



COMPREHENSIVE ANNUAL
FINANCIAL REPORT
FOR THE FISCAL YEAR ENDED
SEPTEMBER 30, 2008

PREPARED BY:

Town of South Padre Island
Finance Department
Larry Homan,
Director of Finance

Town of

**South Padre
ISLAND, TEXAS**

COMPREHENSIVE ANNUAL
FINANCIAL REPORT
FOR THE FISCAL YEAR ENDED
SEPTEMBER 30, 2008

TOWN OF SOUTH PADRE ISLAND, TEXAS

**COMPREHENSIVE ANNUAL
FINANCIAL REPORT**

September 30, 2008

Town of South Padre Island, Texas
COMPREHENSIVE ANNUAL FINANCIAL REPORT
 For The Fiscal Year Ended September 30, 2008

TABLE OF CONTENTS

	<u>Page No.</u>
INTRODUCTORY SECTION	
Letter of Transmittal	5
GFOA Certificate of Achievement	8
Organizational Chart	9
List of Principal Officials	10
 FINANCIAL SECTION	
 INDEPENDENT AUDITORS' REPORT	
	11
 MANAGEMENT'S DISCUSSION AND ANALYSIS	
	15
 BASIC FINANCIAL STATEMENTS	
Government-wide Financial Statements	
Statement of Net Assets - 2008	25
Statement of Activities - 2008	26
Statement of Net Assets - 2007	29
Statement of Activities - 2007	30
 Fund Financial Statements	
 <i>Governmental Fund Financial Statements</i>	
Balance Sheet	32
Reconciliation of the Balance Sheet of the Governmental Funds to the Statement of Net Assets	35
Statement of Revenues, Expenditures and Changes in Fund Balances	36
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of the Governmental Funds to the Statement of Activities	39
Notes to Financial Statements	41
 REQUIRED SUPPLEMENTARY INFORMATION	
 Pension Plan Schedule of Funding Progress	
	66
 General Fund	
Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual	67
 Hotel/Motel Tax Fund	
Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual	69

Town of South Padre Island, Texas
COMPREHENSIVE ANNUAL FINANCIAL REPORT
For The Fiscal Year Ended September 30, 2008

TABLE OF CONTENTS - CONTINUED

	<u>Page No.</u>
REQUIRED SUPPLEMENTARY INFORMATION - Continued	
Convention Centre Fund	
Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual	70
Transportation Grant	
Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual	71
Notes to the Required Supplementary Information	73
OTHER SUPPLEMENTARY INFORMATION	
Other Major Governmental Funds	
Beach Maintenance Fund	
Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual	78
Municipal Complex Fund	
Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual	79
Debt Service Fund	
Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual	80
Nonmajor Governmental Funds	
Nonmajor Governmental Funds	
Balance Sheets	82
Statements of Revenue, Expenditures and Changes in Fund Balances	84
Municipal Court Technology Fund	
Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual	86
Municipal Court Security Fund	
Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual	87
Beach Nourishment Fund	
Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual	88
Component Unit	
<i>South Padre Island Economic Development Corporation</i>	
Combining Balance Sheet	90
Reconciliation of the Combining Balance Sheet of the Component Unit to the Statement of Net Assets	91
Combining Statement of Revenues, Expenditures and Changes in Fund Balance	92
Reconciliation of the Combining Statement of Revenues, Expenditures and Changes in Fund Balance of the Component Unit Funds to the Statement of Activities	93

Town of South Padre Island, Texas
COMPREHENSIVE ANNUAL FINANCIAL REPORT
 For The Fiscal Year Ended September 30, 2008

TABLE OF CONTENTS - CONTINUED

STATISTICAL SECTION	<u>Page No.</u>
Net Assets by Component	96
Changes in Net Assets	97
Fund Balances of Governmental Funds	99
Changes in Fund Balances of Governmental Funds	100
Assessed Value and Actual Value of Taxable Property	102
Direct and Overlapping Property Tax Rates	103
Principal Property Taxpayers	104
Property Tax Levies and Collections	105
Tax Revenues by Source - Governmental Funds	106
Ratio of Outstanding Debt by Type	107
Ratio of General Bonded Debt Outstanding	108
Direct and Overlapping Governmental Activities Debt	109
Computation of Legal Debt Margin	110
Pledged-Revenue Coverage	111
Demographic and Economic Statistics	112
Principal Employers	113
Full-Time Equivalent City Government Employees by Function/Program	114
Operating Indicators by Function	115
Capital Asset Statistics by Function/Program	116
Miscellaneous Statistical Data	117
COMPLIANCE SECTION	
Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	121
Report on Compliance with Requirements Applicable to Each Major Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133	125
Report on Compliance with Requirements Applicable to Each State Major Program and on Internal Control Over Compliance in Accordance with the State of Texas Single Audit Circular	129
Schedule of Findings and Questioned Costs	133
Schedule of Status of Prior Year Audit Findings	135
Schedule of Expenditures of Federal Awards	136
Notes on Accounting and for Federal and State Awards	137
Exit Conference	138



4601 Padre Boulevard
South Padre Island, Texas 78597

(956) 761-6456
(956) 761-7561 Fax
www.townspi.com

April 30, 2009

The Honorable Mayor, Town Aldermen, and Citizens
of the Town of South Padre Island, Texas:

We are pleased to submit to you the Comprehensive Annual Financial Report (CAFR) of the Town of South Padre Island (Town), Texas for the fiscal year ended September 30, 2008. This report was prepared from the books and records of the Town of South Padre Island, Texas. All disclosures necessary to enable the reader to gain an understanding of the Town's financial activities have been included.

This report consists of management's representations concerning the finances of the Town. Consequently, management assumes full responsibility for the completeness and reliability of all of the information presented in this report. To provide a reasonable basis for making these representations, management of the Town has established a comprehensive internal control framework that is designed both to protect the government's assets from loss, theft, or misuse and to compile sufficient reliable information for the preparation of the Town's financial statements in conformity with GAAP. Because the cost of internal controls should not outweigh their benefits, the Town's comprehensive framework of internal controls has been designed to provide reasonable rather than absolute assurance that the financial statements will be free from material misstatement. As management, we assert that, to the best of our knowledge and belief, this financial report is complete and reliable in all material respects.

The Town's financial statements have been audited by Long Chilton, LLP of Harlingen, Texas, Independent Certified Public Accountants. The goal of the independent audit was to provide reasonable assurance that the financial statements of the Town for the fiscal year ended September 30, 2008, are 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 concluded, based upon the audit, that there was a reasonable basis for rendering an unqualified opinion that the Town's financial statements for the fiscal year ended September 30, 2008, are fairly presented in conformity with GAAP. The independent auditors' report is presented as the first component of the financial section of this report.

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 Town provides a full range of services, including general government, police and fire protection, health inspection, public improvements, building and zoning administration, tourism and general administrative services. Other services are provided by the Laguna Madre Water District #1 (water and sewer), Central Power & Light or First Choice Power (electric), and BFI Waste Systems of Texas, LP (sanitation).

PROFILE OF THE TOWN

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

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

MAJOR INITIATIVES

The Town completed the process of constructing a new Municipal Complex and construction of a dune walkover. The Town has begun the process of preparing a Comprehensive Plan. Also the Town is continuing to establish Community Enhancement Guidelines and appropriate ordinances to encourage harmonious and effective development throughout the Island. In addition, the Economic Development Corporation is planning a Wetlands-Birding-Nature Center and has issued debt for this construction. All these efforts require cooperation between the Board of Aldermen, the Town staff, Town committees, residents, and businesses to effectively carryout these objectives.

FACTORS AFFECTING FINANCIAL CONDITION

Local Economy

The Town 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 Town'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 Town has experienced growth in revenue receipts. Continued strong property values, stable sales tax receipts, building activity, and hotel/motel tax receipts are key indicators of the strength of the Town's economic position.

The South Padre Island Convention Centre completed its seventeenth full year of operations and has been very successful in attracting exhibitions, trade shows, conferences, and other events to the Island which contributed to the tourist base.

