23,554,448 |
| Some liabilities, including bonds payable, are not due in the current period and therefore not reported in the funds. | (5,659,328) |
| Liabilities for compensated absences are not due in the current period and therefore are not reported in the funds. | (807,566) |
| Bond issue costs are expensed during the period incurred in the funds, but are amortized as an adjustment to interest expense in the statement of activities over the remaining life of the debt. | 129,834 |
| Other long-term assets are not available to pay for current period expenditures and therefore are deferred in the funds. | 442,850 |
| Liabilities for accrued interest on long-term debt are not due in the current period and therefore are not reported in the funds. | (19,327) |
| Liabilities for net pension obligations are not due in the current period and therefore are not reported in the funds. | <u>(77,716)</u> |
| Net assets of governmental activities | <u><u>\$ 28,717,788</u></u> |

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

City of South Padre Island, Texas
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
For the Year Ended September 30, 2010

| | General Fund | Hotel Motel Fund | Convention Centre Fund | Beach Nourishment Fund | Other Governmenta Funds | Total Governmenta Funds |
|--|---------------------|------------------------|------------------------------|------------------------------|-------------------------------|-------------------------------|
| REVENUES | | | | | | |
| Property taxes | \$ 5,370,434 | \$ - | \$ - | \$ - | \$ 672,320 | \$ 6,042,754 |
| Nonproperty taxes | 2,804,425 | 4,332,862 | 905,884 | 325,818 | 619,232 | 8,988,221 |
| Fees and services | 147,525 | 16,088 | 267,792 | - | 98,297 | 529,702 |
| Fines and forfeitures | 365,065 | - | - | - | 14,619 | 379,684 |
| Licenses and permits | 557,605 | - | - | - | - | 557,605 |
| Intergovernmental | 2,478 | - | - | - | 903,064 | 905,542 |
| Miscellaneous | 199,563 | 396 | 17,745 | 102,333 | 41,559 | 361,596 |
| Total revenues | <u>9,447,095</u> | <u>4,349,346</u> | <u>1,191,421</u> | <u>428,151</u> | <u>2,349,091</u> | <u>17,765,104</u> |
| EXPENDITURES | | | | | | |
| Current | | | | | | |
| General government | 3,550,497 | - | - | - | 251,180 | 3,801,677 |
| Public safety | 4,450,340 | - | - | - | 28,044 | 4,478,384 |
| Public works | 1,665,743 | - | - | - | 492,901 | 2,158,644 |
| Transportation | - | - | - | - | 782,525 | 782,525 |
| Community service | - | 3,476,591 | 1,176,782 | 40,494 | - | 4,693,867 |
| Debt service | | | | | | |
| Principal retirement | - | - | - | - | 1,205,000 | 1,205,000 |
| Interest | - | - | 35,939 | - | 239,673 | 275,612 |
| Capital outlay | 191,450 | 23,807 | 193,636 | - | 497,927 | 906,820 |
| Total expenditures | <u>9,858,030</u> | <u>3,500,398</u> | <u>1,406,357</u> | <u>40,494</u> | <u>3,497,250</u> | <u>18,302,529</u> |
| EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES | | | | | | |
| | (410,935) | 848,948 | (214,936) | 387,657 | (1,148,159) | (537,425) |
| Other financing sources (uses) | | | | | | |
| Sale of capital assets | 79,650 | - | - | - | 5,700 | 85,350 |
| Bond proceeds | - | - | 830,000 | - | - | 830,000 |
| Insurance Proceeds | - | - | - | - | 16,510 | 16,510 |
| Transfers out | (292,200) | (50,000) | (808,150) | - | (437,329) | (1,587,679) |
| Transfers in | 287,329 | - | - | - | 1,300,350 | 1,587,679 |
| Total other financing sources (uses) | <u>74,779</u> | <u>(50,000)</u> | <u>21,850</u> | <u>-</u> | <u>885,231</u> | <u>931,860</u> |
| Net change in fund balances | (336,156) | 798,948 | (193,086) | 387,657 | (262,928) | 394,435 |
| Fund balance -- beginning | <u>6,512,141</u> | <u>(455,730)</u> | <u>1,900,187</u> | <u>1,096,891</u> | <u>1,706,669</u> | <u>10,760,158</u> |
| Fund balance -- ending | <u>\$ 6,175,985</u> | <u>\$ 343,218</u> | <u>\$ 1,707,101</u> | <u>\$ 1,484,548</u> | <u>\$ 1,443,741</u> | <u>\$ 11,154,593</u> |

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

City of South Padre Island, Texas
**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCE OF THE GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES**
For the Year Ended September 30, 2010

| | |
|--|---------------------|
| Net change in fund balances --total governmental funds | \$ 394,435 |
| Amounts reported for <i>governmental activities</i> in the statement of activities | |
| Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital depreciation (\$2,556,111) exceeded outlays (\$906,820), in the current period. | (1,649,291) |
| In the statement of activities, only the gain (loss) on the sale of assets is reported, whereas in the funds, the proceeds from the sale increase financial resources. Thus, the change in net assets differs from the change in fund balance by the book value of the assets sold. | (68,540) |
| Bond issue costs reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds. This is the amount by which current year bond issue costs incurred (\$26,846) exceed current year amortization of bond issue costs (\$10,477). | 16,369 |
| Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets. | 1,205,000 |
| The change in compensated absences payable during the year is reported as an increase or decrease to expenditures in the statement of activities but not in the governmental funds. | (15,626) |
| The change in Net Pension Obligation during the year is reported as an increase or decrease to expenditures in the statement of activities but not in the governmental funds. | (25,187) |
| Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds. Interest expense in the statement of activities differs from the amount reported in governmental funds due to the change in accrued interest. | (19,328) |
| Bond proceeds are recorded as other financing sources in the governmental funds while they are recorded as a long term debt in the statement of net assets. | (830,000) |
| Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds. | <u>55,683</u> |
| Change in net assets of governmental activities | <u>\$ (936,485)</u> |

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

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CITY OF
South Padre
ISLAND, TEXAS

NOTES TO FINANCIAL
STATEMENTS

City of South Padre Island, Texas
NOTES TO FINANCIAL STATEMENTS
September 30, 2010

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the City of South Padre Island, Texas (the City) have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the City's accounting policies are described below.

1. *Reporting Entity*

The City of South Padre Island, Texas (the City), created in 1973, operates under the direction of a Mayor and five Council Members, elected by the voters of the City. It provides judicial, law enforcement, fire protection, public improvements, building and zoning administration, tourism, general administrative and health services to the City. The accounting policies of the City conform to accounting principles generally accepted in the United States of America as applicable to governmental units. As required by accounting principles generally accepted in the United States of America, the financial statements of the reporting entity include those of the City (the primary government) and its component unit. The component unit discussed below is included in the City's reporting entity because of the significance of its operational or financial relationship with the City.

Blended component units – Blended component units, although legally separate entities, are in substance part of the government's operations and so data from these units are combined with data of the primary government. The City of South Padre Island does not include any blended component units.

Discretely presented component units – The discretely presented component units, on the other hand, are reported in a separate column in the combined financial statements to emphasize that they are legally separate from the City. Discretely presented component units include the following:

South Padre Island Economic Development Corporation (EDC): The seven-member board of directors, five are appointed by the City Council and two are appointed by the board itself. The EDC is authorized to administer the distribution of the proceeds of any development bonds issued and the proceeds of certain development sales taxes received on behalf of the City. The EDC's operational and capital budget must be approved by the Council Members of the City.

The financial statement information included in the component unit column in the government-wide financial statements and the component unit section included in the other supplementary information constitutes the EDC's annual financial report. Additional financial information can be obtained at City Hall:

South Padre Island Economic Development Corporation
4601 Padre Boulevard, P. O. Box 3410
South Padre Island, Texas 78597

2. *Government-Wide and Fund Financial Statements*

Government-wide Financial Statements

The government-wide financial statements consist of the statement of net assets, a statement of financial position and the statement of activities, a statement of results of operations. These statements report information on all the activities of the reporting entity. Generally, the effect of interfund activity has been eliminated from these statements.

Governmental activities, normally supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which primarily rely on fees and charges. The City of South Padre Island, Texas does not include any business-type activities.

City of South Padre Island, Texas
NOTES TO FINANCIAL STATEMENTS – CONTINUED
September 30, 2010

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

2. *Government-Wide and Fund Financial Statements – Continued*

The statement of activities reflects the extent to which direct expenses of each function are offset by program revenues. *Direct expenses* are those that are attributable to a specific function and are clearly identifiable. *Program revenues* include charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a specific function as well as grants and contributions that are restricted to meeting the operational or capital requirements of a specific function. Taxes and other items not appropriately included with program revenues are shown as *general revenues*.

In addition to and apart from the government-wide financial statements, fund financial statements are presented for the governmental funds. In each of these financial statements major funds are presented in separate columns.

3. *Measurement Focus, Basis of Accounting and Basis of Presentation*

The government-wide financial statements are presented using the *economic resources measurement focus* and the *accrual basis of accounting*; consistent with the presentation of proprietary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, without regard to the timing of the 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. Restricted resources will be used before unrestricted resources when all requirements to relieve the restriction 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. 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, consistent with accrual accounting. However, debt service expenditures, as well as those related to compensated absences and claims and judgments are recognized only when payment is made.

The City reports the following fund types and related major governmental funds:

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

The *special revenue funds* are used to account for the proceeds of specific revenue sources, other than for major capital projects, that are legally restricted to expenditure for specified purposes. The special revenue funds reported as a major funds are:

Hotel/Motel Fund is used to account for occupancy tax collections. This fund is used to account for that portion of collections used for tourism, advertising and promotion.

Convention Centre Fund is used to account for the portion of occupancy tax collections used for Convention Centre operations.

City of South Padre Island, Texas
NOTES TO FINANCIAL STATEMENTS – CONTINUED
September 30, 2010

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

3. *Measurement Focus, Basis of Accounting and Basis of Presentation – Continued*

Beach Nourishment Fund was established to account for nourishment efforts on the beach.

Governmental funds are used to account for all or most of a government’s general activities, including the collection and disbursement of earmarked monies (special revenue funds), the acquisition or construction of capital assets (capital project funds), and the servicing of long-term debt (debt service funds). The General Fund is used to account for all activities of the general government not accounted for in some other fund.

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All governmental funds are accounted for using a current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are 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 by all governmental fund types. Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual (i.e., when they become both measurable and available). “Measurable” means the amount of the transaction can be determined and “available” means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. The government considers property taxes as available if they are collected within 60 days after year end. A 60-day availability period is also used for revenue recognition for all other governmental fund revenues. Expenditures are recorded when the related fund liability is incurred. Principal and interest on general long-term debt are recorded as fund liabilities when due or when amounts have been accumulated in the debt service fund for payments to be made early in the following year.

Those revenues susceptible to accrual are property taxes, franchise taxes, special assessments, licenses, interest revenue and charges for services. Sales taxes collected and held by the State at year end on behalf of the City also are recognized as revenue. Fines, permits and parking meter revenues are not susceptible to accrual because generally they are not measurable until received in cash.

The City reports deferred/unearned revenue on its balance sheet/statement of net assets. Deferred revenues arise when a potential revenue does not meet both the “*measurable*” and “*available*” criteria for recognition in the current period. Unearned revenues arise when resources are received by the City before it has a legal claim to them, as when grant monies are received prior to the incurrence of qualifying expenditures. In subsequent periods, when both revenue recognition criteria are met, or when the City has a legal claim to the resources, the liability for deferred/unearned revenue is removed from the balance sheet/statement of net assets and revenue is recognized.

4. *Assets, Liabilities, Net Assets and/or Equity*

a. Cash and Cash Equivalents

Cash and cash equivalents include all demand deposits and short-term investments (inclusive of restricted assets) with maturity dates within ninety days of the date initially acquired.

City of South Padre Island, Texas
NOTES TO FINANCIAL STATEMENTS – CONTINUED
September 30, 2010

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

4. *Assets, Liabilities, Net Assets and/or Equity - Continued*

b. Short-Term Interfund Receivables and Payables/Internal Balances

Short term lending/borrowing between funds that result in amounts outstanding at the end of the fiscal year are referred to as “due to/from other funds”. “Due to/from other funds” represent the current portion of interfund loans. With respect to the government-wide financial statements, any residual balances outstanding between the governmental activities and business-type activities are reported as “internal balances.”

c. Inventories

Inventories are valued at cost, which approximates market, using the first-in, first-out (FIFO) method. The costs of governmental fund-type inventories are recorded as expenditures when consumed rather than when purchased.

d. Prepaid Items

Expenditures made to third party vendors for goods and services that will benefit periods beyond September 30, 2010 are recorded as prepaid items, in both governmental and fund financial statements.

e. Capital Assets

Capital assets, which includes property, plant, equipment and infrastructure assets (e.g., roads, bridges, sidewalks and similar items), are reported in the governmental activities column in the government-wide financial statements. In 2009 the City changed its definition of capital assets as assets with an initial, individual cost of \$5,000 or more 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 assets are reflected 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. Improvements are capitalized and depreciated over the remaining useful lives of the related capital assets, as applicable.

Gains or losses on dispositions of capital assets are included in income within the governmental activities column of the government-wide financial statements. In the governmental fund financial statements, only the proceeds from the disposition are reported.

Depreciation of capital assets used by funds categorized as governmental activities is not provided in the fund financial statements; however, it is included in the gross expense by function in the government-wide Statement of Activities. Capital assets, net of accumulated depreciation, are reported on the governmental activities column of the government-wide statement of net assets. Depreciation has been provided over the estimated useful lives using the straight-line method. The estimated useful lives are as follows:

| | |
|----------------------------|---------------|
| Buildings and improvements | 10 – 40 years |
| Equipment | 5 – 15 years |
| Infrastructure | 15 – 40 years |
| Vehicles | 3 – 7 years |

City of South Padre Island, Texas
NOTES TO FINANCIAL STATEMENTS – CONTINUED
September 30, 2010

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

4. *Assets, Liabilities, Net Assets and/or Equity - Continued*

f. Compensated Absences

Vested or accumulated vacation leave that is expected to be liquidated with expendable available financial resources is reported as an expenditure and a fund liability of the governmental fund that will pay it. Amounts of vested or accumulated vacation leave that are not expected to be liquidated with expendable available financial resources are reported as non-current liabilities. No expenditure is reported for these amounts. In accordance with the provisions of Governmental Accounting Standards Board Statement No. 16, *Accounting for Compensated Absences*, no accrual is recorded for compensated absences that are dependent on the performance of future services by employees or when payments are dependent on future events outside the control of the employer and employees. However, a liability is recognized for that portion of accumulating sick leave benefits that is estimated will be taken as “terminal leave” prior to retirement. Compensated absences are reported in the governmental funds only if they have matured.

City employees are granted varying amounts of vacation and sick leave. In the event of termination or retirement, an employee is reimbursed up to 30 days of accumulated vacation and up to 90 days of accumulated sick leave. Sick leave earned after October 1, 1997 will be reimbursed at 50 percent of the earned sick leave. Sick leave accumulated before October 1, 1997 will be reimbursed at 100 percent of the earned sick leave.

g. Long-Term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the governmental activities column. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds. 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. Premiums received on debt issuances are reported as other financing sources and discounts are reported as other financing uses. Issuance costs, whether or not withheld from debt proceeds, are reported as debt service expenditures.

h. Fund Equity

In the governmental fund financial statements, reserves represent those portions of fund equity not appropriable for expenditure or legally segregated for a specific future use. Designated fund balances represent tentative plans for future use of financial resources.

i. Bond Discounts/Issue Costs

In governmental fund types, bond discounts and issuance costs are recognized in the current period.

j. Loans to Other Funds/Component Units

Noncurrent portions of long-term interfund loan receivables are offset equally by a fund balance reserve account which indicates that they do not constitute expendable available financial resources and therefore are not available for appropriation.

City of South Padre Island, Texas
NOTES TO FINANCIAL STATEMENTS - CONTINUED
September 30, 2010

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

4. *Assets, Liabilities, Net Assets and/or Equity - Continued*

k. Comparative Data

Partially comparative total data for the prior year have been presented in the government-wide financial statements.

l. Estimates

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

m. Income Taxes

South Padre Island Economic Development Corporation is exempt from income taxes under Section 501(c)(6) of the Internal Revenue Code. Therefore, no provision for income taxes has been made in these financial statements. Annually, the organization files Form 990, Income Tax Return of Tax Exempt Organizations.

n. Interfund Transfers

Transfers are used to 1) provide unrestricted revenues collected in the general fund to finance various programs accounted for in other funds, and 2) move revenues from the fund that the budget requires to collect them to the fund that the budget requires to expend them.

NOTE B - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budgetary Information

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

- a. The City Manager establishes the amount of estimated revenues and other resources available for appropriation for the succeeding budget year.
- b. 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 by fund, function and activity and the means of financing them.
- c. Public hearings and workshops (including department heads) are conducted at the City Hall to obtain taxpayer and elected officials' comments.
- d. Prior to October 1, the budget is legally adopted by the City Council.

City of South Padre Island, Texas
NOTES TO FINANCIAL STATEMENTS - CONTINUED
September 30, 2010

NOTE B - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY - Continued

Budgetary Information – Continued

- e. Revisions that alter budgets at the department level within a fund must be approved by the Council Members. The Statement of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual - all Governmental Fund Types reflect these revisions. Actual expenditures and transfers may not legally exceed budget appropriations at the individual fund level.
- f. Formal budgetary integration is employed as a management control device during the year for the General, certain Special Revenue and Debt Service Funds.
- g. Annual appropriated budgets are adopted for the General, certain Special Revenue and Debt Service Funds. All annual appropriations lapse at year-end to the extent they have not been expended or encumbered.

The City prepares its budget on a basis of accounting consistent with accounting principles generally accepted in the United States of America (GAAP).

During fiscal year 2010, various transfers of appropriations were made for the Governmental Funds. The original and final amended budget are presented in the Required Supplementary Information for the General Fund and major Special Revenue Funds (Hotel/Motel and Convention Centre Funds), that have adopted a budget.

The following non-major special revenue funds have legally adopted budgets, which are presented in the Other Supplementary Information section, as listed in the table of contents: Municipal Court Technology Fund, Municipal Court Security Fund, Transportation Grant Fund and Pirate Days Fund. Budgetary schedules are presented for the Debt Service Fund as well as the Capital Replacement Fund and Street Improvements Fund, which are capital projects funds that have a legally adopted annual budget.