POLICIES AND PRACTICES

Cash Management

The Town utilizes its bank depository contracts and investment policy in the management of all cash. The Town's investment policy addresses internal controls, current state regulations on the investment of public funds and establishes the objectives of the Town's investments. Cash received for services performed by the Town are deposited daily into the Town's depository. It is the Town's policy to ensure that proper cash management polices are consistently applied and temporarily idle cash is invested in accordance with the investment policy. Town Aldermen review and make appropriate modifications to the investment policy on an annual basis. Cash temporarily idle during the year was invested in demand deposits, state investment pools, and certificates of deposit. Deposits were either insured by federal depository insurance or collateralized. All collateral on deposits are held by a third party bank.

Risk Management

Risk management is a collective effort of all departments within the Town. Risk mitigation is addressed through employee training via courses and seminars, on-site instruction and safety updates. The Town utilizes commercial insurance policies to cover any potential losses.

Internal Control

Town management is responsible for establishing and maintaining an internal control structure designed to ensure that the assets of the Town 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 principals.

Single Audit

As a recipient of federal assistance, the Town 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 a part of the Town'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 Town has complied with applicable laws and regulations. The results of the Town's single audit for the fiscal year ended September 30 2008, identified no material weaknesses in the internal control structure or significant violations of applicable laws and regulations.

OTHER INFORMATION

Independent Audit

The Town is incorporated under the General 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 Town of South Padre Island for its comprehensive annual financial report for the fiscal year ended September 30, 2007. This was the eighteenth consecutive year the Town 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 Board of Aldermen. It is their leadership, and support of the Town, that helped make the preparation of this report possible.

Sincerely,


Dewey P. Cashwell Jr., 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, 2007

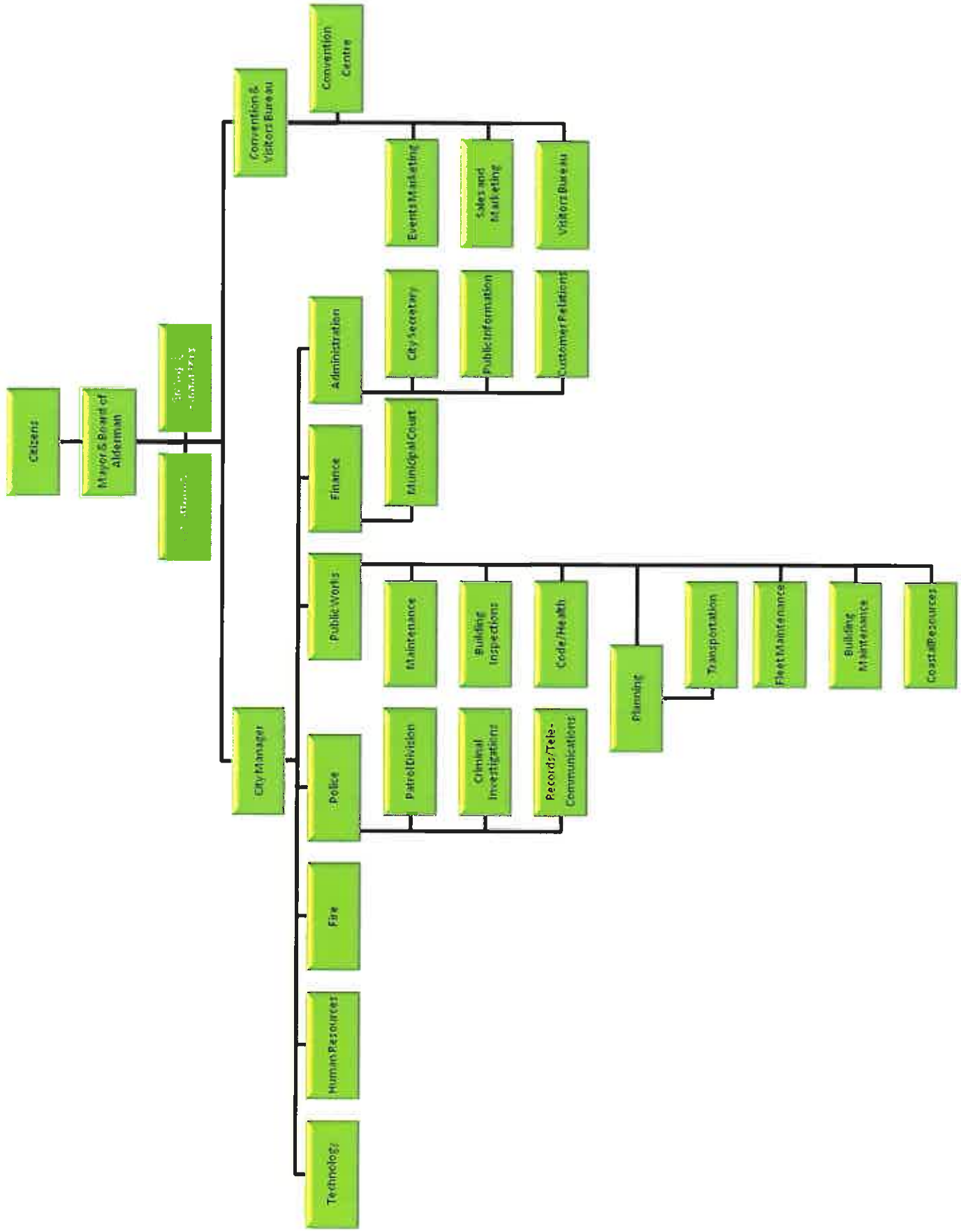
A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards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



President

Executive Director

Town of South Padre Island Organizational Chart



Town of South Padre Island, Texas
LIST OF PRINCIPAL OFFICIALS

ELECTED OFFICIALS

<u>NAME</u>	<u>TITLE</u>
ROBERT N. PINKERTON JR.	<i>MAYOR</i>
KIRK MILLS	ALDERMAN
JO ANN EVANS	MAYOR PRO TEM
ALITA BAGLEY	ALDERMAN
RICK RIDOLFI	ALDERMAN
COURTNEY HAYDEN	ALDERMAN

APPOINTED OFFICIALS

<u>NAME</u>	<u>TITLE</u>
DEWEY P. CASHWELL JR.	<i>CITY MANAGER</i>
JONI CLARKE	ASSISTANT CITY MANAGER
LARRY HOMAN	DIRECTOR OF FINANCE
DAN QUANDT	EXECUTIVE DIRECTOR OF CONVENTION AND VISITOR BUREAU
ROBERT RODRIGUEZ	POLICE CHIEF
BURNEY BASKETT	FIRE CHIEF
SCOTT FRY	DIRECTOR OF PUBLIC WORKS
CHARLES ZIBROWSKI	INFORMATION TECHNOLOGY DIRECTOR
WENDY DELGADO	HUMAN RESOURCE DIRECTOR
SUSAN HILL	CITY SECRETARY
PAUL Y. CUNNINGHAM, JR.	CITY ATTORNEY
DAVID COLWELL	MUNICIPAL COURT JUDGE

INDEPENDENT AUDITORS' REPORT

The Honorable Mayor and
Members of the Board of Aldermen
Town 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 Town of South Padre Island ("the Town") as of and for the year ended September 30, 2008, which collectively comprise the Town's basic financial statements as listed in the Table of Contents. These basic financial statements are the responsibility of the Town 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 Town's 2007 financial statements and, in our report dated April 4, 2008, 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 Town'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 Town of South Padre Island, Texas at September 30, 2008, 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 April 29, 2009 on our consideration of the Town 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.