On or before the end of May of each year, all agencies of the City submit requests for appropriation to the City Manager so that a budget may be prepared. The budget is prepared by fund, function and activity, and includes information on the past year, current year estimates and requested appropriations for the next fiscal year.

Before October 1, the proposed budget is presented to the City Council for review. The City Council holds public hearings and may add to, subtract from or change appropriations, but may not change the form of the budget. Any changes in the budget must be within the revenues and reserves estimated as available by the City Manager or the revenue estimates must be changed by an affirmative vote of a majority of the City Council.

Expenditures may not legally exceed budgeted appropriations at the fund level. During the year, several supplementary appropriations were necessary.

City of South Padre Island, Texas
NOTES TO FINANCIAL STATEMENTS - CONTINUED
September 30, 2010

NOTE C - CASH AND INVESTMENTS

It is the City's policy for deposits plus accrued interest thereon to be 102% secured by collateral valued at fair value, less the amount of the Federal Deposit Insurance Corporation insurance. During the year ended September 30, 2010, the City's cash deposits were covered by federal deposit insurance or were secured by collateral held by the City's agent in the City's name pursuant to the City's investment policy and its depository agreement.

Investments

Investments at fair value, including accrued interest, as of September 30, 2010 are as follows:

| | <u>Investment Maturities (in years)</u> | | Greater than 1 year |
|---------------------------|---|---------------------|------------------------|
| | <u>Fair Value</u> | <u>1 or less</u> | |
| Primary Government | | | |
| Cash and cash equivalents | \$ 8,116,261 | \$ 8,116,261 | \$ - |
| TexPool | 675,188 | 675,188 | - |
| Texas Term | <u>113,581</u> | <u>113,581</u> | - |
| | 8,905,030 | 8,905,030 | - |
| Investments | | | |
| Certificates of deposit | <u>2,077,634</u> | <u>2,077,634</u> | - |
| | <u>\$10,982,664</u> | <u>\$10,982,664</u> | <u>\$ -</u> |
| Component Unit | | | |
| Cash and cash equivalents | \$ 712,993 | \$ 712,993 | \$ - |
| TexPool | <u>32,163</u> | <u>32,163</u> | - |
| | <u>\$ 745,156</u> | <u>\$ 745,156</u> | <u>\$ -</u> |

A reconciliation of cash and investments follows:

| | <u>Primary Government Governmental Activities</u> | <u>Component Units</u> | <u>Total</u> |
|-------------------------|---|----------------------------|---------------------|
| Cash | \$ 8,116,261 | \$ 712,993 | \$ 8,829,254 |
| Cash equivalents | | | |
| Texas Term | 113,581 | 32,163 | 145,744 |
| TexPool | <u>675,188</u> | - | <u>675,188</u> |
| | 788,769 | 32,163 | 820,932 |
| Investments | | | |
| Certificates of deposit | <u>2,077,634</u> | - | <u>2,077,634</u> |
| | <u>\$10,982,664</u> | <u>\$ 745,156</u> | <u>\$11,727,820</u> |

Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment.

Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. One of the ways that the City manages its exposure to interest rate risk is by purchasing a combination of shorter term and longer term investments and by timing cash flows from maturities so that a portion of the portfolio is maturing or coming close to maturity evenly over time as necessary to provide the cash flows and liquidity needed for operations.

City of South Padre Island, Texas
NOTES TO FINANCIAL STATEMENTS - CONTINUED
September 30, 2010

NOTE C - CASH AND INVESTMENTS – Continued

Information about the sensitivity of the fair values of the City’s investments to market interest rate fluctuations is provided by the following table that shows the specific investments and their maturity:

| <u>Description</u> | <u>Rate</u> | <u>Amount</u> | <u>Maturity</u> | <u>Days</u> |
|------------------------|-------------|---------------|-------------------|-------------|
| Certificate of deposit | 1.40% | \$ 529,829 | March 15, 2011 | 166 |
| Certificate of deposit | 1.20% | \$ 530,745 | November 24, 2010 | 55 |
| Certificate of deposit | 1.67% | \$1,017,060 | March 10, 2011 | 161 |

The investment policy states that operating funds and commingled pools shall not have a maturity date exceeding one year from the date of purchase. Securities purchased for the purpose of making debt service payments shall not have a stated final maturity date which exceeds the debt service payment date. Securities for special projects or special fund portfolios should not have a stated final maturity date that exceeds the estimated project completion date.

Credit Risk

As of September 30, 2010, the investments in TexPool and Texas Term investment risk pools were rated AAAM and AAAF by Standard and Poor’s, respectively.

The City’s investment policy limits authorized investments to certain Texas government investments pools, obligations of or guaranteed by the U. S. and State of Texas and their agencies thereof, certificates of deposit of Texas banks and fully collateralized repurchase agreements.

Public Funds Investment Pools

TexPool is a public funds investment pool created by the Texas Treasury Safekeeping Trust Company (Trust Company) to provide a safe environment for the placement of local government funds in authorized short-term, fully-collateralized investments, including direct obligations of, or obligations guaranteed by, the United States or State of Texas or their agencies; federally insured certificates of deposit issued by Texas banks or savings and loans; and fully collateralized direct repurchase agreements secured by United States Government agency securities and placed through a primary government securities dealer.

The Trust Company was incorporated by the State Treasurer by authority of the Texas Legislature as a special purpose trust company with direct access to the services of the Federal Reserve Bank to manage, disburse, transfer, safekeep, and invest public funds and securities more efficiently and economically. The State Comptroller of Public Accounts exercises oversight responsibility over TexPool. Oversight includes the ability to significantly influence operations, designation of management, and accountability for fiscal matters. TexPool operates in a manner consistent with the Security and Exchange Commission’s Rule 2a7 of the Investment Company Act of 1940. TexPool uses amortized cost rather than market value to report net assets to compute share prices. The fair value of the position in TexPool is the same as the value of TexPool shares. Accordingly, the City’s investments in TexPool are stated at cost, which approximates fair value. TexPool is currently rated AAAM by Standard and Poor’s. This rating indicates excellent safety and a superior capacity to maintain principal value and limit exposure to loss.

City of South Padre Island, Texas
NOTES TO FINANCIAL STATEMENTS - CONTINUED
September 30, 2010

NOTE C - CASH AND INVESTMENTS – Continued

TEXAS Term is a local government investment pool created under the Interlocal Cooperation Act specifically tailored to meet Texas state and local government investment objectives of preservation of principal, daily liquidity and competitive yield. The fund is rated AAAs by Standard and Poor's and maintains a maturity of 60 days to one year. The fund seeks to maintain a constant dollar objective and fulfills all requirements of the Texas Public Funds Investment Act for local government investment pools.

Concentration of Credit Risk

The TexPool and Texas Term risk pools holdings at September 30, 2010 represents 28% of the total portfolio, and Certificates of Deposit holds the remaining 72%. The investment policy is silent in the concentration of holding in the various types of securities and investments.

NOTE D - PROPERTY TAXES

The assessed value for the tax roll as of January 1, 2009 upon which the 2009 levy was based, was \$2,485,982,741. State statutes require that all assessments be made on one hundred percent (100%) of fair market value.

Property tax revenues are recognized when they become available. Available includes those property tax receivables expected to be collected within sixty days after year end.

Property taxes attach as an enforceable lien on property as of January 1. Property taxes are levied as of October 1. The county appraisal district certifies the tax roll by July 25th. This tax roll is used by the City to adopt a tax rate by September 1st or soon thereafter. The tax bills are mailed on October 1st or soon thereafter and are due and payable upon receipt. The billings become delinquent as of February 1 of the following calendar year and penalties and interest may be assessed by the City.

Taxes receivable in the General Fund includes uncollected tax levies since 1979. All real property taxes receivable less than twenty years old are considered collectible. All personal property taxes receivable less than ten years old are considered collectible. All revenues were deferred at the time the levies were recorded. The Texas Legislature enacted a provision during the 1992 legislative session which requires all liens attached to properties because of delinquent taxes to be removed after twenty years. Also, liens attached to personal property for delinquent taxes are required to be removed after ten years. This legislation became effective August 27, 1992.

The City is permitted by the Municipal Finance Law of Texas to levy taxes up to \$1.50 per \$100 of assessed valuation for general governmental services other than the payment of principal and interest on long-term debt and in unlimited amounts for the payment of principal and interest on long-term debt. The combined tax rate to finance general governmental service and the payment of principal and interest on long-term debt for the year ended September 30, 2010, was \$.24561 per \$100.

The City Charter provides for taxes to become due on October 1st of the year of levy and shall be paid by January 31st of the following year. Liens for unpaid taxes go into effect on July 1st as the taxes become delinquent. Current tax collections for the year ended September 30, 2010, were 95.6 percent of the tax levy.

City of South Padre Island, Texas
NOTES TO FINANCIAL STATEMENTS - CONTINUED
September 30, 2010

NOTE E - RECEIVABLES

Receivables at September 30, 2010, consist of the following:

| | Primary Government | | | | | Total |
|-----------------------------------|--------------------|--------------------|----------------------|----------------------|--------------------------------|------------------|
| | General | Hotel/Motel Tax | Convention Center | Beach Nourishment | Other Governmental Funds | |
| Receivables | | | | | | |
| Taxes | \$484,964 | \$ - | \$ - | \$ - | \$ 60,421 | \$ 545,385 |
| Accounts | <u>47,351</u> | <u>229,682</u> | <u>117,417</u> | <u>20,929</u> | <u>12,190</u> | <u>427,569</u> |
| Gross receivables | 532,315 | 229,682 | 117,417 | 20,929 | 72,611 | 972,954 |
| Less allowance for uncollectibles | <u>(24,248)</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>(3,021)</u> | <u>(27,269)</u> |
| Net total receivables | <u>\$508,067</u> | <u>\$229,682</u> | <u>\$117,417</u> | <u>\$ 20,929</u> | <u>\$69,590</u> | <u>\$945,685</u> |

NOTE F - DUE FROM OTHER GOVERNMENTS

Due from other governments at September 30, 2010 consist of the following:

| | Primary Government | | | | | Component Unit |
|---|--------------------|------------------|----------------------|--------------------------------|------------------|-------------------|
| | General | Transportation | Beach Maintenance | Other Governmental Funds | Total | |
| Texas State Comptroller – sales taxes | \$197,265 | \$ - | \$ - | \$ - | \$ 197,265 | \$ 67,901 |
| Texas State Comptroller – occupancy taxes | - | - | 320,166 | - | 320,166 | - |
| State of Texas – Department of Transportation | - | 204,166 | - | - | 204,166 | - |
| City of Brownsville | <u>-</u> | <u>-</u> | <u>-</u> | <u>16,970</u> | <u>16,970</u> | <u>-</u> |
| Net total receivables | <u>\$197,265</u> | <u>\$204,166</u> | <u>\$320,166</u> | <u>\$ 16,970</u> | <u>\$738,567</u> | <u>\$ 67,901</u> |

NOTE G - CAPITAL ASSETS

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

Governmental Activities

| | Beginning Balance October 1, 2009 | Additions | Transfers | Retirements | Ending Balance September 30, 2010 |
|---|---|----------------------|--------------------|-------------------|---|
| | | | | | |
| Capital assets, not being depreciated: | | | | | |
| Land | \$ 1,497,793 | \$ - | \$ - | \$ - | \$ 1,497,793 |
| Construction in progress | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| | 1,497,793 | - | - | - | 1,497,793 |
| Capital assets, being depreciated: | | | | | |
| Buildings | 23,440,915 | 91,117 | 1,265,252 | (150,255) | 24,647,029 |
| Improvements | 1,148,386 | 150,441 | 2,797,246 | (5,500) | 4,090,573 |
| Furniture and equipment | 7,900,989 | 633,580 | (712,551) | (2,230,456) | 5,591,562 |
| Infrastructure | <u>9,755,779</u> | <u>31,682</u> | <u>(2,836,710)</u> | <u>-</u> | <u>6,950,751</u> |
| | 42,246,069 | 906,820 | 513,237 | (2,386,211) | 41,279,915 |
| Less accumulated depreciation for: | | | | | |
| Buildings | (7,722,723) | (1,351,133) | (777,983) | 73,621 | (9,778,218) |
| Improvements | (929,530) | (231,445) | (612,238) | 95,825 | (1,677,388) |
| Furniture and equipment | (4,990,027) | (725,196) | 445,540 | 2,153,225 | (3,116,458) |
| Infrastructure | <u>(4,829,303)</u> | <u>(248,337)</u> | <u>426,444</u> | <u>-</u> | <u>(4,651,196)</u> |
| Total accumulated depreciation | (18,471,583) | (2,556,111) | (518,237) | 2,322,671 | (19,223,260) |
| Total capital assets, being depreciated, net | <u>23,774,486</u> | <u>(1,649,291)</u> | <u>(5,000)</u> | <u>(63,540)</u> | <u>22,056,655</u> |
| Governmental activities, capital assets, net | <u>\$25,272,279</u> | <u>\$(1,649,291)</u> | <u>\$(5,000)</u> | <u>\$(63,540)</u> | <u>\$23,554,448</u> |

City of South Padre Island, Texas
NOTES TO FINANCIAL STATEMENTS - CONTINUED
September 30, 2010

NOTE G - CAPITAL ASSETS - Continued

Depreciation is provided in the funds in amounts sufficient to relate the cost of the depreciable assets to operations over their estimated service lives on the straight-line basis. The service lives by type of asset are as follows:

| | |
|----------------------------|---------------|
| Buildings and improvements | 10 – 40 years |
| Equipment | 5 – 15 years |
| Infrastructure | 15 – 40 years |
| Vehicles | 3 – 7 years |

Depreciation was charged to government functions as follows:

| | |
|--|--------------------|
| General government | \$ 401,882 |
| Public safety | 196,752 |
| Public works | 659,505 |
| Community service | 1,181,199 |
| Transportation | <u>116,773</u> |
| Total depreciation - governmental activities | <u>\$2,556,111</u> |

Component Unit:

Activity for Economic Development Corporation is as follows:

| | Beginning Balance October 1, 2009 | Additions | Transfers | Retirements | Ending Balance September 30, 2010 |
|---|---|------------------|-----------------|-------------|---|
| Capital assets, not being depreciated | | | | | |
| Land | \$ 657,236 | \$ - | \$ - | \$ - | \$ 657,236 |
| Construction in progress | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| | 657,236 | - | - | - | 657,236 |
| Capital assets, being depreciated | | | | | |
| Buildings | 6,374,588 | 194,427 | - | - | 6,569,015 |
| Furniture and equipment | <u>18,304</u> | <u>-</u> | <u>5,000</u> | <u>-</u> | <u>23,304</u> |
| | 6,397,892 | 194,427 | - | - | 6,592,319 |
| Less accumulated depreciation | | | | | |
| Buildings | (181,262) | (132,007) | - | - | (313,269) |
| Furniture and equipment | <u>(16,996)</u> | <u>(6,285)</u> | <u>-</u> | <u>-</u> | <u>(23,281)</u> |
| Total accumulated depreciation | (198,258) | (138,292) | - | - | (336,550) |
| Total capital assets being depreciated, net | <u>6,199,634</u> | <u>56,135</u> | <u>5,000</u> | <u>-</u> | <u>6,255,769</u> |
| Total capital assets | <u>\$6,856,870</u> | <u>\$ 56,135</u> | <u>\$ 5,000</u> | <u>\$ -</u> | <u>\$6,913,005</u> |

NOTE H - DEFERRED REVENUE

Governmental funds report *deferred revenue* in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Governmental funds defer revenue recognition in connection with resources that have been received, but not yet earned. At the end of the current fiscal year, the various components of deferred revenue and unearned revenue reported in the fund financial statements were as follows:

| | 2010 | | 2009 | |
|--|------------------|------------------|------------------|------------------|
| | Unavailable | Unearned | Unavailable | Unearned |
| Governmental funds | | | | |
| Delinquent property taxes receivable | \$442,850 | \$ - | \$387,168 | \$ - |
| Grants and other | <u>-</u> | <u>40,231</u> | <u>-</u> | <u>65,918</u> |
| Total deferred/unearned revenue for governmental funds | <u>\$442,850</u> | <u>\$ 40,231</u> | <u>\$387,168</u> | <u>\$ 65,918</u> |

City of South Padre Island, Texas
NOTES TO FINANCIAL STATEMENTS - CONTINUED
September 30, 2010

NOTE I - LONG-TERM DEBT

Primary Government

General Obligation Bonds

The City issues general obligation bonds and certificates of obligation to provide funds for the acquisition and construction of major capital facilities. Certificates of obligation have been issued for general government activities.

General obligation bonds and certificates of obligation are direct obligations and pledge the full faith and credit of the City. These bonds and certificates generally are issued as 25-year serial bonds, with varying amounts of principal maturing each year. General obligation bonds and certificates of obligation currently outstanding are as follows:

1. Bonds

| | Beginning Balance <u>10-1-09</u> | <u>Additions</u> | <u>Reductions</u> | Ending Balance <u>9-30-10</u> | Due In <u>One Year</u> |
|--|--|-------------------|----------------------|-------------------------------------|---------------------------|
| <i>General Government:</i> | | | | | |
| 2002 Series, Combination Tax and Revenue Refunding Bonds | \$785,000 | \$ - | \$ (785,000) | \$ - | \$ - |
| 2005 Series, General Obligation Bonds | 4,255,000 | - | (190,000) | 4,065,000 | 610,000 |
| 2006 Series, Tax Anticipation Notes | 975,000 | - | (230,000) | 745,000 | 240,000 |
| 2009 Series, General Obligation Refunding Bonds | <u>-</u> | <u>830,000</u> | <u>-</u> | <u>830,000</u> | <u>245,000</u> |
| Total Bonds | <u>\$6,015,000</u> | <u>\$ 830,000</u> | <u>\$(1,205,000)</u> | <u>\$5,640,000</u> | <u>\$1,095,000</u> |

The annual debt service requirements to maturity for bonds are as follows:

| Year Ending September 30, | <u>General Obligation Bonds</u> | | <u>Tax Anticipation Notes</u> | | <u>Total</u> | | <u>Principal and Interest</u> |
|------------------------------|---------------------------------|--------------------|-------------------------------|-----------------|--------------------|--------------------|-----------------------------------|
| | <u>Principal</u> | <u>Interest</u> | <u>Principal</u> | <u>Interest</u> | <u>Principal</u> | <u>Interest</u> | |
| 2011 | \$ 610,000 | \$ 190,937 | \$240,000 | \$ 25,625 | \$850,000 | \$ 216,562 | \$1,066,562 |
| 2012 | 625,000 | 169,330 | 245,000 | 15,683 | 870,000 | 185,013 | 1,055,013 |
| 2013 | 215,000 | 153,811 | 260,000 | 5,330 | 475,000 | 159,141 | 634,141 |
| 2014 | 225,000 | 143,911 | - | - | 225,000 | 143,911 | 368,911 |
| 2015 | 235,000 | 133,561 | - | - | 235,000 | 133,561 | 368,561 |
| 2016-2020 | 1,335,000 | 511,869 | - | - | 1,335,000 | 511,869 | 1,846,869 |
| 2021-2025 | <u>1,650,000</u> | <u>195,459</u> | <u>-</u> | <u>-</u> | <u>1,650,000</u> | <u>195,459</u> | <u>1,845,459</u> |
| | <u>\$4,895,000</u> | <u>\$1,498,878</u> | <u>\$745,000</u> | <u>\$46,638</u> | <u>\$5,640,000</u> | <u>\$1,545,516</u> | <u>\$7,185,516</u> |

Component Unit

2. Revenue Bond

| | Beginning Balance October 1, 2009 | <u>Additions</u> | <u>Reductions</u> | Ending Balance September 30, 2010 | Amount Due In <u>One Year</u> |
|-----------------------------|--|------------------|---------------------|--|-------------------------------------|
| 2007 Series, Sales Tax Bond | \$5,120,000 | \$ - | \$ (100,000) | \$5,020,000 | \$125,000 |
| Total revenue bond | <u>\$5,120,000</u> | <u>\$ -</u> | <u>\$ (100,000)</u> | <u>\$5,020,000</u> | <u>\$125,000</u> |

City of South Padre Island, Texas
NOTES TO FINANCIAL STATEMENTS - CONTINUED
September 30, 2010

NOTE I - LONG-TERM DEBT - Continued

The annual debt service requirements to maturity for revenue bonds are as follows:

| <u>Year Ending September 30,</u> | <u>Principal</u> | <u>Interest</u> | <u>Total</u> |
|--------------------------------------|--------------------|--------------------|--------------------|
| 2011 | \$ 125,000 | \$ 216,643 | \$ 341,643 |
| 2012 | 145,000 | 210,743 | 355,743 |
| 2013 | 165,000 | 203,970 | 368,970 |
| 2014 | 190,000 | 196,213 | 386,213 |
| 2015 | 210,000 | 187,473 | 397,473 |
| 2016-2020 | 1,315,000 | 777,314 | 2,092,314 |
| 2021-2025 | 1,670,000 | 451,421 | 2,121,421 |
| 2026-2030 | <u>1,200,000</u> | <u>80,408</u> | <u>1,280,408</u> |
| | <u>\$5,020,000</u> | <u>\$2,324,185</u> | <u>\$7,344,185</u> |

Primary Government

The 1993 Series Combination Tax and Revenue Refunding Bonds were issued in August 1993 in order to refund a portion of the 1990 Series Certificates of Obligation. The bonds are collateralized by the net hotel tax revenues and Convention Centre revenues and from ad valorem taxes and will be repaid over a seventeen year period which began March 1, 1994. The bonds carry interest rates ranging from 3.0% to 5.5% with interest payment dates of March 1 and September 1. These bonds were defeased in December 2002 as discussed herein.

As discussed below, the City defeased \$4,705,000 in Series 1993 Combination Tax and Revenue Refunding Bonds during December 2002 by creating a separate irrevocable trust fund. New debt was issued and the proceeds were used to purchase U. S. Governmental securities that were placed in the trust fund. The investments and fixed earnings from the investments were sufficient to fully service the defeased debt upon its first call date, of March 2003. For financial reporting purposes, the debt has been considered defeased and, therefore, removed as a liability from the City's long-term debt. This advance refunding was undertaken to reduce total debt service payments. This transaction resulted in an economic gain of \$200,362 and a reduction in debt service payments of \$210,113. The balance outstanding of the refunded bonds was \$785,000 as of September 30, 2010.

On December 1, 2002 the City issued 2002 Series Combination Tax and Revenue Refunding Bonds in order to advance refund all of the 1993 Series Combination Tax and Revenue Refunding Bonds as discussed above. The bonds are collateralized by the net hotel tax revenue and Convention Centre revenues and from ad valorem taxes and will be repaid over 7 years which began March 1, 2003. The bonds carry interest rates ranging from 3.0% to 4.625% with interest payment dates of March 1 and September 1.

On April 20, 2005, the City issued 2005 Series General Obligation Bonds in order to construct and equip a new City Hall Complex, which will consist of a new City Hall, improvements to and renovations of the existing fire department and public works facilities, and related parking and pay costs of issuance. The bonds are collateralized by the levy and collection of ad valorem taxes and will be repaid over 20 years beginning in 2006. The bonds carry interest rates ranging from 3.5% to 4.625% with interest payment dates of March 1 and September 1.

City of South Padre Island, Texas
NOTES TO FINANCIAL STATEMENTS - CONTINUED
September 30, 2010

NOTE I - LONG-TERM DEBT - Continued

During August 2006, the City issued Series 2006 Tax Notes in order to supplement previously secured debt funding (2005 Series GO Bonds) to construct and equip a new City Hall Complex. The additional funding is necessary as a result of significant increases in construction costs which exceeded the amount of funds on deposit from the previous bond issue. The Tax Notes are collateralized by the full faith and credit of the government, and carry a term of seven years, maturing March 1, 2013. Principal is due annually, and interest payments at the rate of 4.10% are due March 1 and September 1. The debt covenants require an interest and sinking fund wherein the ad valorem taxes levied sufficient to provide for the payment of the interest on and principal of the notes will be deposited.

On December 16, 2009 the City issued General Obligation Refunding Bonds, Series 2009 in order to advance refund all of the 2002 Series, Combination Tax and Revenue Refunding Bonds as discussed above. The bonds are collateralized by the levy and collection of ad valorem taxes and will be repaid over 2 years which will begin on March 1, 2011. The bonds carry an interest rate of 2.89% with interest payment dates of March 1 and September 1.

The City does not have a legal debt limit mandated by law.

Changes in Long-term Liabilities for Governmental Activities

During the year ended September 30, 2010, the following changes occurred in liabilities reported as non-current liabilities.

| | October 1, <u>2009</u> | <u>Additions</u> | <u>Reductions</u> | September 30, <u>2010</u> | Amount Due Within <u>One Year</u> |
|----------------------------------|---------------------------|---------------------|----------------------|------------------------------|--|
| Compensated Absences* | \$ 791,940 | \$ 424,573 | \$ (408,947) | \$ 807,566 | \$ 357,094 |
| General Obligation Bonds Payable | 6,015,000 | 830,000 | (1,205,000) | 5,640,000 | 1,095,000 |
| Net pension obligation | <u>71,857</u> | <u>25,187</u> | <u>-</u> | <u>97,044</u> | <u>-</u> |
| Total long-term debt | <u>\$6,878,797</u> | <u>\$ 1,279,760</u> | <u>\$(1,613,947)</u> | <u>\$6,544,610</u> | <u>\$1,452,094</u> |

*Compensated absences are generally liquidated by the General Fund.

Component Unit

During July 2007, the Economic Development Corporation (“EDC”) issued Sales Tax Revenue Bond Series 2007 for the purpose of paying the costs of the acquisition and construction of land, buildings, equipment, facilities and improvements relating to a birding and nature center as a public facility, funding a debt service reserve fund and paying the costs of issuance. The bonds are collateralized by the full faith and credit of the EDC and carry a term of 20 years, maturing September 30, 2028. The debt covenants require a debt service reserve fund sufficient to provide for the final principal and interest payment. The bonds carry an interest rate of 4.37% with interest payments due in March and September.

Changes in Long-term Liabilities for Component Units

| | October 1, <u>2009</u> | <u>Additions</u> | <u>Reductions</u> | September 30, <u>2010</u> | Amount Due Within <u>One Year</u> |
|-----------------------------|---------------------------|------------------|--------------------|------------------------------|--|
| 2007 Series, Sales Tax Bond | \$5,120,000 | \$ - | \$ (100,000) | \$5,020,000 | \$ 125,000 |
| Net pension obligation | <u>1,192</u> | <u>425</u> | <u>-</u> | <u>1,617</u> | <u>-</u> |
| Total long-term debt | <u>\$5,121,192</u> | <u>\$ 425</u> | <u>\$(100,000)</u> | <u>\$5,021,617</u> | <u>\$ 125,000</u> |

City of South Padre Island, Texas
NOTES TO FINANCIAL STATEMENTS - CONTINUED
September 30, 2010

NOTE J - INTERFUND ASSETS/LIABILITIES

Due to/from other funds:

| | <u>Receivable Fund</u> |
|---------------------------|------------------------|
| | <u>General</u> |
| <u>Payable Fund</u> | |
| 30 Transportation Grant | \$ 150,654 |
| 32 Criminal Justice Grant | 19,971 |
| 60 Beach Maintenance | <u>150,499</u> |
| | <u>\$ 321,124</u> |

Due to/from primary government/component unit

| | <u>Receivable Fund</u> |
|---------------------|------------------------|
| | <u>Birding Center</u> |
| | <u>Construction</u> |
| <u>Payable Fund</u> | |
| General Fund | \$ 13,070 |

The to/from other funds primarily represent temporary short-term borrowings for working capital, which are intended to be satisfied soon after year end.

NOTE K - TRANSFERS

Transfers are used to 1) provide unrestricted revenues collected in the general fund to finance various programs accounted for in other funds, and 2) move revenues from the fund that the budget requires to collect them to the fund that the budget requires to expend them.

| | <u>Transfer in Funds</u> | | | | | | |
|---------------------------|--------------------------|------------------|------------------|------------------|------------------|------------------|--------------------|
| | | Transportation | Long | Debt | Beach | Bay | |
| <u>Transfer Out Funds</u> | <u>General</u> | <u>Grant</u> | <u>Range</u> | <u>Service</u> | <u>Access</u> | <u>Access</u> | <u>Total</u> |
| General | \$ - | \$ - | \$162,200 | \$ - | \$ - | \$ - | \$ 292,200 |
| Hotel/Motel | - | 50,000 | - | - | - | - | 50,000 |
| Convention Center | - | - | - | 808,150 | - | - | 808,150 |
| Street Improvement | 25,000 | - | - | - | - | - | 25,000 |
| Beach Maintenance | <u>262,329</u> | - | - | - | <u>150,000</u> | - | <u>412,329</u> |
| | <u>\$287,329</u> | <u>\$ 50,000</u> | <u>\$162,200</u> | <u>\$808,150</u> | <u>\$150,000</u> | <u>\$130,000</u> | <u>\$1,587,679</u> |

Transfer between Component Units

| | <u>Transfer in Funds</u> |
|----------------------------------|--------------------------|
| | EDC |
| <u>Transfer Out Funds</u> | <u>Debt Service</u> |
| Economic Development Corporation | <u>\$323,744</u> |

City of South Padre Island, Texas
NOTES TO FINANCIAL STATEMENTS - CONTINUED
September 30, 2010

NOTE L - COMMITMENTS AND CONTINGENT LIABILITIES

1. *Litigation*

The City is party to various legal proceedings generally incidental to its operations. Although the ultimate disposition of these proceedings is not presently determinable in the opinion of the City Attorney, the resolution of these matters will not have a material adverse effect on the financial condition of the City.

2. *Grant Programs*

The City and component unit participates in a number of grant programs funded by State and Federal Agencies. These programs are subject to compliance audits by the grantor agencies or their representatives.

NOTE M - RISK MANAGEMENT

The City is exposed to various uncertainties for losses related to intentional and unintentional torts; theft of, damage to and destruction of real and personal property; errors-and-omissions; catastrophes, and medical claims by employees; job-related illnesses and injuries and pollution claims for which the City carries commercial insurance coverage. There has been no significant reductions in insurance coverage from the previous year. No negotiated settlements or jury awards have exceeded policy limits in any of the past three years. The City is a member of an intergovernmental risk pool.

The risk pool is an interlocal non-assessable agency with present unreserved resources in excess of \$300,000,000 (as of September 30, 2009, the most recently audited financial statements completed for the risk pool). Reinsurance is provided by several A and A++ rated companies in amounts ranging from \$10,000,000 to \$100,000,000 depending on type of insurance coverage. City management is not aware of any pending or alleged claims that could exceed the policy limits of the present insurance coverage.

NOTE N - PENSION PLAN

Plan Description

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

City of South Padre Island, Texas
NOTES TO FINANCIAL STATEMENTS - CONTINUED
September 30, 2010

NOTE N - PENSION PLAN - Continued

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

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

| | <u>Plan Year 2009</u> | <u>Plan Year 2010</u> |
|--|--------------------------|--------------------------|
| Employee deposit rate | 7.0% | 7.0% |
| Matching ratio (City to employee) | 2 to 1 | 2 to 1 |
| Years required for vesting | 5 | 5 |
| Service retirement eligibility (expressed as age/ years of service) | 60/5,0/20 | 60/5,0/20 |
| Updated service credit | 100% repeating transfers | 100% repeating transfers |
| Annuity increase (to retirees) | 70% of CPI | 70% of CPI |

Contributions

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

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

| | <u>Primary Government</u> | <u>Component Unit</u> |
|---|-------------------------------|---------------------------|
| Annual Required Contribution (ARC) | \$781,911 | \$ 12,917 |
| Interest on net pension obligation | - | - |
| Adjustment to the ARC | - | - |
| Annual Pension Cost (APC) | 781,911 | 12,917 |
| Contributions made | <u>(756,724)</u> | <u>(12,492)</u> |
| Increase (decrease) in net pension obligation | 25,187 | 425 |
| Net pension obligation/(asset), beginning of year | <u>71,857</u> | <u>1,192</u> |
| Net pension obligation/(asset), end of year | <u>\$ 97,044</u> | <u>\$ 1,617</u> |

City of South Padre Island, Texas
NOTES TO FINANCIAL STATEMENTS - CONTINUED
September 30, 2010

NOTE N - PENSION PLAN - Continued

Three year trend information is as follows:

| | <u>Primary Government</u> | <u>Component Unit</u> |
|----------------------------------|-------------------------------|---------------------------|
| City's Annual Pension Cost (APC) | | |
| 2008 | \$639,840 | \$ 10,820 |
| 2009 | 684,789 | 11,583 |
| 2010 | 781,911 | 12,917 |
| Percentage of APC Contributed | | |
| 2008 | 100% | 100% |
| 2009 | 90% | 90% |
| 2010 | 97% | 97% |
| Net Pension Obligation | | |
| 2008 | - | - |
| 2009 | 25,187 | 425 |
| 2010 | 97,044 | 1,617 |

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

| <u>Valuation Date</u> | <u>12/31/2007</u> | <u>12/31/2008</u> | <u>12/31/2009</u> |
|-------------------------------|--------------------------|--------------------------|--------------------------|
| Actuarial Cost Method | Unit Credit | Projected Unit Credit | Projected Unit Credit |
| Amortization Method | Level Percent of Payroll | Level Percent of Payroll | Level Percent of Payroll |
| Remaining Amortization Period | 30 years; closed period | 29 years; closed period | 28 years; closed period |
| Asset Valuation Method | Amortized Cost | Amortized Cost | 10yr Smoothed Market |

Actuarial Assumptions:

| | | | |
|-----------------------------|---------------------------|---------------------------|---------------------------|
| Investment rate of return* | 7.0% | 7.5% | 7.5% |
| Projected salary increases* | Varies by age and service | Varies by age and service | Varies by age and service |
| *Includes Inflation at | 3.00% | 3.00% | 3.00% |
| Cost-of-Living Adjustments | 2.10% | 2.10% | 2.10% |

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

| <u>Actuarial Valuation Date</u> | <u>Actuarial Value of Assets</u> (1) | <u>Actuarial Accrued Liability (AAL)</u> (2) | <u>Funded Ratio</u> (3) | <u>Unfunded AAL (UAAL)</u> (4) | <u>Covered Payroll</u> (5) | <u>UAAL as a Percentage of Covered Payroll</u> (6) |
|-------------------------------------|---|---|----------------------------|---|-----------------------------------|---|
| | | | (1)/(2) | (2)-(1) | | (4)/(5) |
| 12/31/2009 | \$ <u>11,621,877</u> | \$ <u>14,279,003</u> | 81.4% | \$ <u>(2,657,126)</u> | \$ <u>6,483,656</u> | (41.0%) |

The schedule of funding progress, presented as Required Supplementary Information following the notes to the financial statements, presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability of benefits.

City of South Padre Island, Texas
NOTES TO FINANCIAL STATEMENTS - CONTINUED
 September 30, 2010

NOTE O - OTHER POST EMPLOYMENT BENEFITS

Plan Description

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

Benefits

The death benefit for active employees provides a lump-sum payment approximately equal to the employee's annual salary (calculated based on the employee's actual earnings, for the 12-month period preceding the month of death); retired employees are insured for \$7,500; this coverage is an "other post-employment benefit," or OPEB.

Contributions

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

The City's contributions to the TMRS SDBF for the years ended 2010, 2009 and 2008 were \$12,176, \$12,803 and \$10,145, respectively, which equaled the required contributions each year.

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

| Plan/ Calendar Year | Annual Required Contribution (Rate) | Actual Contribution Made (Rate) | Percentage of ARC Contributed |
|---------------------------|--|--|-------------------------------------|
| 2006 | 0.21% | 0.21% | 100.0% |
| 2007 | 0.20% | 0.20% | 100.0% |
| 2008 | 0.19% | 0.19% | 100.0% |
| 2009 | 0.20% | 0.20% | 100.0% |
| 2010 | 0.19% | 0.19% | 100.0% |

NOTE P - ADDITIONAL HOTEL/MOTEL OCCUPANCY TAX

Senate Bill No. 550 was passed which entitles certain small coastal municipalities to receive an additional 1% hotel/motel occupancy tax allocation from the State beginning September 1, 1999. Under this law, the money must be used to clean and maintain public beaches within the City. The City received \$619,232 as a result of this additional allocation and expended \$865,323 of it and reserved funds during the fiscal year ended September 30, 2010. The City accounts for this activity in the Beach Maintenance Fund. The balance of the unexpended funds at the beginning of the year, \$313,572, together with interest earned on these funds of \$695, is decreased by the current year expenditure amount being larger than current year revenue amount, leaving \$166,473 legally reserved in the fund equity portion of the balance sheet at year end.