(This page intentionally left blank)

Management's Discussion and Analysis on pages 15 through 24, budgetary comparison schedules for major funds and information on the Texas Municipal Retirement System on pages 61 through 66 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 Town of South Padre Island, Texas' basic financial statements. The accompanying Schedule of Expenditures of Federal and State 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 Town 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
April 29, 2009

(This page intentionally left blank)

MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the Town of South Padre Island (the Town), we offer readers of the Town's financial statements this narrative overview and analysis as of September 30, 2008. 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 Town of South Padre Island exceeded its liabilities at the close of the most recent fiscal year by \$26,397,436 (net assets). Of this amount, \$11,160,639 (unrestricted net assets) may be used to meet the government's ongoing obligations to citizens and creditors.
- Total net assets for the Town of South Padre Island decreased by (\$433,930) during the fiscal year; \$809,220 of which was related to impairments recorded as a result of Hurricane Dolly.
- As of the close of the current fiscal year, the Town of South Padre Island governmental funds reported combined ending fund balances of \$11,301,883. Approximately 93% of this amount, \$10,498,195 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 \$5,768,178.
- The Town of South Padre Island's total debt decreased by \$1,110,000 during the current fiscal year. This decrease was due to the retirement of debt during the fiscal year.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the Town's basic financial statements. The Town 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 Town 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 Town'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 Town is improving or deteriorating. Other indicators of the Town's financial position should also be taken into consideration, such as the change in the Town's property tax base and condition of the Town's infrastructure (i.e. roads and drainage systems), in order to more accurately assess the overall financial condition of the Town.

The statement of activities presents information showing how the Town'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 Town 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 Town of South Padre Island include general government, public safety, public works, transportation, and community service. There are no business-type activities of the Town of South Padre Island.

The government-wide financial statements include not only the Town of South Padre Island itself (known as the primary government), but also a legally separate Economic Development Corporation for which the Town 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 Town 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 Town 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 Town'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 Town'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 Town 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, the Transportation Grant, the Hurricane Recovery Fund, the Street Improvement Fund, the Municipal Complex Fund, the Beach Maintenance Fund and the Debt Service 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 Town 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 Town'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 2008	Total Governmental Activities 2007
<u>ASSETS</u>		
Current and other assets	\$13,165	\$14,296
Capital assets	<u>22,411</u>	<u>22,141</u>
Total assets	35,576	36,437
<u>LIABILITIES</u>		
Long-term liabilities outstanding	7,853	8,951
Other liabilities	<u>1,326</u>	<u>655</u>
	9,179	9,606
<u>NET ASSETS</u>		
Invested in capital assets, net of related debt	15,237	13,856
Unrestricted	<u>11,160</u>	<u>12,975</u>
Total net assets	<u>\$26,397</u>	<u>\$26,831</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 Town of South Padre Island, assets exceeded liabilities by \$26,397,436 at the close of the most recent fiscal year.

A large portion of the Town's net assets (58%) 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 Town uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the Town's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

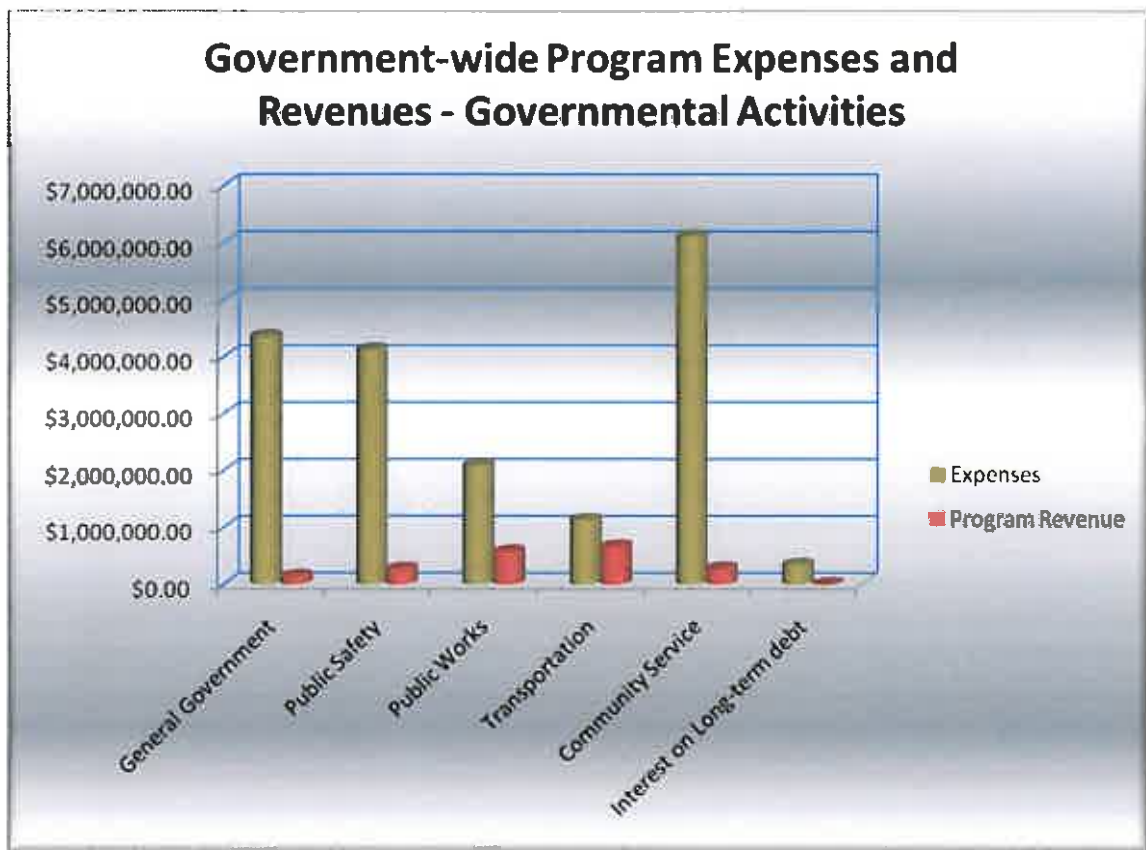
At the end of the current fiscal year, the Town of South Padre Island is able to report positive balances in all categories of net assets, both for the government as a whole, as well as for its separate governmental activities before the impairment loss of \$809,220 related to Hurricane Dolly. The same situation held true for the prior fiscal year.

Changes in Net Assets. The Town's net assets decreased by \$433,930 as a result of losses sustained from Hurricane Dolly measuring \$809,220. However, normal governmental activities increased the Town's net assets by \$375,291. Key elements of this increase are an increase in property tax revenue and sales tax revenue due to increase in property values and new construction property tax revenue saw over a 15% increase. The Town sold two street endings during the year to a developer contemplating a large upscale resort to be built within the entertainment district of the Town. The area sold is between Laguna Boulevard and the Laguna Madre Bay with no impact on traffic circulation. Proceeds received from this sale were \$1,485,785. Finally, interest earnings saw a decrease due to utilization of cash to construct the Municipal Complex as well as the decline in market interest rates during the fiscal year.