CITY OF
South Padre
ISLAND, TEXAS

REQUIRED SUPPLEMENTARY
INFORMATION

City of South Padre Island, Texas
Pension Plan (TMRS) Schedule of Funding Progress
September 30, 2010

Funding Progress - An analysis of funding progress for the entity as of September 30, 2010, follows.

| <u>Actuarial Valuation Date</u> | <u>Actuarial Value of Assets</u> | <u>Actuarial Accrued Liability (AAL) - Unit Credit</u> | <u>Overfunded (Unfunded) AAL (UAAL)</u> | <u>Funded Ratio</u> | <u>Covered Payroll</u> | <u>AAL (UAAL) as a Percentage of Covered Payroll</u> |
|---|--|--|---|-------------------------|----------------------------|--|
| 12/31/00 | \$4,329,488 | \$3,988,713 | \$ 340,775 | 108.5% | \$2,615,100 | 13.03% |
| 12/31/01 | 4,963,975 | 4,914,601 | 49,374 | 101.0 | 3,004,274 | 1.64% |
| 12/31/02 | 5,847,815 | 5,931,321 | (83,506) | 98.6 | 3,473,974 | (2.40%) |
| 12/31/03 | 6,706,656 | 7,041,472 | (334,816) | 95.2 | 3,645,911 | (9.18%) |
| 12/31/04 | 7,548,520 | 7,751,625 | (203,105) | 97.4 | 3,632,677 | (5.59%) |
| 12/31/05 | 8,454,007 | 8,728,488 | (274,481) | 96.9 | 4,265,760 | (6.43%) |
| 12/31/06 | 9,414,303 | 9,739,958 | (325,655) | 96.7 | 4,604,059 | (7.07%) |
| 12/31/07 | 9,493,921 | 11,001,566 | (1,507,645) | 86.3 | 4,748,977 | (31.75%) |
| 12/31/08 | 10,760,696 | 12,965,920 | (2,205,224) | 83.0 | 5,769,030 | (38.23%) |
| 12/31/09 | 11,621,877 | 14,279,003 | (2,657,126) | 81.4 | 6,483,656 | (40.98%) |

Town of South Padre Island, Texas

GENERAL FUND

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

For the Year Ended September 30, 2010

| | Budget | | Actual | Variance |
|---|--------------|-------------|--------------|--|
| | Original | Final | | Final Budget Positive (Negative) |
| REVENUES | | | | |
| Property taxes - including penalty and interest | \$ 5,456,033 | \$5,456,033 | \$ 5,370,434 | \$ (85,599) |
| Nonproperty taxes | 3,070,000 | 3,070,000 | 2,804,425 | (265,575) |
| Fees and services | 229,800 | 229,800 | 147,525 | (82,275) |
| Fines and forfeitures | 225,000 | 225,000 | 365,065 | 140,065 |
| Licenses and permits | 272,350 | 272,350 | 557,605 | 285,255 |
| Intergovernmental | - | 30,000 | 2,478 | (27,522) |
| Miscellaneous and program revenues | 175,700 | 184,450 | 199,563 | 15,113 |
| Total revenues | 9,428,883 | 9,467,633 | 9,447,095 | (20,538) |
| EXPENDITURES | | | | |
| Current | | | | |
| General government | | | | |
| City council | 25,000 | 25,000 | 13,776 | 11,224 |
| City administration | 709,775 | 718,600 | 641,551 | 77,049 |
| Finance | 314,603 | 316,702 | 292,640 | 24,062 |
| Planning | 163,222 | 799,947 | 546,450 | 253,497 |
| Information services | 346,679 | 360,679 | 343,450 | 17,229 |
| Environmental health services | 371,812 | 380,658 | 369,061 | 11,597 |
| General services | 1,063,000 | 1,108,000 | 1,073,504 | 34,496 |
| Special projects | 439,840 | 356,740 | 270,066 | 86,674 |
| Total general government | 3,433,931 | 4,066,326 | 3,550,498 | 515,828 |
| Public safety | | | | |
| Municipal court | 211,042 | 208,863 | 166,227 | 42,636 |
| Police | 2,352,959 | 2,352,172 | 2,380,396 | (28,224) |
| Fire | 1,539,365 | 1,925,111 | 1,897,617 | 27,494 |
| Emergency management | 5,600 | 5,600 | 6,099 | (499) |
| Total public safety | 4,108,966 | 4,491,746 | 4,450,339 | 41,407 |
| Public works | | | | |
| Building maintenance | 179,801 | 190,551 | 169,930 | 20,621 |
| Inspections | 236,234 | 236,234 | 222,919 | 13,315 |
| Fleet Management | 308,271 | 341,271 | 318,183 | 23,088 |
| Public works | 1,018,972 | 1,031,972 | 954,711 | 77,261 |
| Total public works | 1,743,278 | 1,800,028 | 1,665,743 | 134,285 |
| Capital outlay | | | | |
| Total expenditures | 287,800 | 277,449 | 191,450 | 85,999 |
| Total expenditures | 9,573,975 | 10,635,549 | 9,858,030 | 777,519 |
| EXCESS OF REVENUES OVER EXPENDITURES | (145,092) | (1,167,916) | (410,935) | 756,981 |

Town of South Padre Island, Texas
GENERAL FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL - CONTINUED
For the Year Ended September 30, 2009

| | Budget | | Actual | Variance |
|--------------------------------------|----------------------|-------------------------|-------------------------|--|
| | Original | Final | | Final Budget Positive (Negative) |
| OTHER FINANCING SOURCES (USES) | | | | |
| Sale of fixed asset | \$ - | \$ - | \$ 79,650 | \$ 79,650 |
| Transfers in | 450,000 | 475,000 | 287,329 | (187,671) |
| Transfers out | <u>(253,200)</u> | <u>(292,200)</u> | <u>(292,200)</u> | <u>-</u> |
| Total other financing sources (uses) | <u>196,800</u> | <u>182,800</u> | <u>74,779</u> | <u>(108,021)</u> |
| NET CHANGE IN FUND BALANCE | <u>\$ 51,708</u> | <u>\$ (985,116)</u> | (336,156) | <u>\$ 648,960</u> |
| Fund balance -- beginning | | | <u>6,512,141</u> | |
| Fund balance -- ending | | | <u>\$ 6,175,985</u> | |

City of South Padre Island, Texas
HOTEL/MOTEL TAX FUND
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
For the Year Ended September 30, 2010

| | Budget | | Actual | Variance Final Budget Positive (Negative) |
|--|-------------------|-------------------|-------------------|--|
| | Original | Final | | |
| REVENUES | | | | |
| Nonproperty taxes | 4,238,894 | 4,238,894 | \$ 4,332,862 | \$ 93,968 |
| Fees and services | 50,000 | 50,000 | 16,088 | (33,912) |
| Miscellaneous and program revenues | - | - | 396 | 396 |
| Total revenues | <u>4,288,894</u> | <u>4,288,894</u> | <u>4,349,346</u> | <u>60,452</u> |
| EXPENDITURES | | | | |
| Current | | | | |
| Community service | | | | |
| Visitors bureau | 268,647 | 282,247 | 274,606 | 7,641 |
| Sales and marketing | 3,036,341 | 2,660,141 | 2,694,619 | (34,478) |
| Events marketing | <u>320,571</u> | <u>507,070</u> | <u>507,366</u> | <u>(296)</u> |
| Total community service | 3,625,559 | 3,449,458 | 3,476,591 | (27,133) |
| Capital outlay | <u>35,000</u> | <u>28,100</u> | <u>23,807</u> | <u>4,293</u> |
| Total expenditures | <u>3,660,559</u> | <u>3,477,558</u> | <u>3,500,398</u> | <u>(22,840)</u> |
| EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES | 628,335 | 811,336 | 848,948 | 37,612 |
| OTHER FINANCING SOURCES (USES) | | | | |
| Transfers out | <u>(50,000)</u> | <u>(50,000)</u> | <u>(50,000)</u> | <u>-</u> |
| NET CHANGE IN FUND BALANCE | <u>\$ 578,335</u> | <u>\$ 761,336</u> | 798,948 | <u>\$ 37,612</u> |
| Fund balance -- beginning | | | <u>(455,730)</u> | |
| Fund balance -- ending | | | <u>\$ 343,218</u> | |

City of South Padre Island, Texas

CONVENTION CENTRE FUND

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

For the Year Ended September 30, 2010

| | Budget | | Actual | Variance |
|--|--------------------|---------------------|---------------------|--|
| | Original | Final | | Final Budget Positive (Negative) |
| REVENUES | | | | |
| Nonproperty taxes | 881,107 | 881,107 | \$ 905,884 | \$ 24,777 |
| Convention center revenue | 250,000 | 250,000 | 267,792 | 17,792 |
| Miscellaneous and program revenues | - | - | 17,745 | 17,745 |
| Total revenues | 1,131,107 | 1,131,107 | 1,191,421 | 60,314 |
| EXPENDITURES | | | | |
| Current | | | | |
| Community service | | | | |
| Convention centre | 1,173,382 | 1,197,626 | 1,176,782 | 20,844 |
| Total community service | 1,173,382 | 1,197,626 | 1,176,782 | 20,844 |
| Debt service | | | | |
| Interest | 40,000 | 36,000 | 35,939 | 61 |
| Capital outlay | 35,000 | 215,856 | 193,636 | 22,220 |
| Total expenditures | 1,248,382 | 1,449,482 | 1,406,357 | 43,125 |
| EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES | | | | |
| | (117,275) | (318,375) | (214,936) | 103,439 |
| OTHER FINANCING SOURCES (USES) | | | | |
| Bond proceeds | 845,000 | 845,000 | 830,000 | (15,000) |
| Transfers out | (817,412) | (808,312) | (808,150) | 162 |
| Total other financing sources (uses) | 27,588 | 36,688 | 21,850 | (14,838) |
| NET CHANGE IN FUND BALANCE | | | | |
| | <u>\$ (89,687)</u> | <u>\$ (281,687)</u> | (193,086) | <u>\$ 103,601</u> |
| Fund balance -- beginning | | | 1,900,187 | |
| Fund balance -- ending | | | <u>\$ 1,707,101</u> | |

City of South Padre Island, Texas
BEACH NOURISHMENT FUND
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
For the Year Ended September 30, 2010

| | Budget | | Actual | Variance |
|------------------------------------|---------------|---------------|------------------|--|
| | Original | Final | | Final Budget Positive (Negative) |
| REVENUES | | | | |
| Nonproperty taxes | \$ 300,000 | \$ 300,000 | \$ 325,818 | \$ 25,818 |
| Intergovernmental | 294,520 | 294,520 | - | (294,520) |
| Miscellaneous and program revenues | 102,000 | 102,000 | 102,333 | 333 |
| Total revenues | 696,520 | 696,520 | 428,151 | (268,369) |
| EXPENDITURES | | | | |
| Current | | | | |
| Community service | 635,969 | 635,969 | 40,494 | 595,475 |
| NET CHANGE IN FUND BALANCE | \$ 60,551 | \$ 60,551 | 387,657 | \$ 327,106 |
| Fund balance -- beginning | | | 1,096,891 | |
| Fund balance -- ending | | | \$ 1,484,548 | |

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City of South Padre Island, Texas
NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
Year Ended September 30, 2010

Stewardship, compliance, and accountability

Budgetary information

The Board adopts an “appropriated budget” on a basis consistent with GAAP for the general fund, certain special revenue funds and the debt service fund. The City is required to present the original and the final amended budgets for revenues and expenditures compared to actual revenues and expenditures for the general fund and major special revenue funds at the functional level of detail, as included herein.

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

- a. The City Manager establishes the amount of estimated revenues and other resources available for appropriation for the succeeding budget year.
- b. 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 by fund, function and activity and the means of financing them.
- c. Public hearings and workshops (including department heads) are conducted at the City Hall to obtain taxpayer and elected officials’ comments.
- d. Prior to October 1, the budget is legally adopted by the City Council.
- e. Revisions that alter budgets at the department level within a fund must be approved by the City Council. The Statement of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual - all Governmental Fund Types reflect these revisions. Actual expenditures and operating transfers may not legally exceed budget appropriations at the individual fund level.
- f. Formal budgetary integration is employed as a management control device during the year for the General, certain Special Revenue and Debt Service Funds.
- g. Annual appropriated budgets are adopted for the General, certain Special Revenue and Debt Service Funds. All annual appropriations lapse at year-end to the extent they have not been expended or encumbered.

Before October 1, the proposed budget is presented to the City Council for review. The City Council holds public hearings and may add to, subtract from or change appropriations, but may not change the form of the budget. Any changes in the budget must be within the revenues and reserves estimated as available by the City Manager or the revenue estimates must be changed by an affirmative vote of a majority of the City Council.

Expenditures may not legally exceed budgeted appropriations at the fund level. During the year, several supplementary appropriations were necessary.

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CITY OF
South Padre
ISLAND, TEXAS

OTHER SUPPLEMENTARY
INFORMATION

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NON-MAJOR GOVERNMENTAL FUND STATEMENTS AND SCHEDULES

Special revenue fund: **Municipal Court Technology Fund** was established to account for monies collected on traffic fines. \$4.00 is collected on each ticket and is used specifically for technology improvements in the Municipal Court.

Special revenue fund: **Municipal Court Security Fund** was established to account for monies collected on traffic fines. \$3.00 is collected on each ticket and is used specifically for security needs in the Municipal Court.

Special revenue fund: **Transportation Grant Fund** was established to account for the State and Federal grant awarded to the City to operate the Wave transportation system.

Special revenue fund: **Criminal Justice Fund** is used to account for miscellaneous grant revenues that are received.

Special revenue fund: **Pirate Days Fund** was used to account for the South Padre Island 35th Anniversary Celebration.

Special revenue fund: **Capital Replacement Fund** was established to account for capital acquisitions needed which include fleet for police, fire, and public works.

Special revenue fund: **Street Improvement Fund** is used to account for improvements on the streets of the City.

Capital project fund: **Long Range Planning Fund** was established to account for projects that affect the planning and growth of the City including the City's comprehensive plan.

Capital project fund: **Municipal Complex Fund** is used to account for the bond proceeds received to fund the expenditures associated with the construction of the City's new City Hall.

Capital project fund: **Beach Maintenance Fund** is used to clean and maintain the beach. The State of Texas sends the City 1% of the hotel motel tax collected by the State for these efforts.

Capital project fund: **Bay Access Fund** was established to account for projects to improve access to the Laguna Madre Bay.

Capital project fund: **Beach Access Fund** is used to account for projects to improve access to the beaches of the City.

The **Debt Service Fund** is used to account for the accumulation of resources for the payment of long-term debt principal and interest and related costs. An ad valorem tax rate and tax levy is required to be computed and levied, which will be sufficient to produce the money required to pay principal and interest as it comes due. A transfer from the Convention Centre fund is also made to support the debt for the Convention Centre.

City of South Padre Island, Texas
NON MAJOR GOVERNMENTAL FUNDS
BALANCE SHEETS
September 30, 2010

| | Special Revenue Funds | | | | | |
|---|--|--|---------------------------------|------------------------------|-------------------------------|------------------------|
| | Municipal Court Technology Fund | Municipal Court Security Fund | Transportation Grant Fund | Criminal Justice Grant | Hurricane Recovery Fund | Pirate Days Fund |
| ASSETS | | | | | | |
| Cash and cash equivalents | \$ 22,294 | \$ 25,366 | \$ 50,160 | \$ 3,761 | \$ 246,781 | \$ - |
| Receivables (net of allowance) | | | | | | |
| Taxes | - | - | - | - | - | - |
| Accounts | - | - | 10,000 | - | - | - |
| Due from other governments | - | - | 204,166 | 16,970 | - | - |
| Prepaid items | - | - | 579 | - | - | - |
| TOTAL ASSETS | \$ 22,294 | \$ 25,366 | \$ 264,905 | \$ 20,731 | \$ 246,781 | \$ - |
| LIABILITIES AND FUND BALANCE | | | | | | |
| Due to other funds | \$ - | \$ - | \$ 150,654 | \$ 19,971 | \$ - | \$ - |
| Other liabilities | - | - | 5,286 | - | - | - |
| Deferred revenues | - | - | - | 317 | - | - |
| TOTAL LIABILITIES | - | - | 155,940 | 20,288 | - | - |
| Fund balance | | | | | | |
| Unreserved, undesignated | 22,294 | 25,366 | 108,386 | 443 | 246,781 | - |
| Reserved for beach maintenance | - | - | - | - | - | - |
| Reserved for prepaid expenditures | - | - | 579 | - | - | - |
| Reserved for debt service | - | - | - | - | - | - |
| | <u>22,294</u> | <u>25,366</u> | <u>108,965</u> | <u>443</u> | <u>246,781</u> | <u>-</u> |
| TOTAL LIABILITIES AND FUND BALANCE | \$ 22,294 | \$ 25,366 | \$ 264,905 | \$ 20,731 | \$ 246,781 | \$ - |

| Special Revenue Funds | | Capital Projects Funds | | | | | | | Total Non Major Governmental Funds |
|--------------------------|-------------------------|--------------------------|------------------------|------------------------|-------------------|-------------------|---------------------|-------------------|------------------------------------|
| Capital Replacement Fund | Street Improvement Fund | Long Range Planning Fund | Municipal Complex Fund | Beach Maintenance Fund | Bay Access Fund | Beach Access Fund | Total | Debt Service | |
| \$ 1,019 | \$ 251,347 | \$ 24,676 | \$ 27,775 | \$ 644 | \$ 116,619 | \$ 37,732 | \$ 808,174 | \$ 397,978 | \$ 1,206,152 |
| - | - | - | - | - | - | - | - | 57,400 | - |
| - | - | - | - | - | - | - | 10,000 | 2,190 | 57,400 |
| - | - | - | - | 320,166 | - | - | 541,302 | - | 12,190 |
| - | - | - | - | - | - | - | 579 | - | 541,302 |
| <u>\$ 1,019</u> | <u>\$ 251,347</u> | <u>\$ 24,676</u> | <u>\$ 27,775</u> | <u>\$ 320,810</u> | <u>\$ 116,619</u> | <u>\$ 37,732</u> | <u>\$ 1,360,055</u> | <u>\$ 457,568</u> | <u>\$ 1,817,623</u> |
| \$ - | \$ - | \$ - | \$ - | \$ 150,499 | \$ - | \$ - | \$ 321,124 | \$ - | \$ 321,124 |
| - | - | - | - | 3,838 | - | - | 9,124 | - | 9,124 |
| - | - | - | - | - | - | - | 317 | 43,317 | 43,634 |
| - | - | - | - | 154,337 | - | - | 330,565 | 43,317 | 373,882 |
| 1,019 | 251,347 | 24,676 | 27,775 | - | 116,619 | 37,732 | 862,438 | - | 862,438 |
| - | - | - | - | 166,473 | - | - | 166,473 | - | 166,473 |
| - | - | - | - | - | - | - | 579 | - | 579 |
| - | - | - | - | - | - | - | - | 414,251 | 414,251 |
| <u>1,019</u> | <u>251,347</u> | <u>24,676</u> | <u>27,775</u> | <u>166,473</u> | <u>116,619</u> | <u>37,732</u> | <u>1,029,490</u> | <u>414,251</u> | <u>1,443,741</u> |
| <u>\$ 1,019</u> | <u>\$ 251,347</u> | <u>\$ 24,676</u> | <u>\$ 27,775</u> | <u>\$ 320,810</u> | <u>\$ 116,619</u> | <u>\$ 37,732</u> | <u>\$ 1,360,055</u> | <u>\$ 457,568</u> | <u>\$ 1,817,623</u> |

City of South Padre Island, Texas
NON MAJOR GOVERNMENTAL FUNDS
STATEMENT OF REVENUE, EXPENDITURES AND
CHANGES IN FUND BALANCES
For the Year Ended September 30, 2010

| | Special Revenue Funds | | | | | |
|---|--|--|---------------------------------|------------------------------|-------------------------------|------------------------|
| | Municipal Court Technology Fund | Municipal Court Security Fund | Transportation Grant Fund | Criminal Justice Grant | Hurricane Recovery Fund | Pirate Days Fund |
| Revenues | | | | | | |
| Property taxes | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - |
| Nonproperty taxes | - | - | - | - | - | - |
| Fees and services | - | - | - | - | - | - |
| Fines and forfeitures | 8,354 | 6,265 | - | - | - | - |
| Intergovernmental | - | - | 837,844 | 65,220 | - | - |
| Miscellaneous and program revenue | 40 | 44 | 20,012 | 7 | 18,266 | - |
| Total revenues | <u>8,394</u> | <u>6,309</u> | <u>857,856</u> | <u>65,227</u> | <u>18,266</u> | <u>-</u> |
| Expenditures | | | | | | |
| Current | | | | | | |
| General government | - | - | - | - | 89,974 | 83 |
| Public safety | 3,923 | 330 | - | 23,791 | - | - |
| Public works | - | - | - | - | - | - |
| Transportation | - | - | 782,525 | - | - | - |
| Capital outlay | - | - | 128,879 | 44,755 | 36,542 | - |
| Debt service | | | | | | |
| Principal | - | - | - | - | - | - |
| Interest | - | - | - | - | - | - |
| Total expenditures | <u>3,923</u> | <u>330</u> | <u>911,404</u> | <u>68,546</u> | <u>126,516</u> | <u>83</u> |
| EXCESS (DEFICIENCY) REVENUES OVER (UNDER) EXPENDITURES | 4,471 | 5,979 | (53,548) | (3,319) | (108,250) | (83) |
| Other financing sources (uses) | | | | | | |
| Sale of capital assets | - | - | 5,700 | - | - | - |
| Insurance Proceeds | - | - | - | - | 16,510 | - |
| Transfers in | - | - | 50,000 | - | - | - |
| Transfers (out) | - | - | - | - | - | - |
| Total other financing sources (uses) | <u>-</u> | <u>-</u> | <u>55,700</u> | <u>-</u> | <u>16,510</u> | <u>-</u> |
| NET CHANGE IN FUND BALANCES | 4,471 | 5,979 | 2,152 | (3,319) | (91,740) | (83) |
| Fund balance, beginning of year | <u>17,823</u> | <u>19,387</u> | <u>106,813</u> | <u>3,762</u> | <u>338,521</u> | <u>83</u> |
| Fund balance, end of year | <u>\$ 22,294</u> | <u>\$ 25,366</u> | <u>\$ 108,965</u> | <u>\$ 443</u> | <u>\$ 246,781</u> | <u>\$ -</u> |

| Special Revenue Funds | | Capital Projects Funds | | | | | | | Total Non Major Governmental Funds |
|--------------------------|-------------------------|--------------------------|------------------------|------------------------|-----------------|-------------------|------------------|------------------|------------------------------------|
| Capital Replacement Fund | Street Improvement Fund | Long Range Planning Fund | Municipal Complex Fund | Beach Maintenance Fund | Bay Access Fund | Beach Access Fund | Total | Debt Service | |
| \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ 672,320 | \$ 672,320 |
| - | - | - | - | 619,232 | - | - | 619,232 | - | 619,232 |
| - | - | - | - | 98,297 | - | - | 98,297 | - | 98,297 |
| - | - | - | - | - | - | - | 14,619 | - | 14,619 |
| - | - | - | - | - | - | - | 903,064 | - | 903,064 |
| <u>1</u> | <u>748</u> | <u>112</u> | <u>19</u> | <u>695</u> | <u>64</u> | <u>61</u> | <u>40,069</u> | <u>1,490</u> | <u>41,559</u> |
| 1 | 748 | 112 | 19 | 718,224 | 64 | 61 | 1,675,281 | 673,810 | 2,349,091 |
| - | - | 161,123 | - | - | - | - | 251,180 | - | 251,180 |
| - | - | - | - | - | - | - | 28,044 | - | 28,044 |
| - | 81,704 | - | - | 347,698 | 62,195 | 1,304 | 492,901 | - | 492,901 |
| - | - | - | - | - | - | - | 782,525 | - | 782,525 |
| - | 31,682 | - | - | 105,296 | - | 150,773 | 497,927 | - | 497,927 |
| - | - | - | - | - | - | - | - | 1,205,000 | 1,205,000 |
| - | - | - | - | - | - | - | - | 239,673 | 239,673 |
| <u>-</u> | <u>113,386</u> | <u>161,123</u> | <u>-</u> | <u>452,994</u> | <u>62,195</u> | <u>152,077</u> | <u>2,052,577</u> | <u>1,444,673</u> | <u>3,497,250</u> |
| 1 | (112,638) | (161,011) | 19 | 265,230 | (62,131) | (152,016) # | (377,296) | (770,863) | (1,148,159) |
| - | - | - | - | - | - | - | 5,700 | - | 5,700 |
| - | - | - | - | - | - | - | 16,510 | - | 16,510 |
| - | - | 162,200 | - | - | 130,000 | 150,000 | 492,200 | 808,150 | 1,300,350 |
| <u>-</u> | <u>(25,000)</u> | <u>-</u> | <u>-</u> | <u>(412,329)</u> | <u>-</u> | <u>-</u> | <u>(437,329)</u> | <u>-</u> | <u>(437,329)</u> |
| <u>-</u> | <u>(25,000)</u> | <u>162,200</u> | <u>-</u> | <u>(412,329)</u> | <u>130,000</u> | <u>150,000</u> | <u>77,081</u> | <u>808,150</u> | <u>885,231</u> |
| 1 | (137,638) | 1,189 | 19 | (147,099) | 67,869 | (2,016) | (300,215) | 37,287 | (262,928) |
| <u>1,018</u> | <u>388,985</u> | <u>23,487</u> | <u>27,756</u> | <u>313,572</u> | <u>48,750</u> | <u>39,748</u> | <u>1,329,705</u> | <u>376,964</u> | <u>1,706,669</u> |
| \$ 1,019 | \$ 251,347 | \$ 24,676 | \$ 27,775 | \$ 166,473 | \$ 116,619 | \$ 37,732 | \$ 1,029,490 | \$ 414,251 | \$ 1,443,741 |

City of South Padre Island, Texas
MUNICIPAL COURT TECHNOLOGY FUND
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL
For the Year Ended September 30, 2010

| | Budget | | Actual | Variance |
|------------------------------------|----------------|----------------|------------|--|
| | Original | Final | | Final Budget Positive (Negative) |
| REVENUES | | | | |
| Fines and forfeitures | \$ 4,000 | \$ 4,000 | \$ 8,354 | \$ 4,354 |
| Miscellaneous and program revenues | 100 | 100 | 40 | (60) |
| Total revenues | 4,100 | 4,100 | 8,394 | 4,294 |
| EXPENDITURES | | | | |
| Current | | | | |
| Municipal court | 7,900 | 7,900 | 3,923 | 3,977 |
| Capital outlay | - | - | - | - |
| Total expenditures | 7,900 | 7,900 | 3,923 | 3,977 |
| NET CHANGE IN FUND BALANCE | \$ (3,800) | \$ (3,800) | 4,471 | \$ 8,271 |
| Fund balance -- beginning | | | 17,823 | |
| Fund balance -- ending | | | \$ 22,294 | |

City of South Padre Island, Texas
MUNICIPAL COURT SECURITY FUND
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL
For the Year Ended September 30, 2010

| | <u>Budget</u> | | <u>Actual</u> | Variance |
|------------------------------------|-----------------|-----------------|------------------|--|
| | <u>Original</u> | <u>Final</u> | | Final Budget Positive (Negative) |
| REVENUES | | | | |
| Fines and forfeitures | \$ 3,500 | \$ 3,500 | \$ 6,265 | \$ 2,765 |
| Miscellaneous and program revenues | <u>100</u> | <u>100</u> | <u>44</u> | <u>(56)</u> |
| Total revenues | 3,600 | 3,600 | 6,309 | 2,709 |
| EXPENDITURES | | | | |
| Current | | | | |
| Public safety | <u>1,000</u> | <u>1,000</u> | <u>330</u> | <u>670</u> |
| NET CHANGE IN FUND BALANCE | <u>\$ 2,600</u> | <u>\$ 2,600</u> | 5,979 | <u>\$ 3,379</u> |
| | | | | |
| Fund balance -- beginning | | | <u>19,387</u> | |
| Fund balance -- ending | | | <u>\$ 25,366</u> | |

City of South Padre Island, Texas
TRANSPORTATION GRANT
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL
For the Year Ended September 30, 2010

| | Budget | | Actual | Variance |
|--|--------------------|--------------------|-------------------|--|
| | Original | Final | | Final Budget Positive (Negative) |
| REVENUES | | | | |
| Intergovernmental | \$ 982,055 | \$ 982,055 | \$ 837,844 | \$ (144,211) |
| Miscellaneous and program revenues | <u>20,000</u> | <u>20,000</u> | <u>20,012</u> | <u>12</u> |
| Total revenues | 1,002,055 | 1,002,055 | 857,856 | (144,199) |
| EXPENDITURES | | | | |
| Current | | | | |
| Transportation | | | | |
| Transportation | 714,153 | 765,187 | 782,525 | (17,338) |
| Capital outlay | <u>407,902</u> | <u>356,868</u> | <u>128,879</u> | <u>227,989</u> |
| Total expenditures | <u>1,122,055</u> | <u>1,122,055</u> | <u>911,404</u> | <u>210,651</u> |
| EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES | | | | |
| | (120,000) | (120,000) | (53,548) | 66,452 |
| OTHER FINANCING SOURCES (USES) | | | | |
| Sale of capital assets | - | - | 5,700 | 5,700 |
| Transfers in | <u>50,000</u> | <u>50,000</u> | <u>50,000</u> | <u>-</u> |
| Total other financing sources (uses) | <u>50,000</u> | <u>50,000</u> | <u>55,700</u> | <u>5,700</u> |
| NET CHANGE IN FUND BALANCE | | | | |
| | <u>\$ (70,000)</u> | <u>\$ (70,000)</u> | 2,152 | <u>\$ 72,152</u> |
| Fund balance -- beginning | | | <u>106,813</u> | |
| Fund balance -- ending | | | <u>\$ 108,965</u> | |

City of South Padre Island, Texas
STREET IMPROVEMENT FUND
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL
For the Year Ended September 30, 2010

| | Budget | | Actual | Variance Final Budget Positive (Negative) |
|--|----------|-------------|-------------|--|
| | Original | Final | | |
| REVENUES | | | | |
| Miscellaneous and program revenues | 2,500 | 2,500 | \$ 748 | \$ (1,752) |
| EXPENDITURES | | | | |
| Current | | | | |
| Public works | - | 267,923 | 81,704 | 186,219 |
| Capital outlay | - | - | 31,682 | (31,682) |
| Total expenditures | - | 267,923 | 113,386 | 154,537 |
| EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES | 2,500 | (265,423) | (112,638) | 152,785 |
| OTHER FINANCING SOURCES (USES) | | | | |
| Transfers out | - | (25,000) | (25,000) | - |
| NET CHANGE IN FUND BALANCE | \$ 2,500 | \$(290,423) | \$(137,638) | \$ 152,785 |
| Fund balance -- beginning | | | 388,985 | |
| Fund balance -- ending | | | \$ 251,347 | |

City of South Padre Island, Texas
DEBT SERVICE FUND
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL
For the Year Ended September 30, 2010

| | Budget | | Actual | Variance |
|--|-------------------|--------------------|-------------------|--|
| | Original | Final | | Final Budget Positive (Negative) |
| REVENUES | | | | |
| Property taxes | \$ 632,586 | \$ 632,586 | \$ 672,320 | \$ 39,734 |
| Miscellaneous and program revenues | <u>1,000</u> | <u>1,000</u> | <u>1,490</u> | <u>490</u> |
| Total revenues | 633,586 | 633,586 | 673,810 | 40,224 |
| EXPENDITURES | | | | |
| Debt service | | | | |
| Principal retirement | 1,205,000 | 1,205,000 | 1,205,000 | - |
| Interest | <u>234,613</u> | <u>239,613</u> | <u>239,673</u> | <u>(60)</u> |
| Total expenditures | <u>1,439,613</u> | <u>1,444,613</u> | <u>1,444,673</u> | <u>(60)</u> |
| EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES | (806,027) | (811,027) | (770,863) | 40,164 |
| OTHER FINANCING SOURCES (USES) | | | | |
| Transfers in | <u>803,153</u> | <u>798,153</u> | <u>808,150</u> | <u>-</u> |
| NET CHANGE IN FUND BALANCE | <u>\$ (2,874)</u> | <u>\$ (12,874)</u> | 37,287 | <u>\$ 50,161</u> |
| Fund balance -- beginning | | | <u>376,964</u> | |
| Fund balance -- ending | | | <u>\$ 414,251</u> | |

COMPONENT UNIT

South Padre Island Economic Development Corporation (EDC): The five-member board of directors is appointed by the City Council. The EDC is authorized to administer the distribution of the proceeds of any development bonds issued and the proceeds of certain development sales taxes received on behalf of the City. The EDC's operational and capital budget must be approved by the City Council.

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City of South Padre Island, Texas
SOUTH PADRE ISLAND ECONOMIC DEVELOPMENT CORPORATION
DISCRETELY PRESENTED COMPONENT UNIT
COMBINING BALANCE SHEET
September 30, 2010

| ASSETS | Economic Development Corporation General Fund | Birding Center Construction Fund | EDC Debt Service Reserve Fund | EDC Debt Service Fund | Total Component Unit |
|---|--|---|--|--------------------------------|----------------------------|
| Cash | \$ 29,296 | \$ 41,474 | \$ 435,242 | \$ 239,144 | \$ 745,156 |
| Prepaid expenses | 22,201 | - | - | - | 22,201 |
| Due from other governments | 67,901 | - | - | - | 67,901 |
| Inventory | <u>17,338</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>17,338</u> |
| TOTAL ASSETS | <u>\$ 136,736</u> | <u>\$ 41,474</u> | <u>\$ 435,242</u> | <u>\$ 239,144</u> | <u>\$ 852,596</u> |
| LIABILITIES AND FUND BALANCE | | | | | |
| Liabilities | | | | | |
| Accounts payable | \$ 10,543 | \$ - | \$ - | \$ - | \$ 10,543 |
| Other liabilities | 1,908 | - | - | - | 1,908 |
| Due to primary government/comp unit | <u>-</u> | <u>13,070</u> | <u>-</u> | <u>-</u> | <u>13,070</u> |
| Total liabilities | 12,451 | 13,070 | - | - | 25,521 |
| Fund balance | | | | | |
| Reserved for debt service | - | - | 435,242 | 239,144 | 674,386 |
| Unreserved | <u>124,285</u> | <u>28,404</u> | <u>-</u> | <u>-</u> | <u>152,689</u> |
| | <u>124,285</u> | <u>28,404</u> | <u>435,242</u> | <u>239,144</u> | <u>827,075</u> |
| TOTAL LIABILITIES AND FUND BALANCE | <u>\$ 136,736</u> | <u>\$ 41,474</u> | <u>\$ 435,242</u> | <u>\$ 239,144</u> | <u>\$ 852,596</u> |

City of South Padre Island, Texas
SOUTH PADRE ISLAND ECONOMIC DEVELOPMENT CORPORATION
RECONCILIATION OF THE COMBINING BALANCE SHEET OF THE
COMPONENT UNIT TO THE STATEMENT OF NET ASSETS
September 30, 2010

| | |
|---|------------|
| Fund balances of the component unit funds | \$ 827,075 |
|---|------------|

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

| | |
|--|-----------|
| Capital assets used in governmental type activities are not financial resources and therefore are not reported in the funds. | 6,918,005 |
|--|-----------|

| | |
|---|-------------|
| Some liabilities, including bonds payable, are not due in the current period and therefore not reported in the funds. | (5,022,042) |
|---|-------------|

| | |
|---|--------|
| Bond issue costs are expensed during the period incurred in the funds, but are amortized as an adjustment to interest expense in the statement of activities over the remaining life of the debt. | 56,659 |
|---|--------|

| | |
|--|------------|
| Liabilities for net pension obligations are not due in the current period and therefore are not reported in the funds. | <u>425</u> |
|--|------------|

| | |
|--|----------------------------|
| Net assets of governmental type activities | <u><u>\$ 2,780,122</u></u> |
|--|----------------------------|