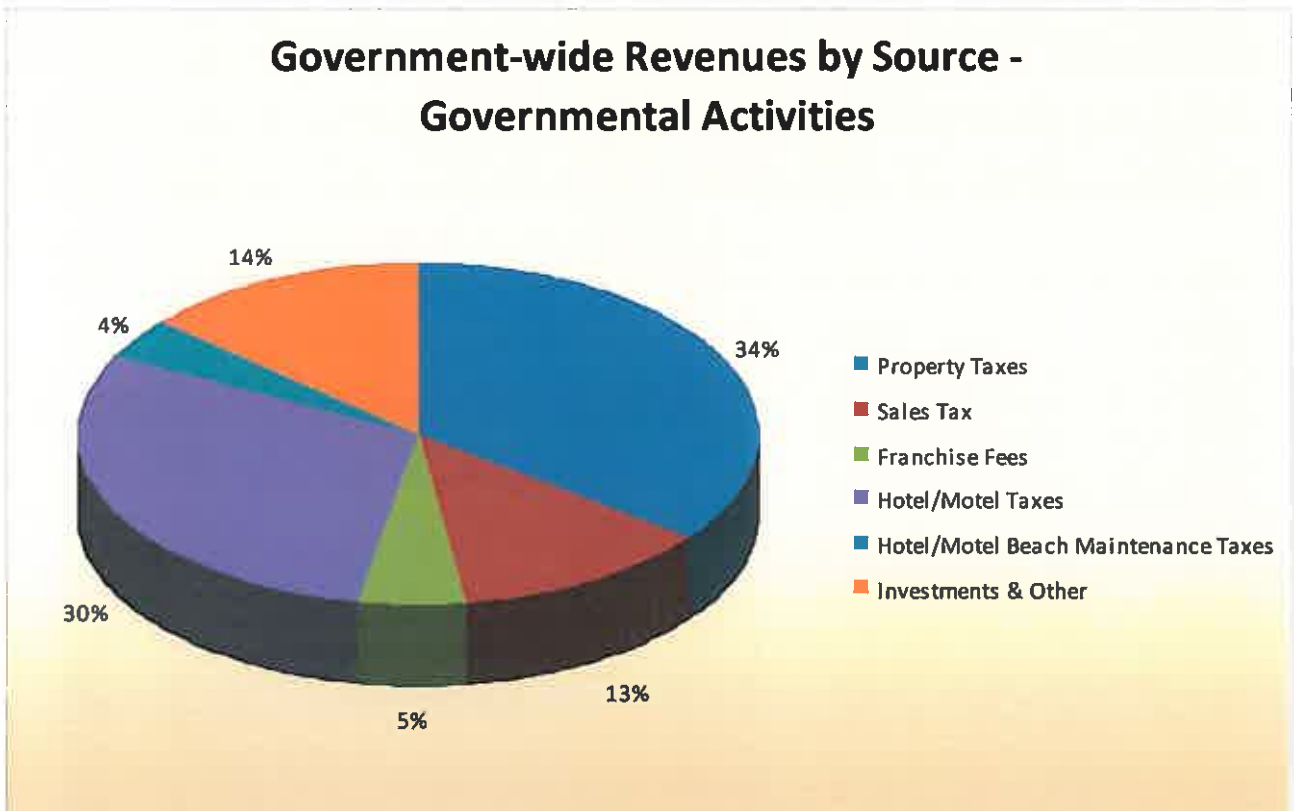
**Table 2
Changes in Net Assets**

	Total Governmental Activities	Total Governmental Activities
	<u>2008</u>	<u>2007</u>
Program revenues:		
Charges for services	\$ 1,082,474	\$ 1,034,405
Operating grants and contributions	843,668	777,984
Capital grants and contributions	234,310	123,767
General revenues:		
Property tax	5,483,386	4,780,512
Sales tax	1,965,363	1,897,938
Franchise tax	792,992	748,363
Hotel Motel tax	4,610,239	5,334,627
Hotel Motel Beach Mtn. tax	630,474	741,411
Gain on sale of fixed assets	1,485,785	0
Interest and Other	<u>625,547</u>	<u>1,222,640</u>
Total revenues	17,754,238	16,661,647
Program expenses:		
General Government	3,668,745	3,412,632
Public Safety	4,106,050	3,408,818
Public Works	2,090,705	1,833,006
Transportation	1,129,802	474,087
Community Service	6,852,646	4,621,231
Interest on long-term debt	<u>340,220</u>	<u>383,137</u>
Total expenses	<u>18,188,168</u>	<u>14,132,911</u>
Increase (decrease) in net assets	(433,930)	2,528,736
Beginning net assets	<u>26,831,366</u>	<u>24,302,630</u>
Ending net assets	<u>\$26,397,436</u>	<u>\$26,831,366</u>

The chart below illustrates the Town'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 property tax and sales tax.



Financial Analysis of the Government's Funds

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

Governmental funds. The focus of the Town 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 Town'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 Town of South Padre Island's governmental funds reported combined ending fund balances of \$11,301,883, a decrease of \$1,882,771 in comparison with the prior year. Approximately 93%, or \$10,498,195, 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. \$681,831 is designated for special revenue funds. The remainder of the fund balance, \$508,548 is reserved and is not available for new spending because it has already been committed to pay for debt service.

The General Fund is the chief operating fund of the Town. At the end of the current fiscal year, unreserved fund balance of the General Fund was \$5,768,178, while total fund balance reached \$5,805,500. 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 70% of total general fund expenditures, while total fund balance represents 70.3% of that same amount.

The fund balance of the Town's General Fund increased by \$655,852 during the current fiscal year. Key factors in this increase are as follows:

- Property tax revenues in the General Fund increased by \$656,738 as a result of increasing assessed value and new construction growth.
- Permits and licenses increased by \$122,494 due to continued construction growth on the Island.
- Miscellaneous revenue decreased \$361,190 due to receipt of legal costs paid to the Town from a lawsuit received in the prior year that was not duplicated in the current year.

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, unreserved fund balance of the Hotel Motel Fund was \$390,908, while total fund balance was reduced to \$586,052. Unreserved fund balance represents 9.5% of total Hotel Motel Fund expenditures.

The fund balance of the Hotel Motel Fund decreased by \$1,107,896 during the current fiscal year. Key factors in this decrease are as follows:

- Hotel Motel tax revenues decreased by \$493,769, primarily as a direct result of Hurricane Dolly making landfall on the Island on July 23, 2008. The majority of hotels and for-rent condominiums were damaged and not available for rentals for an extended period of time. Two major hotels on the Island have not opened as of the date of this report. One is anticipating to open April 1, 2009 with the other's opening date unknown. The total tax rate is 7%. 4.6% of this rate is allocated to the Hotel Motel Fund with 2.4% of this rate allocated to the Convention Centre Fund
- Expenditures associated with media advertising were increased in the current year by approximately \$475,000.

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 \$1,901,132, while total fund balance reached \$1,951,299. Unreserved fund balance represents 145% of total Convention Centre expenditures.

The fund balance for the Convention Centre decreased by \$232,445 during the current fiscal year. The key factor in this decrease is in tax revenues that decreased by \$291,167 as a result of Hurricane Dolly making landfall on the Island as mentioned earlier in connection with the Hotel Motel Fund.

General Fund budgetary highlights

The original budget of the General Fund was amended one time during fiscal year 2008 by a net of \$354,000. Expenditures were increased by \$354,000. Of this amount, \$130,000 was for repairs and purchases of fire engines, \$65,000 was for park equipment, \$28,000 to phase out program of off-premise sign, \$26,000 to overtime needed for a department due to turnover and two individuals out on worker’s compensation leave, \$25,000 to re-roof fire station, \$20,000 for the purchase of radios for Code Enforcement, \$17,000 for Helipad project and \$12,000 for the rental of old public works building.

During the year, revenues were \$540,924 higher than budgeted. Revenues of \$234,310, representing a refund of costs incurred for street medians were received during fiscal year 2008. The Town also had increases in building permits of \$121,841, franchise taxes of \$78,395 and sales taxes of \$59,375.

Capital Asset and Debt Administration

Capital assets. The Town’s investment in capital assets for its governmental activities as of September 30, 2008 amounts to \$22,411,797 (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 G. Capital asset balances are as follows:

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

	Total Governmental Activities <u>2008</u>	Total Governmental Activities <u>2007</u>
Land	\$ 1,497,793	\$ 1,497,793
Construction in progress	0	7,072,439
Buildings	13,270,339	6,176,072
Improvements	421,049	403,552
Furniture and equipment	2,558,327	2,462,081
Infrastructure	<u>4,664,289</u>	<u>4,528,968</u>
Total net assets	<u>\$22,411,797</u>	<u>\$22,140,905</u>

Long-term debt. At the end of the current fiscal year, the Town had total bonded debt outstanding of \$7,175,000. The table below reflects the outstanding debt at September 30. Additional information can be found in Note I.

	Outstanding Debt September 30	
	Total Governmental <u>Activities</u> <u>2008</u>	Total Governmental <u>Activities</u> <u>2007</u>
General Obligation Bonds	\$4,440,000	\$4,615,000
Revenue Bonds	1,540,000	2,265,000
Tax Anticipation Notes	<u>1,195,000</u>	<u>1,405,000</u>
	<u>\$7,175,000</u>	<u>\$8,285,000</u>

- The Town's total outstanding debt decreased, by \$1,110,000 during the current fiscal year. This decrease is the repayment of principal.

Economic Factors and Next Year's Budgets and Rates

All of these factors were considered in preparing the Town's budget for the 2008-2009 fiscal year.

Certified property tax values for the Town increased by 13.9% from the preceding year and tax rates stayed constant at a rate of 24.561 cents per hundred. The tax rate has been split with .219310 for maintenance and operations and .0263000 for interest and sinking fund for the retirement of the tax anticipation note and the general obligation bond. Sales tax and franchise tax revenues have also been increasing although because of Hurricane Dolly and the related recovery period, no increase over last year's budget was forecast.

Overall, the General Fund is budgeted to end fiscal year 2008-2009 with an estimated fund balance of \$5,339,784. This is approximately 61.6% of General Fund budgeted expenditures.

Requests for Information

This financial report is designed to provide a general overview of the Town'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, Texas 78597.

(This page intentionally left blank)

Town of South Padre Island, Texas
STATEMENT OF NET ASSETS
September 30, 2008

	Primary Government Total	Component Unit
ASSETS	Governmental Activities	Unit
Cash and cash equivalents	\$ 7,059,801	\$ 2,458,629
Investments	4,063,222	-
Receivables, net	606,308	-
Due from primary government	-	1,160
Due from component units	225,489	-
Inventories	9,329	-
Due from other governments	811,479	83,646
Prepaid expenses	265,065	194,140
Bond issue costs	123,942	63,741
Capital assets, net		
Non-depreciable assets	1,497,793	5,295,213
Depreciable assets	20,914,004	2,781
TOTAL ASSETS	\$ 35,576,432	\$ 8,099,310
LIABILITIES AND NET ASSETS		
Liabilities		
Accounts payable	\$ 1,136,539	\$ 199,508
Other liabilities	124,043	1,096
Due to primary government	-	225,489
Due to component unit	1,160	-
Unearned revenues	64,659	-
Non-current liabilities		
Due within one year	1,485,000	80,000
Due in more than one year	6,367,595	5,120,000
Total liabilities	9,178,996	5,626,093
Net assets		
Invested in capital assets, net of related debt	15,236,797	97,994
Restricted for debt service	-	628,162
Unrestricted	11,160,639	1,747,061
	26,397,436	2,473,217
TOTAL LIABILITIES AND NET ASSETS	\$ 35,576,432	\$ 8,099,310

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

Town of South Padre Island, Texas
STATEMENT OF ACTIVITIES
For the Year Ended September 30, 2008

Functions/Programs	Expenses	Program Revenues	
		Charges for Services	Operating Grants and Contributions
Governmental activities:			
General government	\$ 3,668,745	\$ 30,642	\$ 113,750
Public safety	4,106,050	219,209	51,386
Public works	2,090,705	529,974	44,396
Transportation	1,129,802	27,302	634,136
Community service	6,852,646	275,347	-
Interest on long-term debt	340,220	-	-
Total governmental activities	<u>18,188,168</u>	<u>1,082,474</u>	<u>843,668</u>
Component unit:			
Economic development services	465,516	-	-
Interest expense	159,453	-	-
Total component unit	<u>\$ 624,969</u>	<u>\$ -</u>	<u>\$ -</u>

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 fixed assets
- 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
\$ -	\$ (3,524,353)	\$ -
-	(3,835,455)	-
234,310	(1,282,025)	-
-	(468,364)	-
-	(6,577,299)	-
-	(340,220)	-
<u>234,310</u>	<u>(16,027,716)</u>	<u>-</u>
1,009,982	-	544,466
-	-	(159,453)
<u>\$ 1,009,982</u>	<u>\$ -</u>	<u>\$ 385,013</u>
	4,838,320	-
	645,066	-
	1,965,363	586,459
	792,992	-
	4,610,239	-
	630,474	-
	546,491	15,400
	1,485,785	-
	79,056	16,632
	<u>15,593,786</u>	<u>618,491</u>
	(433,930)	1,003,504
	<u>26,831,366</u>	<u>1,469,713</u>
	<u>\$ 26,397,436</u>	<u>\$ 2,473,217</u>

(This page intentionally left blank)

Town of South Padre Island, Texas
STATEMENT OF NET ASSETS
September 30, 2007

	Primary Government Total	Component Unit
ASSETS	Governmental Activities	
Cash and cash equivalents	\$ 10,564,594	\$ 5,238,051
Investments	1,984,490	-
Receivables, net	659,033	-
Inventories	9,685	-
Due from other governments	763,936	59,215
Prepaid expenses	179,887	520
Bond issue costs	134,420	67,282
Capital assets, net		
Non-depreciable assets	8,570,232	1,395,279
Depreciable assets	13,570,673	5,476
 TOTAL ASSETS	 \$ 36,436,950	 \$ 6,765,823
 LIABILITIES AND NET ASSETS		
Liabilities		
Accounts payable	\$ 577,331	\$ 96,110
Other liabilities	15,161	-
Unearned revenues	62,008	-
Non-current liabilities		
Due within one year	1,154,817	-
Due in more than one year	7,796,267	5,200,000
Total liabilities	9,605,584	5,296,110
Net assets		
Invested in capital assets, net of related debt	13,855,905	562,102
Restricted for debt service	-	468,154
Unrestricted	12,975,461	439,457
Total net assets	26,831,366	1,469,713
 TOTAL LIABILITIES AND NET ASSETS	 \$ 36,436,950	 \$ 6,765,823

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

Town of South Padre Island, Texas
STATEMENT OF ACTIVITIES
For the Year Ended September 30, 2007

Functions/Programs	Expenses	Program Revenues	
		Charges for Services	Operating Grants and Contribution
Governmental activities:			
General government	\$ 3,412,632	\$ 35,582	\$ 225,900
Public safety	3,408,818	295,561	41,369
Public works	1,833,006	399,519	119,159
Transportation	474,087	32,050	391,556
Community service	4,621,231	271,693	-
Interest on long-term debt	383,137	-	-
Total primary governmental	14,132,911	1,034,405	777,984
Component unit:			
Economic development services	449,075	-	
Total component unit	\$ 449,075	\$ -	

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
- Miscellaneous
- Total general revenues
- 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 Government Total	Component Units
	Governmental Activities	
\$ -	\$ (3,151,150)	\$ -
123,767	(2,948,121)	-
-	(1,314,328)	-
-	(50,481)	-
-	(4,349,538)	-
-	(383,137)	-
<u>123,767</u>	<u>(12,196,755)</u>	<u>-</u>
-	-	(449,075)
<u>\$ -</u>	<u>\$ -</u>	<u>\$ (449,075)</u>
	4,145,499	-
	635,013	-
	1,897,938	565,242
	748,363	-
	5,334,627	-
	741,411	-
	796,864	34,388
	425,776	-
	<u>14,725,491</u>	<u>599,630</u>
	2,528,736	150,555
	<u>24,302,630</u>	<u>1,319,158</u>
	<u>\$ 26,831,366</u>	<u>\$ 1,469,713</u>

Town of South Padre Island, Texas
BALANCE SHEET
GOVERNMENTAL FUNDS
September 30, 2008

	General Fund	Hotel Motel Fund	Convention Centre Fund	Transportation Grant Fund
ASSETS				
Cash and cash equivalents	\$ 1,609,275	\$ 370,023	\$ 1,701,127	\$ 170,444
Investments	4,063,222	-	-	-
Receivables (net of allowance for uncollectibles)				
Taxes	364,016	-	-	-
Accounts	50,999	86,717	50,167	-
Due from other governments	145,532	-	-	401,661
Due from other funds	1,192,290	809	245,486	47,577
Due from component unit	125,489	-	-	-
Prepaid items	27,993	195,144	22,534	785
Inventory	9,329	-	-	-
	\$ 7,588,145	\$ 652,693	\$ 2,019,314	\$ 620,467
LIABILITIES AND FUND BALANCES				
Liabilities				
Accounts payable	\$ 1,073,000	\$ 7	\$ 29	\$ -
Due to other funds	251,199	59,417	-	560,754
Due to component unit	1,160	-	-	-
Other liabilities	93,270	7,217	3,643	2,312
Deferred revenues	364,016	-	64,343	-
	1,782,645	66,641	68,015	563,066
Fund balance				
Reserved for				
Debt service	-	-	-	-
Prepaid expenditures	27,993	195,144	50,167	-
Fuel inventory	9,329	-	-	-
Unreserved, reported in non-major funds				
Special revenue funds	-	-	-	-
Unreserved	5,768,178	390,908	1,901,132	57,401
Total fund balances	5,805,500	586,052	1,951,299	57,401
	\$ 7,588,145	\$ 652,693	\$ 2,019,314	\$ 620,467