City of South Padre Island, Texas
SOUTH PADRE ISLAND ECONOMIC DEVELOPMENT CORPORATION
DISCRETELY PRESENTED COMPONENT UNIT
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
For the Year Ended September 30, 2010

| | Economic Development Corporation General Fund | Birding Center Construction Fund | EDC Debt Service Reserve Fund | EDC Debt Service Fund | Total Component Unit |
|--|--|---|--|--------------------------------|----------------------------|
| REVENUES | | | | | |
| Sales taxes | \$ 594,251 | \$ - | \$ - | \$ - | \$ 594,251 |
| Fees and services | 219,693 | - | - | - | 219,693 |
| Intergovernmental revenues | - | 29,438 | - | - | 29,438 |
| Miscellaneous and program revenues | <u>5,503</u> | <u>220</u> | <u>2,374</u> | <u>217</u> | <u>8,314</u> |
| Total revenues | 819,447 | 29,658 | 2,374 | 217 | 851,696 |
| EXPENDITURES | | | | | |
| Current | | | | | |
| Community service | 536,726 | - | - | - | 536,726 |
| Debt service | | | | | |
| Principal retirement | - | - | - | 100,000 | 100,000 |
| Interest expense | - | - | - | 221,523 | 221,523 |
| Capital outlay | <u>-</u> | <u>194,427</u> | <u>-</u> | <u>-</u> | <u>194,427</u> |
| Total expenditures | <u>536,726</u> | <u>194,427</u> | <u>-</u> | <u>321,523</u> | <u>1,052,676</u> |
| EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES | | | | | |
| | 282,721 | (164,769) | 2,374 | (321,306) | (200,980) |
| Other financing sources (uses) | | | | | |
| Contributed Capital | - | 3,000 | - | - | 3,000 |
| Transfers out | (344,374) | - | - | - | (344,374) |
| Transfers in | <u>-</u> | <u>-</u> | <u>-</u> | <u>344,374</u> | <u>344,374</u> |
| Total other financing sources (uses) | <u>(344,374)</u> | <u>3,000</u> | <u>-</u> | <u>344,374</u> | <u>3,000</u> |
| Net change in fund balances | (61,653) | (161,769) | 2,374 | 23,068 | (197,980) |
| Fund balance -- beginning | <u>185,938</u> | <u>190,173</u> | <u>432,868</u> | <u>216,076</u> | <u>1,025,055</u> |
| Fund balance -- ending | <u>\$ 124,285</u> | <u>\$ 28,404</u> | <u>\$ 435,242</u> | <u>\$239,144</u> | <u>\$ 827,075</u> |

City of South Padre Island, Texas
SOUTH PADRE ISLAND ECONOMIC DEVELOPMENT CORPORATION
RECONCILIATION OF THE COMBINING STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCE OF THE COMPONENT UNIT FUNDS
TO THE STATEMENT OF ACTIVITIES
For the Year Ended September 30, 2010

Net change in fund balances --total component unit funds \$ (197,980)

Amounts reported for *governmental type activities* in the statement of activities

Governmental type funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays (\$194,427) exceeded depreciation, (\$138,292) in the current period and the capital assets donated (\$5,000) by the primary government. 61,135

Bond issue costs reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental type funds. (3,541)

The change in Net Pension Obligation during the year is reported as an increase or decrease to expenditures in the statement of activities but not in the governmental funds. (425)

Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets. 100,000

Change in net assets of governmental activities \$ (40,811)

CITY OF
South Padre
ISLAND, TEXAS

STATISTICAL SECTION

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STATISTICAL SECTION

This part of the City of South Padre Island'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

Financial Trends

Schedules 1-4

These schedules contain trend information to help the reader understand how the government's financial performance and well-being have changed over time.

Revenue Capacity

Schedules 5-9

These schedules contain information to help the reader assess the government's most significant local revenue sources, the property tax and the hotel-motel tax.

Debt Capacity

Schedules 10-14

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.

Demographic and Economic Information

Schedules 15-16

These schedules offer demographic and economic indicators to help the reader understand the environment within which the government's financial activities take place.

Operating Information

Schedules 17-20

These schedules contain service and infrastructure data to help the reader understand how the information in the government's financial report related 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 report for the relevant year.

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City of South Padre Island, Texas
NET ASSETS BY COMPONENT
 Last Seven Fiscal Years
 (accrual basis of accounting)

Schedule 1

| | Fiscal Year | | | | | | |
|---|---------------------|---------------------|---------------------|---------------------|---------------------|---------------------|---------------------|
| | <u>2004</u> | <u>2005</u> | <u>2006</u> | <u>2007</u> | <u>2008</u> | <u>2009</u> | <u>2010</u> |
| Governmental activities | | | | | | | |
| Invested in capital assets, net of related debt | \$ 9,242,667 | \$ 9,506,514 | \$11,150,821 | \$13,855,905 | \$15,236,797 | \$19,257,279 | \$17,914,448 |
| Restricted | - | - | 1,320,614 | 1,535,329 | 1,000,669 | 1,072,262 | 1,023,575 |
| Unrestricted | <u>10,454,635</u> | <u>12,393,418</u> | <u>11,831,195</u> | <u>11,440,132</u> | <u>10,159,970</u> | <u>9,324,732</u> | <u>9,779,765</u> |
| Total governmental activities net assets | <u>\$19,697,302</u> | <u>\$21,899,932</u> | <u>\$24,302,630</u> | <u>\$26,831,366</u> | <u>\$26,397,436</u> | <u>\$29,654,273</u> | <u>\$28,717,788</u> |

Note: The City of South Padre Island first applied GASB Statement No. 34 in fiscal year 2004; therefore, government-wide financial information for years prior to fiscal year 2004 is not available.

City of South Padre Island, Texas
CHANGES IN NET ASSETS
 Last Seven Fiscal Years
 (accrual basis of accounting)

| | Fiscal Year | | | | | | |
|--|---------------------|---------------------|---------------------|---------------------|---------------------|---------------------|---------------------|
| | <u>2004</u> | <u>2005</u> | <u>2006</u> | <u>2007</u> | <u>2008</u> | <u>2009</u> | <u>2010</u> |
| Expenses | | | | | | | |
| Governmental activities: | | | | | | | |
| General government | \$ 1,820,340 | \$ 2,290,443 | \$ 2,077,020 | \$ 3,412,111 | \$ 3,668,745 | \$ 3,680,425 | \$ 4,244,372 |
| Public safety | 2,979,773 | 3,122,467 | 3,322,420 | 3,408,818 | 4,106,050 | 4,358,811 | 4,675,136 |
| Public works | 1,466,481 | 1,565,958 | 1,640,199 | 1,833,529 | 2,090,705 | 2,761,388 | 2,818,149 |
| Transportation | 330,647 | 336,807 | 438,652 | 474,087 | 1,129,802 | 647,664 | 899,298 |
| Community service | 3,650,369 | 6,223,221 | 5,331,206 | 4,621,231 | 6,852,646 | 6,992,455 | 5,875,066 |
| Interest on long-term debt | <u>171,308</u> | <u>20,700</u> | <u>336,307</u> | <u>383,137</u> | <u>340,220</u> | <u>295,920</u> | <u>278,571</u> |
| Total primary governmental activities expenses | 10,418,918 | 13,559,596 | 13,145,804 | 14,132,913 | 18,188,168 | 18,736,663 | 18,790,592 |
| Program Revenues | | | | | | | |
| Governmental activities: | | | | | | | |
| Charges for services: | | | | | | | |
| General government | 33,493 | 35,720 | 39,589 | 35,585 | 30,642 | 28,222 | 27,973 |
| Public safety | 495,914 | 430,254 | 265,699 | 295,561 | 219,209 | 410,295 | 424,681 |
| Public works | 314,149 | 465,949 | 838,069 | 399,519 | 529,974 | 280,498 | 639,148 |
| Transportation | 27,216 | 27,206 | 28,945 | 32,050 | 27,302 | 30,000 | 74,500 |
| Community service | 256,112 | 271,599 | 316,844 | 271,693 | 275,347 | 337,470 | 300,690 |
| Operating grants and contributions | 262,471 | 2,036,705 | 618,358 | 777,984 | 843,668 | 1,373,380 | 714,938 |
| Capital grants and contributions | <u>89,710</u> | <u>130,064</u> | <u>71,000</u> | <u>123,767</u> | <u>234,310</u> | <u>249,808</u> | <u>190,604</u> |
| Total governmental activities program revenues | <u>1,479,065</u> | <u>3,397,497</u> | <u>2,178,504</u> | <u>1,936,159</u> | <u>2,160,452</u> | <u>2,709,673</u> | <u>2,372,534</u> |
| Net (Expense)/Revenue | | | | | | | |
| Total primary government net expense | (8,939,853) | (10,162,099) | (10,967,300) | (12,196,754) | (16,027,716) | (16,026,990) | (16,418,058) |
| General revenues | | | | | | | |
| Property taxes | 3,126,830 | 3,732,956 | 4,165,498 | 4,780,512 | 5,483,386 | 6,089,968 | 6,098,437 |
| Sales taxes | 1,642,306 | 1,711,622 | 1,866,426 | 1,897,938 | 1,965,363 | 2,295,465 | 2,001,606 |
| Franchise taxes | 602,821 | 621,012 | 644,126 | 748,363 | 792,992 | 792,501 | 802,819 |
| Hotel motel taxes | 4,473,153 | 4,878,739 | 5,191,304 | 5,334,627 | 4,610,239 | 4,638,099 | 5,238,745 |
| Hotel motel padre blvd. taxes | 331,870 | 350,414 | 33,305 | - | - | - | - |
| Hotel motel beach mtn. taxes | 626,481 | 661,420 | 704,337 | 741,411 | 630,474 | 751,950 | 945,050 |
| Unrestricted investment earnings | 92,230 | 375,354 | 734,068 | 796,864 | 546,491 | 198,941 | 143,463 |
| Sale of fixed assets | - | 10,365 | (5,767) | - | 1,485,785 | 14,234 | 16,810 |
| Insurance recoveries | - | - | - | - | - | 4,401,118 | 16,510 |
| Miscellaneous | <u>10,718</u> | <u>22,847</u> | <u>36,701</u> | <u>425,776</u> | <u>79,056</u> | <u>101,551</u> | <u>218,133</u> |
| Total general revenues | <u>10,906,409</u> | <u>12,364,729</u> | <u>13,369,998</u> | <u>14,725,491</u> | <u>15,593,786</u> | <u>19,283,827</u> | <u>15,481,573</u> |
| Changes in Net Assets | | | | | | | |
| Total governmental activities | <u>\$ 1,966,556</u> | <u>\$ 2,202,630</u> | <u>\$ 2,402,698</u> | <u>\$ 2,528,737</u> | <u>\$ (433,930)</u> | <u>\$ 3,256,837</u> | <u>\$ (936,485)</u> |

Source: Statement of Activities

Note: The City of South Padre Island first applied GASB Statement No. 34 in fiscal year 2004; therefore, government-wide financial information for years prior to fiscal year 2004 is not available.

City of South Padre Island, Texas
FUND BALANCES OF GOVERNMENTAL FUNDS
 Last Ten Fiscal Years
 (modified accrual basis of accounting)

Schedule 3

| | <u>2001</u> | <u>2002</u> | <u>2003</u> | <u>2004</u> | <u>2005</u> | <u>2006</u> | <u>2007</u> | <u>2008</u> | <u>2009</u> | <u>2010</u> |
|------------------------------------|--------------------|--------------------|--------------------|--------------------|---------------------|---------------------|--------------------|--------------------|--------------------|--------------------|
| General fund | | | | | | | | | | |
| Reserved | \$ 124,105 | \$ 206,631 | \$ 126,658 | \$ 481,152 | \$ 448,862 | \$ 35,721 | \$ 54,073 | \$ 37,321 | \$ 35,092 | \$ 31,623 |
| Unreserved | <u>2,520,959</u> | <u>3,283,352</u> | <u>3,241,689</u> | <u>3,454,047</u> | <u>4,250,065</u> | <u>4,329,297</u> | <u>5,095,575</u> | <u>5,768,180</u> | <u>6,477,049</u> | <u>6,144,362</u> |
| Total General fund | <u>\$2,645,064</u> | <u>\$3,489,983</u> | <u>\$3,368,347</u> | <u>\$3,935,199</u> | <u>\$ 4,698,927</u> | <u>\$ 4,365,018</u> | <u>\$5,149,648</u> | <u>\$5,805,501</u> | <u>\$6,512,141</u> | <u>\$6,175,985</u> |
| All Other Governmental Funds | | | | | | | | | | |
| Reserved | \$ 711,187 | \$1,153,404 | \$1,134,956 | \$ 485,622 | \$ 427,649 | \$ 577,625 | \$ 568,453 | \$ 766,366 | \$ 729,340 | \$ 696,464 |
| Unreserved, reported in: | | | | | | | | | | |
| Special revenue funds | 3,144,092 | 3,507,383 | 3,539,846 | 5,736,110 | 6,598,953 | 6,133,843 | 5,857,458 | 681,831 | 3,040,415 | 2,590,794 |
| Capital projects funds | <u>532,575</u> | <u>764,078</u> | <u>924,292</u> | <u>625,681</u> | <u>5,700,520</u> | <u>7,307,966</u> | <u>1,609,091</u> | <u>4,048,185</u> | <u>478,262</u> | <u>1,691,350</u> |
| Total all other governmental funds | <u>\$4,387,854</u> | <u>\$5,424,865</u> | <u>\$5,599,094</u> | <u>\$6,847,413</u> | <u>\$12,727,122</u> | <u>\$14,019,434</u> | <u>\$8,035,002</u> | <u>\$5,496,382</u> | <u>\$4,248,017</u> | <u>\$4,978,608</u> |

City of South Padre Island, Texas
 CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
 Last Ten Fiscal Years
 (modified accrual basis of accounting)

Schedule 4

| | 2001 | 2002 | 2003 | 2004 |
|--|-------------|-------------|-------------|-------------|
| REVENUES | | | | |
| Property taxes | \$2,144,755 | \$2,373,906 | \$2,622,048 | \$3,126,553 |
| Nonproperty taxes | 6,871,130 | 7,136,979 | 6,996,138 | 7,676,631 |
| Fees and services | 341,174 | 273,336 | 326,843 | 273,285 |
| Fines and forfeitures | 404,229 | 490,373 | 499,703 | 454,340 |
| Licenses and permits | 255,371 | 351,697 | 292,731 | 316,180 |
| Intergovernmental | 966,728 | 1,025,363 | 3,113,629 | 434,464 |
| Miscellaneous and program | 386,984 | 173,923 | 146,666 | 103,745 |
| Total revenues | 11,370,371 | 11,825,577 | 13,997,758 | 12,385,198 |
| EXPENDITURES | | | | |
| General | 1,187,929 | 1,199,137 | 1,470,151 | 1,788,195 |
| Public safety | 1,951,917 | 2,188,162 | 2,335,486 | 2,697,669 |
| Public works | 715,740 | 776,603 | 919,703 | 1,028,903 |
| Transportation | 279,857 | 700,312 | 271,787 | 292,721 |
| Community service | 3,765,124 | 3,219,760 | 6,152,517 | 3,136,498 |
| Debt service | | | | |
| Principal retirement | 690,000 | 719,000 | 808,000 | 585,000 |
| Interest | 354,213 | 320,271 | 318,399 | 171,308 |
| Administrative charges | - | - | - | - |
| Capital outlay | 1,580,868 | 877,359 | 1,772,868 | 869,735 |
| Total expenditures | 10,525,648 | 10,000,604 | 14,048,911 | 10,570,029 |
| EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES | 844,723 | 1,824,973 | (51,153) | 1,815,169 |
| Other financing sources (uses) | | | | |
| Sale of fixed assets | 3,369 | 10,711 | 8,500 | - |
| Bond proceeds | - | - | 112,854 | - |
| Insurance Proceeds | - | - | - | - |
| Transfers out | (2,102,567) | (1,734,839) | (1,749,908) | (1,648,535) |
| Transfers in | 2,233,403 | 1,781,085 | 1,809,319 | 1,648,535 |
| Total other financing sources and (uses) | 134,205 | 56,957 | 180,765 | - |
| Net change in fund balances | \$978,928 | \$1,881,930 | \$129,612 | \$1,815,169 |
| Debt service as a percentage of noncapital expenditures | 11.67% | 11.39% | 9.18% | 7.80% |

City of South Padre Island, Texas
 CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
 Last Ten Fiscal Years
 (modified accrual basis of accounting)

Schedule 4

| <u>2005</u> | <u>2006</u> | <u>2007</u> | <u>2008</u> | <u>2009</u> | <u>2010</u> |
|--------------------|-------------------|----------------------|----------------------|--------------------|-------------------|
| \$3,743,132 | \$4,123,204 | \$4,719,773 | \$5,393,449 | \$6,115,209 | \$6,042,754 |
| 8,223,206 | 8,439,497 | 8,722,337 | 7,999,068 | 8,478,004 | 8,988,221 |
| 288,136 | 335,617 | 287,475 | 298,189 | 353,545 | 529,702 |
| 386,011 | 265,700 | 295,560 | 219,209 | 295,990 | 379,684 |
| 512,384 | 887,829 | 451,372 | 573,866 | 322,645 | 557,605 |
| 2,210,966 | 489,358 | 920,629 | 1,077,978 | 1,056,767 | 905,542 |
| 398,202 | 970,769 | 1,203,760 | 616,757 | 981,229 | 361,596 |
| <u>15,762,037</u> | <u>15,511,974</u> | <u>16,600,906</u> | <u>16,178,516</u> | <u>17,603,389</u> | <u>17,765,104</u> |
| 2,123,657 | 1,967,410 | 2,179,937 | 4,084,721 | 3,124,195 | 3,801,677 |
| 2,860,988 | 3,135,257 | 3,256,352 | 3,822,108 | 4,101,247 | 4,478,384 |
| 1,101,741 | 1,158,093 | 1,346,075 | 1,484,580 | 2,156,348 | 2,158,644 |
| 295,769 | 382,221 | 430,979 | 1,063,572 | 552,966 | 782,525 |
| 5,717,119 | 4,806,573 | 5,039,678 | 5,440,883 | 6,364,762 | 4,693,867 |
| 655,000 | 845,000 | 1,065,000 | 1,110,000 | 1,160,000 | 1,205,000 |
| 234,820 | 329,844 | 372,160 | 329,243 | 285,443 | 275,612 |
| 119,461 | 32,100 | 500 | 500 | - | - |
| <u>1,065,470</u> | <u>3,503,133</u> | <u>8,110,027</u> | <u>3,211,465</u> | <u>4,816,260</u> | <u>906,820</u> |
| <u>14,174,025</u> | <u>16,159,631</u> | <u>21,800,708</u> | <u>20,547,072</u> | <u>22,561,221</u> | <u>18,302,529</u> |
| 1,588,012 | (647,657) | (5,199,802) | (4,368,556) | (4,957,832) | (537,425) |
| 10,365 | 6,060 | - | 1,485,785 | 14,989 | 85,350 |
| 5,045,060 | 1,600,000 | - | 1,000,000 | - | 830,000 |
| - | - | - | - | 4,401,118 | 16,510 |
| (1,929,200) | (3,105,238) | (2,031,131) | (2,209,420) | (2,371,184) | (1,587,679) |
| 1,929,200 | 3,105,238 | 2,031,131 | 2,209,420 | 2,371,184 | 1,587,679 |
| <u>5,055,425</u> | <u>1,606,060</u> | <u>-</u> | <u>2,485,785</u> | <u>4,416,107</u> | <u>931,860</u> |
| <u>\$6,643,437</u> | <u>\$958,403</u> | <u>(\$5,199,802)</u> | <u>(\$1,882,771)</u> | <u>(\$541,725)</u> | <u>\$394,435</u> |
| 7.70% | 9.54% | 10.50% | 8.31% | 8.15% | 8.51% |