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

Hurricane Recovery Fund	Street Improvement Fund	Municipal Complex Fund	Beach Maintenance Fund	Debt Service	Other Government Funds	Total Governmental Funds
\$ -	\$ 1,243,739	\$ 968	\$ 846,113	\$ 358,279	\$ 759,833	\$ 7,059,801
-	-	-	-	-	-	4,063,222
-	-	-	-	49,805	-	413,821
-	-	4,604	-	-	-	192,487
-	-	-	264,286	-	-	811,479
-	2,819	2	-	770	12,338	1,502,091
-	-	-	-	-	100,000	225,489
-	-	12,507	6,000	-	102	265,065
-	-	-	-	-	-	9,329
<u>\$ -</u>	<u>\$ 1,246,558</u>	<u>\$ 18,081</u>	<u>\$ 1,116,399</u>	<u>\$ 408,854</u>	<u>\$ 872,273</u>	<u>\$ 14,542,784</u>
\$ -	\$ -	\$ 56,300	\$ 7,202	\$ 1	\$ -	\$ 1,136,539
468,122	-	15,701	108,528	-	38,370	1,502,091
-	-	-	-	-	-	1,160
13,933	-	-	-	3,667	1	124,043
-	-	-	-	48,392	317	477,068
482,055	-	72,001	115,730	52,060	38,688	3,240,901
-	-	-	-	356,794	151,754	508,548
-	-	12,507	-	-	-	285,811
-	-	-	-	-	-	9,329
-	-	-	-	-	681,831	681,831
(482,055)	1,246,558	(66,427)	1,000,669	-	-	9,816,364
(482,055)	1,246,558	(53,920)	1,000,669	356,794	833,585	11,301,883
<u>\$ -</u>	<u>\$ 1,246,558</u>	<u>\$ 18,081</u>	<u>\$ 1,116,399</u>	<u>\$ 408,854</u>	<u>\$ 872,273</u>	<u>\$ 14,542,784</u>

(This page intentionally left blank)

Town of South Padre Island, Texas
**RECONCILIATION OF THE BALANCE SHEET OF THE GOVERNMENTAL FUNDS
 TO THE STATEMENT OF NET ASSETS**
 September 30, 2008

Fund balances of governmental funds	\$ 11,301,883
-------------------------------------	---------------

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

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	22,411,797
---	------------

Some liabilities, including bonds payable, are not due in the current period and therefore not reported in the funds.	(7,852,596)
---	-------------

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.	123,943
---	---------

Other long-term assets are not available to pay for current period expenditures and therefore are deferred in the funds.	<u>412,409</u>
--	----------------

Net assets of governmental activities	<u>\$ 26,397,436</u>
---------------------------------------	----------------------

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

Town of South Padre Island, Texas
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
For the Year Ended September 30, 2008

	General Fund	Hotel Motel Fund	Convention Centre Fund	Transportation Grant Fund
REVENUES				
Property taxes	\$ 4,763,250	\$ -	\$ -	\$ -
Nonproperty taxes	2,758,355	3,013,228	1,597,011	-
Fees and services	27,302	35,297	235,590	-
Fines and forfeitures	211,084	-	-	-
Licenses and permits	573,866	-	-	-
Intergovernmental	343,842	-	-	634,136
Miscellaneous and program revenues	347,189	18,545	48,683	10,372
Total revenues	9,024,888	3,067,070	1,881,284	644,508
EXPENDITURES				
Current				
General government	2,457,719	-	-	-
Public safety	3,789,544	27,916	-	-
Public works	1,365,884	-	-	-
Transportation	-	-	-	535,026
Community service	326,736	4,068,857	1,045,290	-
Debt service				
Principal retirement	-	-	-	-
Interest	-	-	-	-
Administrative charges	-	-	-	-
Capital outlay	308,026	17,886	261,414	187,339
Total expenditures	8,247,909	4,114,659	1,306,704	722,365
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES				
	776,979	(1,047,589)	574,580	(77,857)
Other financing sources (uses)				
Sale of fixed assets	785	-	-	-
Insurance Proceeds	-	-	-	-
Transfers out	(357,000)	(60,307)	(807,025)	-
Transfers in	235,088	-	-	60,307
Total other financing sources (uses)	(121,127)	(60,307)	(807,025)	60,307
Net change in fund balances	655,852	(1,107,896)	(232,445)	(17,550)
Fund balance -- beginning	5,149,648	1,693,948	2,183,744	74,951
Fund balance -- ending	\$ 5,805,500	\$ 586,052	\$1,951,299	\$ 57,401

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

Hurricane Recovery Fund	Street Improvement Fund	Municipal Complex Fund	Beach Maintenance Fund	Debt Service	Other Governmental Funds	Total Governmental Funds
\$ -	\$ -	\$ -	\$ -	\$ 630,199	\$ -	\$ 5,393,449
-	-	-	630,474	-	-	7,999,068
-	-	-	-	-	-	298,189
-	-	-	-	-	8,125	219,209
-	-	-	-	-	-	573,866
-	-	-	-	-	100,000	1,077,978
-	<u>44,790</u>	<u>13,849</u>	<u>37,883</u>	<u>28,352</u>	<u>67,094</u>	<u>616,757</u>
-	44,790	13,849	668,357	658,551	175,219	16,178,516
1,482,055	-	26,726	-	-	118,221	4,084,721
-	-	-	-	-	4,648	3,822,108
-	10,201	-	77,917	-	30,578	1,484,580
-	-	-	-	-	528,546	1,063,572
-	-	-	-	-	-	5,440,883
-	-	-	-	-	-	-
-	-	-	-	1,110,000	-	1,110,000
-	-	-	-	329,243	-	329,243
-	-	-	-	500	-	500
-	<u>417,916</u>	<u>1,383,466</u>	<u>140,012</u>	<u>-</u>	<u>495,406</u>	<u>3,211,465</u>
<u>1,482,055</u>	<u>428,117</u>	<u>1,410,192</u>	<u>217,929</u>	<u>1,439,743</u>	<u>1,177,399</u>	<u>20,547,072</u>
(1,482,055)	(383,327)	(1,396,343)	450,428	(781,192)	(1,002,180)	(4,368,556)
-	1,485,000	-	-	-	-	1,485,785
1,000,000	-	-	-	-	-	1,000,000
-	-	-	(985,088)	-	-	(2,209,420)
-	-	-	-	<u>807,025</u>	<u>1,107,000</u>	<u>2,209,420</u>
<u>1,000,000</u>	<u>1,485,000</u>	<u>-</u>	<u>(985,088)</u>	<u>807,025</u>	<u>1,107,000</u>	<u>2,485,785</u>
(482,055)	1,101,673	(1,396,343)	(534,660)	25,833	104,820	(1,882,771)
-	<u>144,885</u>	<u>1,342,423</u>	<u>1,535,329</u>	<u>330,961</u>	<u>728,765</u>	<u>13,184,654</u>
<u>\$ (482,055)</u>	<u>\$ 1,246,558</u>	<u>\$ (53,920)</u>	<u>\$ 1,000,669</u>	<u>\$ 356,794</u>	<u>\$ 833,585</u>	<u>\$ 11,301,883</u>

(This page intentionally left blank)

Town 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, 2008

Net change in fund balances --total governmental funds \$(1,882,771)

Amounts reported for *governmental activities* 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 outlays (\$3,211,465) exceeded depreciation, (\$2,940,573) in the current period. 270,892

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. -

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 exceed current year amortization of bond issue costs (\$10,477). (10,477)

Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets. 1,110,000

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. (11,511)

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds. 89,937

Change in net assets of governmental activities \$ (433,930)

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

(This page intentionally left blank)

Town of South Padre Island, Texas
NOTES TO FINANCIAL STATEMENTS
September 30, 2008

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Town of South Padre Island, Texas (the Town) 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 Town's accounting policies are described below.