City of South Padre Island, Texas
ASSESSED VALUE AND ACTUAL VALUE OF TAXABLE PROPERTY
 Last Ten Fiscal Years

Schedule 5

| Fiscal Year Ended September 30, | Net Taxable Assessed Value | | Less: Exempt Property | Total Taxable Assessed Value | Total Direct Tax Rate |
|--|----------------------------|----------------------|-----------------------------|------------------------------------|--------------------------------|
| | Real Property | Personal Property | | | |
| 2001 | 840,436,989 | 22,201,672 | 30,082,516 | 832,556,145 | 0.25811 |
| 2002 | 916,777,350 | 24,612,338 | 32,429,740 | 908,959,948 | 0.25811 |
| 2003 | 1,037,328,591 | 25,832,316 | 35,218,564 | 1,027,942,343 | 0.25811 |
| 2004 | 1,222,211,135 | 26,540,260 | 44,573,534 | 1,204,177,861 | 0.25811 |
| 2005 | 1,503,904,613 | 28,449,556 | 77,073,416 | 1,455,280,753 | 0.25811 |
| 2006 | 1,712,735,440 | 31,000,283 | 83,532,833 | 1,660,202,890 | 0.25311 |
| 2007 | 1,941,204,388 | 32,472,880 | 61,850,862 | 1,911,826,406 | 0.25311 |
| 2008 | 2,305,658,543 | 34,289,547 | 71,535,213 | 2,268,412,877 | 0.24561 |
| 2009 | 2,545,047,287 | 33,419,535 | 78,289,018 | 2,500,177,804 | 0.24561 |
| 2010 | 2,539,540,899 | 29,230,095 | 76,526,864 | 2,492,244,130 | 0.24561 |

Source: Cameron County Appraisal District

Note: Property in the town is reassessed each year. Property is assessed at actual value; therefore, the assessed values are equal to actual value. Tax rates are per \$100 of assessed value.

City of South Padre Island, Texas
DIRECT AND OVERLAPPING PROPERTY TAX RATES
 Last Ten Fiscal Years
 (rate per \$100 of assessed value)

| Fiscal Period | Town of South Padre Island Direct Rates | | | Water Supply District No. 1 | Point Isabel Cons. ISD | Cameron County | Texas Southmost College | South Texas ISD |
|------------------|---|-----------------|-----------------|--------------------------------------|---------------------------------|-------------------|-------------------------------|-----------------------|
| | Maintenance & Operations Rate | Debt Service | Total Direct | | | | | |
| 2001 | 0.246360 | 0.011750 | 0.258110 | 0.212260 | 1.30500 | 0.340536 | 0.131400 | 0.0392 |
| 2002 | 0.247360 | 0.010750 | 0.258110 | 0.187420 | 1.35612 | 0.340536 | 0.131400 | 0.0392 |
| 2003 | 0.248640 | 0.009470 | 0.258110 | 0.139306 | 1.35612 | 0.358191 | 0.131400 | 0.0392 |
| 2004 | 0.258110 | 0.000000 | 0.258110 | 0.139306 | 1.35612 | 0.358191 | 0.131400 | 0.0392 |
| 2005 | 0.258110 | 0.000000 | 0.258110 | 0.123807 | 1.35612 | 0.358191 | 0.128782 | 0.0392 |
| 2006 | 0.230197 | 0.022913 | 0.253110 | 0.105800 | 1.35612 | 0.358191 | 0.162772 | 0.0392 |
| 2007 | 0.219598 | 0.033512 | 0.253110 | 0.080820 | 1.06163 | 0.343191 | 0.161089 | 0.0492 |
| 2008 | 0.216810 | 0.028800 | 0.245610 | 0.080820 | 1.06163 | 0.353191 | 0.161089 | 0.0492 |
| 2009 | 0.218400 | 0.027210 | 0.245610 | 0.080820 | 1.061634 | 0.363191 | 0.161924 | 0.0492 |
| 2010 | 0.220310 | 0.025300 | 0.245610 | 0.080820 | 1.081634 | 0.364291 | 0.162423 | 0.0492 |

Note: Data presented is received from various government agencies.
 Source: Cameron County Appraisal District.

City of South Padre Island, Texas
PRINCIPAL PROPERTY TAXPAYERS
 Current Year and Ten Years Ago

Schedule 7

| Taxpayer | 2010 | | | 2001 | | |
|-----------------------------------|-----------------------------|------|--|----------------------------|------|--|
| | Taxable Assessed Valuation | Rank | Percentage of Total Assessed Valuation | Taxable Assessed Valuation | Rank | Percentage of Total Assessed Valuation |
| Sapphire VP LP | \$ 48,717,558 | 1 | 2.00% | | | |
| Los Corales Inc. | 21,525,758 | 2 | 0.88% | | | |
| ICS Management Company | 10,837,560 | 3 | 0.45% | 4,768,213 | 4 | 0.61% |
| Peninsula Island Resort & Spa Llc | 8,907,176 | 4 | 0.37% | | | |
| Rio Padre LLC | 7,077,818 | 5 | 0.29% | | | |
| SPI La Copa Ltd | 7,020,689 | 6 | 0.29% | | | |
| SPI Oleander Ltd | 6,848,439 | 7 | 0.28% | | | |
| AEP Texas Central Co. | 6,727,450 | 8 | 0.28% | | | |
| Bayside Capital LLC | 6,686,247 | 9 | 0.27% | | | |
| Shores Development Inc. | 6,598,081 | 10 | 0.27% | 10,277,143 | 1 | 1.32% |
| The Villas of South Padre, Llc | | | | 5,129,427 | 2 | 0.66% |
| SPI Management | | | | 4,910,533 | 3 | 0.63% |
| ALMA Investments Inc. | | | | 4,679,598 | 5 | 0.60% |
| HISPI, Ltd | | | | 4,040,315 | 6 | 0.52% |
| Saida Royale Corporation | | | | 3,255,391 | 7 | 0.42% |
| Central & Southwest Corp. | | | | 3,198,930 | 8 | 0.41% |
| Dalor Limited Partnership | | | | 3,153,387 | 9 | 0.41% |
| Williamson, Joe | | | | 2,893,828 | 10 | 0.38% |
| Total | <u>\$130,946,776</u> | | <u>5.38%</u> | <u>\$46,306,765</u> | | <u>5.96%</u> |

Source: Cameron County Appraisal District

Shores Development Inc

City of South Padre Island, Texas
PROPERTY TAX LEVIES AND COLLECTIONS
 Last Ten Fiscal Years
 (Unaudited)

| Fiscal Year | Tax Roll Year | Taxes Levied for the Fiscal Year | Collected within the Fiscal Year of the Levy | | Collections in Subsequent Years | Amount | Percentage of Levy |
|-------------|---------------|----------------------------------|--|--------------------|---------------------------------|-----------|--------------------|
| | | | Amount | Percentage of Levy | | | |
| 2001 | 2000 | 2,148,911 | 2,071,557 | 96.40% | 74,562 | 2,146,119 | 99.87% |
| 2002 | 2001 | 2,346,116 | 2,259,269 | 96.30% | 82,638 | 2,341,907 | 99.82% |
| 2003 | 2002 | 2,653,324 | 2,543,740 | 95.87% | 99,686 | 2,643,426 | 99.63% |
| 2004 | 2003 | 3,108,102 | 3,009,684 | 96.83% | 86,016 | 3,095,700 | 99.60% |
| 2005 | 2004 | 3,737,909 | 3,646,511 | 97.55% | 77,979 | 3,724,490 | 99.64% |
| 2006 | 2005 | 4,196,142 | 4,033,570 | 96.13% | 103,851 | 4,137,421 | 98.60% |
| 2007 | 2006 | 4,772,418 | 4,564,448 | 95.64% | 123,798 | 4,688,246 | 98.24% |
| 2008 | 2007 | 5,479,052 | 5,215,751 | 95.19% | 162,000 | 5,377,751 | 98.15% |
| 2009 | 2008 | 6,072,211 | 5,804,355 | 95.59% | 143,069 | 5,947,424 | 97.94% |
| 2010 | 2009 | 6,074,043 | 5,804,071 | 95.56% | 0.00 | 5,804,071 | 95.56% |

Source: Point Isabel Independent School District.

TAX REVENUES BY SOURCE - GOVERNMENTAL FUNDS

Last Ten Fiscal Years

(modified accrual basis of accounting)

| <u>Fiscal Year</u> | <u>Property Taxes</u> | <u>Sales Tax</u> | <u>Franchise Tax</u> | <u>Hotel/Motel Tax</u> | <u>Total</u> |
|------------------------|---------------------------|----------------------|--------------------------|----------------------------|--------------|
| 2001 | 2,144,755 | 1,288,091 | 653,160 | 4,736,162 | 8,822,168 |
| 2002 | 2,373,906 | 1,350,574 | 652,118 | 4,953,531 | 9,330,129 |
| 2003 | 2,622,048 | 1,385,146 | 558,947 | 4,831,285 | 9,397,426 |
| 2004 | 3,126,553 | 1,642,306 | 602,821 | 4,473,153 | 9,844,833 |
| 2005 | 3,743,132 | 1,711,622 | 621,012 | 4,878,739 | 10,954,505 |
| 2006 | 4,123,204 | 1,866,426 | 644,126 | 5,191,304 | 11,825,060 |
| 2007 | 4,719,773 | 1,897,938 | 748,363 | 5,334,627 | 12,700,701 |
| 2008 | 5,393,449 | 1,965,363 | 792,992 | 4,610,239 | 12,762,043 |
| 2009 | 6,115,209 | 2,295,465 | 792,501 | 4,766,668 | 13,969,843 |
| 2010 | 6,042,754 | 2,001,606 | 802,819 | 5,564,657 | 14,411,836 |

City of South Padre Island, Texas
RATIO OF OUTSTANDING DEBT BY TYPE
 Last Ten Fiscal Years

| Fiscal Year | Governmental Activities | | | | | Total Primary Government | Percentage of Personal Income | Per Capita ¹ |
|-------------|--------------------------|---|---|--|------------------------|--------------------------|-------------------------------|-------------------------|
| | General Obligation Bonds | Public Property Finance Contractual Obligations | Combination Tax & Revenue Refunding Bonds | Combination Tax & Revenue Certificates of Obligation | Tax Anticipation Notes | | | |
| 2001 | - | 390,000 | 5,765,000 | 172,000 | - | 6,327,000 | 6.20% | 1,838 |
| 2002 | - | 270,000 | 5,250,000 | 88,000 | - | 5,608,000 | 4.45% | 1,853 |
| 2003 | - | 140,000 | 4,745,000 | - | - | 4,885,000 | 3.95% | 1,517 |
| 2004 | - | - | 4,300,000 | - | - | 4,300,000 | 3.56% | 1,285 |
| 2005 | 4,950,000 | - | 3,645,000 | - | - | 8,595,000 | 4.08% | 1,507 |
| 2006 | 4,785,000 | - | 2,965,000 | - | 1,600,000 | 9,350,000 | 4.14% | 1,639 |
| 2007 | 4,615,000 | - | 2,265,000 | - | 1,405,000 | 8,285,000 | 3.77% | 1,452 |
| 2008 | 4,440,000 | - | 1,540,000 | - | 1,195,000 | 7,175,000 | 3.49% | 1,258 |
| 2009 | 4,255,000 | - | 785,000 | - | 975,000 | 6,015,000 | 2.77% | 1,019 |
| 2010 | 4,895,000 | - | - | - | 745,000 | 5,640,000 | 2.57% | 956 |

Note: Details regarding the City's outstanding debt can be found in the notes to the financial statements.

¹ See Schedule 15 for personal income and population data.

RATIO OF GENERAL BONDED DEBT OUTSTANDING
Last Ten Fiscal Years

| <u>Fiscal Year</u> | <u>General Obligation Bonds</u> | <u>Percentage of Actual Taxable Value of Property (1)</u> | <u>Per Capita (2)</u> |
|------------------------|---|---|---------------------------|
| 2001 | - | - | - |
| 2002 | - | - | - |
| 2003 | - | - | - |
| 2004 | - | - | - |
| 2005 | 4,950,000 | 0.34% | 868 |
| 2006 | 4,785,000 | 0.29% | 839 |
| 2007 | 4,615,000 | 0.24% | 809 |
| 2008 | 4,440,000 | 0.20% | 778 |
| 2009 | 4,255,000 | 0.17% | 721 |
| 2010 | 4,895,000 | 0.20% | 830 |

Note: Details regarding the City's outstanding debt can be found in the notes to the financial statements

1 See Schedule 5 for property value data

2 See Schedule 14 for population data

City of South Padre Island, Texas
DIRECT AND OVERLAPPING GOVERNMENTAL ACTIVITIES DEBT
As of September 30, 2010

Schedule 12

| <u>Governmental Unit</u> | <u>Debt Outstanding</u> | <u>Estimated Percentage Applicable</u> | <u>Estimated Share of Overlapping Debt</u> |
|--|-------------------------|--|--|
| Debt repaid with property taxes | | | |
| Cameron County | \$ 63,405,000 | 16.49% | \$ 10,455,485 |
| Point Isabel Independent School District | 33,224,024 | 69.55% | 23,107,309 |
| Laguna Madre Water District #1 | 11,937,000 | 78.84% | 9,411,131 |
| Texas Southmost College | 101,620,000 | 24.03% | <u>24,419,286</u> |
| Subtotal, overlapping debt | | | 67,393,211 |
| City direct debt | 5,640,000 | 100.00% | <u>5,640,000</u> |
| Total direct and overlapping debt | | | <u><u>\$ 73,033,211</u></u> |

Sources: Assessed value data used to estimate applicable percentages provided by the Cameron County Appraisal District.

Debt outstanding data provided by each governmental unit listed above.

Town of South Padre Island, Texas
COMPUTATION OF LEGAL DEBT MARGIN
 September 30, 2010

| | <u>2001</u> | <u>2002</u> | <u>2003</u> | <u>2004</u> | <u>2005</u> | <u>2006</u> | <u>2007</u> | <u>2008</u> | <u>2009</u> | <u>2010</u> |
|---|-----------------------|----------------------|------------------------|------------------------|------------------------|------------------------|------------------------|------------------------|------------------------|------------------------|
| Assessed Value | <u>\$ 832,556,145</u> | <u>\$908,959,948</u> | <u>\$1,027,942,343</u> | <u>\$1,204,177,861</u> | <u>\$1,455,280,753</u> | <u>\$1,660,202,890</u> | <u>\$1,911,826,406</u> | <u>\$2,268,412,877</u> | <u>\$2,500,177,804</u> | <u>\$2,492,244,130</u> |
| Economic Debt Margin | | | | | | | | | | |
| *Debt Limit (5% of assessed valuation assessed value) | <u>\$ 41,627,807</u> | <u>\$ 45,447,997</u> | <u>\$ 51,397,117</u> | <u>\$ 60,208,893</u> | <u>\$ 72,764,038</u> | <u>\$ 83,010,145</u> | <u>\$ 95,591,320</u> | <u>\$ 113,420,644</u> | <u>\$ 125,008,890</u> | <u>\$ 124,612,207</u> |
| Debt applicable to limit: | | | | | | | | | | |
| General obligation bonds | - | - | - | - | 4,950,000 | 4,785,000 | 4,615,000 | 4,440,000 | 4,255,000 | 4,895,000 |
| Less: Amount reserved for repayment of general obligation debt | - | - | - | - | <u>312,326</u> | <u>330,344</u> | <u>330,960</u> | <u>356,794</u> | <u>376,964</u> | <u>414,251</u> |
| Total debt applicable to limit | - | - | - | - | <u>4,637,674</u> | <u>4,454,656</u> | <u>4,284,040</u> | <u>4,083,206</u> | <u>3,878,036</u> | <u>4,480,749</u> |
| Economic debt margin | <u>\$ 41,627,807</u> | <u>\$ 45,447,997</u> | <u>\$ 51,397,117</u> | <u>\$ 60,208,893</u> | <u>\$ 68,126,364</u> | <u>\$ 78,555,489</u> | <u>\$ 91,307,280</u> | <u>\$ 109,337,438</u> | <u>\$ 121,130,854</u> | <u>\$ 120,131,458</u> |
| As a percentage of debt limit | <u>0.00%</u> | <u>0.00%</u> | <u>0.00%</u> | <u>0.00%</u> | <u>6.37%</u> | <u>5.37%</u> | <u>4.48%</u> | <u>3.60%</u> | <u>3.10%</u> | <u>3.60%</u> |

Notes:

The City of South Padre Island, Texas does not have a legal debt limit by law. The maximum tax rate permitted by the constitution of the State of Texas is \$2.50 per \$100 of assessed valuation. The City charter provides no limitation within the \$2.50 tax rate for annual debt service general obligations.

*Debt Limit - by custom the practical economic debt limit of 5% of assessed valuation is utilized.