1. Reporting Entity

The Town of South Padre Island, Texas (the Town), created in 1973, operates under the direction of a Mayor and five Aldermen, elected by the voters of the Town. It provides judicial, law enforcement, fire protection, public improvements, building and zoning administration, tourism, general administrative and health services to the Town. The accounting policies of the Town 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 Town (the primary government) and its component unit. The component unit discussed below is included in the Town's reporting entity because of the significance of its operational or financial relationship with the Town.

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 Town 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 Town. Discretely presented component units include the following:

South Padre Island Economic Development Corporation (EDC): The five-member board of directors is appointed by the Town Board of Aldermen. 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 Town. The EDC's operational and capital budget must be approved by the Board of Aldermen of the Town.

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 Town 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 new 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 Town of South Padre Island, Texas does not include any business-type activities.

Town of South Padre Island, Texas
NOTES TO FINANCIAL STATEMENTS – CONTINUED
September 30, 2008

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.

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 Town 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 Town 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.

The Transportation Grant Fund was established to account for the State and Federal grant awarded to the Town to operate The Wave transportation system.

The Hurricane Recovery Fund is a non-budgeted fund established to account for the insurance proceeds and FEMA monies received and the expenditures made in connection with emergency repairs to Town facilities and other damages that occurred as a result of Hurricane Dolly and Hurricane Ike.

Town of South Padre Island, Texas
NOTES TO FINANCIAL STATEMENTS – CONTINUED
September 30, 2008

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

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

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.

The **capital projects funds** are used to account for the acquisition and construction of major capital facilities other than those financed by proprietary funds and trust funds. The City has the following capital projects funds:

The Street Improvement Fund is used to account for improvements to streets and drainage. The General Fund has traditionally transferred money to the Street Improvement Fund for these improvements. Sales of streets and right-of-ways also go to support this fund.

Municipal Complex Fund is used to account for the bond proceeds received to fund the expenditures associated with the construction of the Town's new Town Hall.

The Beach Maintenance Fund is used to clean and maintain the beach. The State of Texas sends the Town 1% of the hotel motel tax collected by the State for these efforts.

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 and private purpose 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 Town 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.

Town of South Padre Island, Texas
NOTES TO FINANCIAL STATEMENTS – CONTINUED
September 30, 2008

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

3. Measurement Focus, Basis of Accounting and Basis of Presentation - Continued

The Town 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 Town 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 Town 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 and 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.

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, 2008 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 2008 the Town 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. In 2007, the initial, individual cost was \$1,000.

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.

Town of South Padre Island, Texas
NOTES TO FINANCIAL STATEMENTS – CONTINUED
September 30, 2008

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

4. *Assets, Liabilities and Equity - Continued*

e. Capital Assets - Continued

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

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.

Town 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.

Town of South Padre Island, Texas
NOTES TO FINANCIAL STATEMENTS – CONTINUED
September 30, 2008

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

4. *Assets, Liabilities and Equity - Continued*

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.

k. Comparative Data

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.

Town of South Padre Island, Texas
NOTES TO FINANCIAL STATEMENTS - CONTINUED
September 30, 2008

NOTE B - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

1. *Budgetary Information*

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

- a. The Town Manager establishes the amount of estimated revenues and other resources available for appropriation for the succeeding budget year.
- b. The Town Manager submits to the Board of Aldermen 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 Town Hall to obtain taxpayer and elected officials' comments.
- d. Prior to October 1, the budget is legally adopted by the Board of Aldermen.
- e. Revisions that alter budgets at the department level within a fund must be approved by the Board of Aldermen. 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 Town prepares its budget on a basis of accounting consistent with accounting principles generally accepted in the United States of America (GAAP).

During 2008, 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, Convention Centre, and Transportation 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, and Beach Nourishment Fund. Budgetary schedules are presented for the Debt Service Fund as well as the Municipal Complex Fund and Beach Maintenance 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 Town submit requests for appropriation to the Town 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 Town Commission for review. The Town Commission 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 Town Manager or the revenue estimates must be changed by an affirmative vote of a majority of the Town Commission.

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

Town of South Padre Island, Texas
NOTES TO FINANCIAL STATEMENTS - CONTINUED
September 30, 2008

NOTE C - CASH AND INVESTMENTS

It is the Town'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, 2008, the Town's cash deposits were covered by federal deposit insurance or were secured by collateral held by the Town's agent in the Town's name pursuant to the Town's investment policy and its depository agreement. However, the Town's investment in certificates of deposit was secured 101.99% by collateral valued at fair value including accrued interest during August and September of 2008.

Investments

Investments at fair value, including accrued interest, as of September 30, 2008 are as follows:

	<u>Investment Maturities (in years)</u>		<u>Greater than 1 year</u>
	<u>Fair Value</u>	<u>1 or less</u>	
Cash and cash equivalents			
TexPool	\$ 2,175,457	\$ 2,175,457	\$ -
Texas Term	3,082,915	3,082,915	-
Certificates of deposit	<u>1,522,079</u>	<u>1,522,079</u>	-
	6,780,451	6,780,451	-
Investments			
Certificates of deposit	<u>4,063,222</u>	<u>2,030,230</u>	<u>2,032,992</u>
	<u>\$10,843,673</u>	<u>\$ 8,810,681</u>	<u>\$2,032,992</u>

A reconciliation of cash and investments follows:

	<u>Primary Governmental Activities</u>	<u>Component Unit</u>	<u>Total</u>
	Cash	\$ 1,839,857	\$ 463,291
Restricted cash	-	434,832	434,832
	<u>1,839,857</u>	<u>898,123</u>	<u>2,737,980</u>
Texas Term	3,082,915	-	3,082,915
TexPool	614,950	1,560,506	2,175,456
Certificates of deposit	<u>1,522,079</u>	<u>-</u>	<u>1,522,079</u>
	7,059,801	2,458,629	9,518,430
Certificates of deposit	<u>4,063,222</u>	<u>-</u>	<u>4,063,222</u>
	<u>\$11,123,023</u>	<u>\$ 2,458,629</u>	<u>\$13,581,652</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.

Town of South Padre Island, Texas
NOTES TO FINANCIAL STATEMENTS - CONTINUED
September 30, 2008

NOTE C - CASH AND INVESTMENTS – Continued

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 Town 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. Information about the sensitivity of the fair values of the Town’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	3.00%	\$ 507,443	January 21, 2009	113
Certificate of deposit	3.05%	\$ 507,568	February 18, 2009	141
Certificate of deposit	3.00%	\$1,015,219	March 17, 2009	168
Certificate of deposit	3.25%	\$2,032,992	March 10, 2010	533

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, 2008, the investments in TexPool and Texas Term investment risk pools were rated AAAM and AAAf by Standard and Poor’s, respectively.

The Town’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 Town’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.

Town of South Padre Island, Texas
NOTES TO FINANCIAL STATEMENTS - CONTINUED
September 30, 2008

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 AA+ 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, 2008 represents 49% of the total portfolio, and Certificates of Deposit holds the remaining 51%. 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, 2007 upon which the 2007 levy was based, was \$5,479,052. 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 Town 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 Town.

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 Town 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, 2008, was \$.24561 per \$100.

The Town 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, 2008, were 95.2 percent of the tax levy.