City of South Padre Island, Texas
PLEGDED-REVENUE COVERAGE
 Last Ten Fiscal Years

| Fiscal Year | Gross Revenue (1) | Operating Expenditures (2) | Net Revenue Available For Debt Service | Debt Service Requirements | | | Coverage |
|-------------|----------------------|-------------------------------|--|---------------------------|----------|---------|----------|
| | | | | Principal | Interest | Total | |
| 2001 | 2,064,632 | 625,371 | 1,439,261 | 495,000 | 313,825 | 808,825 | 1.78 |
| 2002 | 2,083,985 | 581,527 | 1,502,458 | 515,000 | 290,209 | 805,209 | 1.87 |
| 2003 | 2,129,496 | 692,439 | 1,437,057 | 590,000 | 219,625 | 809,625 | 1.77 |
| 2004 | 2,163,770 | 827,257 | 1,336,513 | 445,000 | 166,713 | 611,713 | 2.18 |
| 2005 | 2,059,075 | 837,927 | 1,221,148 | 655,000 | 150,213 | 805,213 | 1.52 |
| 2006 | 1,877,855 | 868,660 | 1,009,195 | 680,000 | 128,488 | 808,488 | 1.25 |
| 2007 | 2,172,451 | 899,167 | 1,273,284 | 700,000 | 105,650 | 805,650 | 1.58 |
| 2008 | 1,881,284 | 1,045,290 | 835,994 | 725,000 | 82,025 | 807,025 | 1.04 |
| 2009 | 1,867,690 | 1,099,504 | 768,186 | 755,000 | 52,822 | 807,822 | 0.95 |
| 2010 | 1,191,421 | 1,212,721 | (21,300) | 830,000 | 41,122 | 871,122 | (0.02) |

(1) Convention Center Fund revenues, including interest.

(2) Convention Center Fund operating expenditures, exclusive of capital outlay.

City of South Padre Island, Texas
DEMOGRAPHIC AND ECONOMIC STATISTICS
 Last Ten Calendar Years

Schedule 15

| Year | Estimated Population | Personal Income | Per Capita Personal Income | Median Age | School Enrollment | Unemployment Rate | |
|------|-------------------------|--------------------|----------------------------------|---------------|----------------------|----------------------|---|
| | 1 | 1 | 1 | 2 | 3 | | |
| 2001 | 3,443 | 102,002,318 | 29,626 | 46.6 | 2,389 | 7.90% | 4 |
| 2002 | 3,026 | 125,954,224 | 41,624 | 50.4 | 2,447 | 9.00% | 4 |
| 2003 | 3,220 | 123,599,700 | 38,385 | 51.4 | 2,246 | 9.50% | 4 |
| 2004 | 3,346 | 120,673,490 | 36,065 | 50.7 | 2,500 | 8.70% | 4 |
| 2005 | 5,705 | 210,828,275 | 36,955 | 51.8 | 2,487 | 7.60% | 4 |
| 2006 | 5,705 | 225,957,935 | 39,607 | 51.9 | 2,585 | 6.60% | 4 |
| 2007 | 5,705 | 219,693,845 | 38,509 | 52.3 | 2,593 | 6.00% | 4 |
| 2008 | 5,705 | 205,665,250 | 36,050 | 57.2 | 2,418 | 8.20% | 4 |
| 2009 | 5,900 | 217,090,500 | 36,795 | 57.7 | 2,520 | 8.30% | 4 |
| 2010 | 5,900 | 219,780,900 | 37,251 | 58 | 2,507 | 10.90% | 4 |

Source:

1 U.S. Census Bureau - 2000 and local estimates

2 U.S. Census Bureau 2000 and Claritas MarketPlace Executive Summary

3 Point Isabel Independent School District

4 Texas Workforce Commission: Information is for entire Cameron County as no data is available on Town only

Unemployment Info. at tracer2.com: LMCI Search

City of South Padre Island, Texas
PRINCIPAL EMPLOYERS
 Current Year and Ten Years Ago

| Employer | 2010 | | | 2001* | | |
|--|----------------------------------|------|--|------------------------|------|--|
| | Number of Employees (Peak) | Rank | Percent of Total City Employment | Number of Employees | Rank | Percent of Total City Employment |
| Schlitterbahn Beach Water Park | 383 | 1 | 7.16% | - | - | - |
| Sheraton South PadreIsland Beach Hotel | 225 | 2 | 4.21% | - | - | - |
| Isla Grand Resort | 217 | 3 | 4.06% | - | - | - |
| City of South Padre Island | 200 | 4 | 3.74% | - | - | - |
| Blackbeard's Restaurant | 180 | 5 | 3.37% | - | - | - |
| Hilton Garden Inn | 150 | 6 | 2.81% | - | - | - |
| Louie's Backyard | 130 | 7 | 2.43% | - | - | - |
| La Quinta Inn & Suites | 120 | 8 | 2.24% | - | - | - |
| La Copa Inn | 110 | 9 | 2.06% | - | - | - |
| Sea Ranch Enterprises | 85 | 10 | 1.59% | - | - | - |
| Total | <u>1,800</u> | | <u>33.67%</u> | | | |
| Louie's Backyard | | | | | | |

Source: South Padre Island Economic Development Corporation

*Information for 2001 not available

FULL-TIME EQUIVALENT CITY GOVERNMENT EMPLOYEES BY FUNCTION/PROGRAM
Last Ten Fiscal Years

| Function | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 |
|-------------------------------------|-----------|-----------|------------|------------|------------|------------|------------|------------|------------|------------|
| General Fund | | | | | | | | | | |
| City Administration | 3 | 3 | 4 | 4 | 5 | 5 | 5 | 5 | 6 | 6 |
| Finance | 2 | 2 | 3 | 3 | 4 | 4 | 5 | 5 | 4 | 5 |
| Planning | 2 | 2 | 2 | 2 | 2 | 2 | 2 | 2 | 2 | 2 |
| Technology | 0 | 0 | 0 | 0 | 1 | 2 | 2 | 2 | 2 | 2 |
| Human Resources | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 1 | 2 |
| Municipal Court | 2 | 2 | 2 | 2 | 2 | 2 | 2 | 2 | 2 | 3 |
| Police | 32 | 31 | 32 | 33 | 33 | 34 | 34 | 34 | 39 | 39 |
| Fire | 15 | 15 | 18 | 18 | 18 | 18 | 18 | 18 | 21 | 21 |
| Code Enforcement | 2 | 2 | 2 | 2 | 2 | 3 | 4 | 4 | 6 | 6 |
| Fleet Management | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 2 | 2 |
| Building Maintenance | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 3 | 3 |
| Inspections | 3 | 3 | 3 | 3 | 3 | 4 | 4 | 4 | 4 | 4 |
| Public Works | 15 | 16 | 21 | 21 | 21 | 22 | 22 | 22 | 18 | 18 |
| Hotel Motel Fund | | | | | | | | | | |
| Visitor's Center | 2 | 2 | 2 | 2 | 2 | 2 | 2 | 2 | 2 | 2 |
| Hotel Motel | 10 | 11 | 11 | 11 | 11 | 12 | 13.5 | 13 | 13 | 9.5 |
| Events Marketing | 0.5 | 0.5 | 1 | 1 | 1 | 1 | 2 | 2 | 2 | 1 |
| Convention Centre | | | | | | | | | | |
| Convention Centre | 9.5 | 9.5 | 11 | 10 | 10 | 11 | 13.5 | 13 | 13 | 13.5 |
| Transportation | | | | | | | | | | |
| Transportation | 0 | 0 | 0 | 5 | 5 | 6 | 7 | 7 | 7 | 9 |
| Beach Maintenance | | | | | | | | | | |
| Beach Maintenance | | | | | | | | | | 4 |
| Total Operating Budget FTE's | 98 | 99 | 112 | 117 | 120 | 128 | 136 | 135 | 147 | 152 |

Source: Town of South Padre Island Annual Budget

Note: Full-time budgeted positions are shown

City of South Padre Island, Texas
OPERATING INDICATORS BY FUNCTION
 Last Ten Fiscal Years

| Function | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 |
|---|-------|--------|--------|--------|--------|-------|-------|--------|-------|------|
| Police | | | | | | | | | | |
| Physical arrests | 1,381 | 1,431 | 1,824 | 1,402 | 1,212 | 973 | 896 | 727 | 952 | 1002 |
| Parking violations | 957 | 956 | 851 | 456 | 552 | 1,227 | 306 | 514 | 1,643 | 2123 |
| Traffic violations | 3,955 | 3,660 | 3,877 | 3,277 | 2,803 | 2,215 | 3,100 | 942 | 995 | 1204 |
| Number of commissioned police officers | 25 | 24 | 24 | 25 | 25 | 25 | 25 | 26 | 29 | 28 |
| Number of employees - police officers & civilians | 32 | 31 | 32 | 33 | 33 | 34 | 35 | 36 | 40 | 39 |
| Fire | | | | | | | | | | |
| Number of calls answered | 568 | 1,121 | 477 | 470 | 821 | 928 | 1,194 | 1,420 | 1,667 | 1783 |
| EMS calls | 304 | 259 | 165 | 199 | 443 | 536 | 712 | 838 | 816 | 1082 |
| Inspections | 693 | 527 | 507 | 414 | 307 | 331 | 355 | 219 | 475 | 369 |
| Number of firefighters | 14 | 14 | 17 | 17 | 17 | 17 | 17 | 18 | 18 | 18 |
| Number of employees - firefighters & civilians | 15 | 15 | 18 | 18 | 18 | 18 | 18 | 21 | 21 | 21 |
| Streets | | | | | | | | | | |
| Street resurfacing (square yards) | - | 23,500 | 24,617 | 18,679 | 10,811 | - | 7,040 | 16,837 | 6,956 | 8611 |
| Sidewalk construction (square yards) | - | 2,105 | - | - | - | 1,160 | 647 | 220 | 693 | 0 |

Source: City Departments
 Note: n/a data not available

City of South Padre Island, Texas
CAPITAL ASSET STATISTICS BY FUNCTION/PROGRAM
 Last Ten Fiscal Years

Schedule 19

| Function/Program | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 |
|------------------------------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|
| Public Safety | | | | | | | | | | |
| Police Stations | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 |
| Fire Stations | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 |
| Development Services | | | | | | | | | | |
| Streets (miles) | 47.31 | 47.31 | 47.31 | 47.31 | 47.09 | 47.09 | 47.09 | 47.09 | 47.09 | 47.39 |
| City area (acres) | 1333 | 1333 | 1333 | 1562 | 1562 | 1562 | 1589 | 1640 | 1640 | 1640 |
| Parks and recreation | | | | | | | | | | |
| Playground | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 2 |
| Parks | 1 | 1 | 1 | 1 | 1 | 2 | 2 | 2 | 2 | 2 |
| Municipal Beach (miles) | 4.5 | 4.5 | 4.5 | 5 | 5 | 5 | 5 | 5 | 5 | 5 |
| Beach accesses (developed) | 16 | 16 | 16 | 16 | 17 | 18 | 18 | 18 | 18 | 18 |
| Beach accesses (undeveloped) | 8 | 8 | 8 | 8 | 7 | 6 | 6 | 6 | 6 | 6 |
| Transportation | | | | | | | | | | |
| Transit - minibuses | 4 | 4 | 4 | 4 | 6 | 5 | 6 | 8 | 12 | 10 |

Source: City Departments

City of South Padre Island, Texas
MISCELLANEOUS STATISTICAL DATA

Schedule 20

| | |
|-----------------------------------|-------------|
| Date of incorporation | 1973 |
| Fiscal year begins | October 1st |
| Number of budgeted City employees | 152 |

Geographical location: Southern tip of Texas on the Gulf of Mexico
approximately 15 miles north of the Mexican
border.

Temperature: 65 degrees winter average
82 degrees summer average

Source: City Staff

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CITY OF
South Padre
ISLAND, TEXAS

COMPLIANCE

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**INDEPENDENT AUDITORS' REPORT ON INTERNAL
CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

The Honorable Mayor and
Members of the City Council
City of South Padre Island, Texas

We have audited the accompanying financial statements of the governmental activities, the aggregate discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of South Padre Island, Texas ("the City") as of and for the year ended September 30, 2010, which collectively comprise the City's basic financial statements as listed in the Table of Contents. 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 City of South Padre Island, Texas' internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of City of South Padre Island, Texas' internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of City of South Padre Island, Texas' internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. *A material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, 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.

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Compliance and Other Matters

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

We noted certain matters that we reported to management in a separate letter dated February 9, 2011.

This report is intended for the information of the City Council, management and federal awarding agencies and is not intended to be and should not be used by anyone other than these specified parties.



LONG CHILTON, LLP
Certified Public Accountants

Harlingen, Texas
February 9, 2011

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**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE
WITH REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL
EFFECT ON EACH MAJOR PROGRAM AND ON INTERNAL CONTROL
OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

The Honorable Mayor and
Members of the City Council
City of South Padre Island, Texas

Compliance

We have audited the compliance of City of South Padre Island, 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 fiscal year ended September 30, 2010. City of South Padre Island, Texas' major federal programs are identified in the summary of auditors' 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 City of South Padre Island, Texas' management. Our responsibility is to express an opinion on City of South Padre Island, Texas 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 City of South Padre Island, Texas' 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 on City of South Padre Island, Texas compliance with those requirements.

In our opinion, City of South Padre Island, Texas complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the fiscal year ended September 30, 2010.

Internal Control Over Compliance

Management of the City of South Padre Island, Texas is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered City of South Padre Island, Texas' internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, 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 of South Padre Island, Texas' internal control over compliance.

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A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, 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.

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

A handwritten signature in black ink that reads "Long Chilton, LLP". The signature is written in a cursive, flowing style.

LONG CHILTON, LLP
Certified Public Accountants

Harlingen, Texas
February 9, 2011

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City of South Padre Island, Texas
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
 For the Year Ended September 30, 2010

Section I - Summary of Auditors' Results

Financial Statements

Type of auditors' report issued: Unqualified

Internal control over financial reporting:

* Material weakness(es) identified? yes X no

* Significant deficiencies identified that are not
 considered to be material weakness(es)? yes X none reported

Noncompliance material to financial statements
 noted? yes X no

Federal and State Awards

Internal control over major programs:

* Material weakness(es) identified? yes X no

* Significant deficiencies identified that are
 not considered to be material weakness(es)? yes X none reported

Type of auditors' report issued on compliance for
 major programs: Unqualified

Any audit findings disclosed that are required to
 be reported in accordance with Section 510(a)
 of Circular A-133? yes X no

Identification of major programs:

| <i>CFDA Number(s)</i> | <i>Name of Federal Program or Cluster</i> |
|-----------------------|---|
| 20.509 | Department of Transportation WAVE Grant |

Dollar threshold used to distinguish between
 Type A and Type B programs: \$300,000

Auditee qualified as low-risk auditee? X yes no

City of South Padre Island, Texas
SCHEDULE OF FINDINGS AND QUESTIONED COSTS - CONTINUED
For the Year Ended September 30, 2010

Section II – Findings Relating to the Financial Statement Audit as Required to Be Reported in Accordance with Generally Accepted Government Auditing Standards

A. Significant Deficiencies in Internal Control

None reported.

B. Compliance Findings

None reported.

Section III – Federal and State Award Findings and Questioned Costs

None reported.

City of South Padre Island, Texas
SCHEDULE OF FINDINGS AND QUESTIONED COSTS - CONTINUED
SCHEDULE OF STATUS OF PRIOR AUDIT FINDINGS
For the Year Ended September 30, 2010

PROGRAM DESCRIPTION

Not applicable

DESCRIPTION

There were no findings reported in the prior year.

City of South Padre Island, Texas
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended September 30, 2010

| <u>Federal Grantor/ Pass/Through Grantor/ Program Title</u> | <u>Federal CFDA Number</u> | <u>Pass-Through Entity Identifying Number</u> | <u>Expenditures</u> |
|---|------------------------------------|---|--|
| U. S. Department of Transportation | | | |
| Formula Grants for Other Than Non- Urbanized areas | 20.509 | RPT 0906(21) 31 RPT 0909ARRA ED0910 | \$374,470 139,655 <u>12,352</u> 526,477 |
| National Oceanic and Atmospheric Administration | | | |
| Texas Coastal Management Program | 11.419 | NA08NOS4190459 | 29,438 |
| U. S. Department of Justice | | | |
| Justice Assistance Grant | 16.804 | SU-09-A10-22469-01 2009-SB-B9-2601 | 44,755 <u>20,464</u> <u>65,219</u> |
| Total Federal Awards | | | <u>\$621,134</u> |

City of South Padre Island, Texas
NOTES ON ACCOUNTING POLICIES FOR FEDERAL AWARDS
For the Year Ended September 30, 2010

1. General

The accompanying Schedule of Expenditures of Federal Awards presents the activity of all federal award programs of City of South Padre Island, Texas, for the year ended September 30, 2010. The reporting entity consists of the primary government, organizations for which the primary government is financially accountable, and other organizations for which the primary government is not accountable, but for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete.

Financial accountability exists if a primary government appoints a voting majority of an organization's governing Board and is either able to impose its will on that organization or there is a potential for the organization to provide specific financial benefits to, or impose specific financial burdens on, the primary government. A primary government may also be financially accountable for governmental organizations with a separately elected governing Board, a governing Board appointed by another government, or a jointly appointed Board that is fiscally dependent on the primary government.

In accordance with Governmental Accounting Standards Board requirements, the City has reviewed other entities and activities for possible inclusion in the reporting entity and determined that there are none; however, federal financial assistance passed through other governmental agencies is included on the schedule.

2. Measurement Focus and Basis of Accounting

The federal grant funds were accounted for in the Special Revenue Funds and a component of the Governmental Fund type. 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. With the Governmental Fund type measurement focus, only current assets and current liabilities generally are 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 the Governmental Fund types. This basis of accounting recognizes revenues in the accounting period in which they become susceptible to accrual, i.e., both measurable and available, and expenditures in the accounting period in which the fund liability is incurred, if measurable, except for certain compensated absences and claims and judgments, which are recognized when the obligations are expected to be liquidated with expendable available financial resources.

City of South Padre Island, Texas
EXIT CONFERENCE
Year Ended September 30, 2010

Discussion with City Personnel: The results of the audit were discussed at an exit briefing with the following grantee personnel:

Lawrence Homan, Finance Director
Joni Clarke, City Manager

No exceptions were taken to the factual contents of the items contained in this report.