Town of South Padre Island, Texas
NOTES TO FINANCIAL STATEMENTS - CONTINUED
September 30, 2008

NOTE E - RECEIVABLES

Receivables at September 30, 2008, consist of the following:

	<u>General</u>	<u>Hotel/Motel Tax</u>	<u>Convention Center</u>	<u>Municipal Complex</u>	<u>Debt Service</u>	<u>Total</u>
Receivables						
Taxes	\$383,175	\$ -	\$ -	\$ -	\$ 52,332	\$435,507
Accounts	-	81,173	50,167	-	-	131,340
Special assessments	13,038	-	-	-	-	13,038
Other	<u>50,999</u>	<u>5,544</u>	-	<u>4,604</u>	-	<u>61,147</u>
Gross receivables	447,212	86,717	50,167	4,604	52,332	641,032
Less allowance for uncollectibles	<u>(32,197)</u>	-	-	-	<u>(2,527)</u>	<u>(34,724)</u>
Net total receivables	<u>\$415,015</u>	<u>\$ 86,717</u>	<u>\$ 50,167</u>	<u>\$ 4,604</u>	<u>\$ 49,805</u>	<u>\$606,308</u>

NOTE F - DUE FROM OTHER GOVERNMENTS

Due from other governments at September 30, 2008 consist of the following:

	<u>Primary Government</u>				<u>Component Unit</u>
	<u>General</u>	<u>Transportation</u>	<u>Beach Maintenance</u>	<u>Total</u>	
Texas State Comptroller – sales taxes	\$145,532	\$ -	\$ -	\$145,532	\$ 50,656
Texas State Comptroller – occupancy taxes	-	-	264,286	264,286	-
State of Texas – Department of Transportation	-	401,661	-	401,660	-
State of Texas – General Land Office and Veteran's Land	-	-	-	-	<u>32,990</u>
	<u>\$145,532</u>	<u>\$401,661</u>	<u>\$264,286</u>	<u>\$811,479</u>	<u>\$ 83,646</u>

NOTE G - CAPITAL ASSETS

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

Governmental Activities

	<u>Beginning Balance October 1, 2007</u>	<u>Additions</u>	<u>Transfers</u>	<u>Retirements</u>	<u>Ending Balance September 30, 2008</u>
Capital assets, not being depreciated:					
Land	\$ 1,497,793	\$ -	\$ -	\$ -	\$ 1,497,793
Construction in progress	<u>7,072,439</u>	-	<u>(7,072,439)</u>	-	-
	8,570,232	-	(7,072,439)	-	1,497,793
Capital assets, being depreciated:					
Buildings	12,825,969	1,678,643	7,072,439	(1,387,692)	20,189,359
Improvements	898,883	219,646	-	-	1,118,529
Furniture and equipment	6,762,831	895,255	-	(435,438)	7,222,648
Infrastructure	<u>8,857,678</u>	<u>417,921</u>	-	-	<u>9,275,599</u>
	29,345,361	3,211,465	7,072,439	(1,823,130)	37,806,135
Less accumulated depreciation for:					
Buildings	(6,649,897)	(1,009,846)	-	740,723	(6,919,020)
Improvements	(495,331)	(202,149)	-	-	(697,480)
Furniture and equipment	(4,300,750)	(636,758)	-	273,187	(4,664,321)
Infrastructure	<u>(4,328,710)</u>	<u>(282,600)</u>	-	-	<u>(4,611,310)</u>
Total accumulated depreciation	<u>(15,774,688)</u>	<u>(2,131,353)</u>	-	<u>1,013,910</u>	<u>(16,892,131)</u>
Total capital assets, being depreciated, net	<u>13,570,673</u>	<u>1,080,112</u>	<u>7,072,439</u>	<u>(890,220)</u>	<u>20,914,004</u>
Governmental activities, capital assets, net	<u>\$22,140,905</u>	<u>\$1,080,112</u>	<u>\$ -</u>	<u>\$ (809,220)</u>	<u>\$22,411,797</u>

Town of South Padre Island, Texas
NOTES TO FINANCIAL STATEMENTS - CONTINUED
September 30, 2008

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:

Site improvements	7 - 55 years
Buildings	24 - 40 years
Furniture and equipment	7 - 20 years
Vehicles	3 - 7 years

Depreciation was charged to government functions as follows:

General government	\$ 540,407
Public safety	251,805
Public works	606,125
Community service	670,045
Transportation	<u>62,971</u>
Total depreciation - governmental activities	<u>\$2,131,353</u>

Component Unit:

Activity for Economic Development Corporation is as follows:

	Beginning Balance <u>October 1, 2007</u>	<u>Additions</u>	<u>Retirements</u>	Ending Balance <u>September 30, 2008</u>
Capital assets, not being depreciated				
Land	\$ 657,236	\$ -	\$ -	\$ 657,236
Construction in progress	<u>738,043</u>	<u>3,899,934</u>	-	<u>4,637,977</u>
	1,395,279	3,899,934	-	5,295,213
Capital assets, being depreciated				
Furniture and equipment	18,304	-	-	18,304
Less accumulated depreciation	<u>(12,828)</u>	<u>(2,695)</u>	-	<u>(15,523)</u>
Total capital assets being depreciated, net	<u>5,476</u>	<u>(2,695)</u>	-	<u>2,781</u>
Total capital assets	<u>\$1,400,755</u>	<u>\$3,897,239</u>	<u>\$ -</u>	<u>\$5,297,994</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:

	<u>Unavailable</u>	<u>Unearned</u>
Governmental funds		
Delinquent property taxes receivable	\$412,409	\$ -
Grants and other	<u>-</u>	<u>64,659</u>
Total deferred/unearned revenue for governmental funds	<u>\$412,409</u>	<u>\$ 64,659</u>

Town of South Padre Island, Texas
NOTES TO FINANCIAL STATEMENTS - CONTINUED
September 30, 2008

NOTE I - LONG-TERM DEBT

Primary Government

General Obligation Bonds

The Town 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 Town. 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. General Obligation Bonds

	<u>Beginning Balance 10-1-07</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance 9-30-08</u>	<u>Due In One Year</u>
<i>General Government:</i>					
2002 Series, Combination Tax and Revenue Refunding Bonds	\$2,265,000	\$ -	\$(725,000)	\$1,540,000	\$ 755,000
2005 Series, General Obligation Bonds	4,615,000	-	(175,000)	4,440,000	185,000
2006 Series, Tax Anticipation Notes	<u>1,405,000</u>	<u>-</u>	<u>(210,000)</u>	<u>1,195,000</u>	<u>220,000</u>
Total General Obligation Bonds	<u>\$8,285,000</u>	<u>\$ -</u>	<u>\$(1,110,000)</u>	<u>\$7,175,000</u>	<u>\$1,160,000</u>

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

<u>Year Ending September 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2009	\$1,160,000	\$ 285,068	\$1,445,068
2010	1,205,000	234,612	1,439,612
2011	440,000	198,499	638,499
2012	450,000	178,944	628,944
2013	475,000	159,141	634,141
2014-2018	1,225,000	617,194	1,842,194
2019-2023	1,515,000	334,653	1,849,653
2024-2025	<u>705,000</u>	<u>32,953</u>	<u>737,953</u>
	<u>\$7,175,000</u>	<u>\$2,041,064</u>	<u>\$9,216,064</u>

Town of South Padre Island, Texas
NOTES TO FINANCIAL STATEMENTS - CONTINUED
September 30, 2008

NOTE I - LONG-TERM DEBT - Continued

Component Unit

2. Revenue Bond

	Beginning Balance October 1, <u>2007</u>	<u>Additions</u>	<u>Reductions</u>	Ending Balance September 30, <u>2008</u>	Amount Due In <u>One Year</u>
2007 Series, Sales Tax Bond	\$5,200,000	\$ -	\$ -	\$5,200,000	\$ 80,000
Total revenue bond	<u>\$5,200,000</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$5,200,000</u>	<u>\$ 80,000</u>

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

<u>Year Ending September 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2009	\$ 80,000	\$ 225,492	\$ 305,492
2010	100,000	221,559	321,559
2011	125,000	216,643	341,643
2012	145,000	210,743	355,743
2013	165,000	203,970	368,970
2014-2018	1,145,000	885,034	2,030,034
2019-2023	1,525,000	590,933	2,115,933
2024-2028	<u>1,915,000</u>	<u>216,861</u>	<u>2,131,861</u>
	<u>\$5,200,000</u>	<u>\$2,771,235</u>	<u>\$7,971,235</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 Town 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 Town'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 \$209,113. The balance outstanding of refunded bonds was \$1,530,000 at September 30, 2008.

On December 1, 2002 the Town 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.

Town of South Padre Island, Texas
NOTES TO FINANCIAL STATEMENTS - CONTINUED
September 30, 2008

NOTE I - LONG-TERM DEBT - Continued

On April 20, 2005 the Town issued 2005 Series General Obligation Bonds in order to construct and equip a new Town Hall Complex which will consist of a new Town 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.

During August 2006, the Town issued Series 2006 Tax Notes in order to supplement previously secured debt funding (2005 Series GO Bonds) to construct and equip a new Town 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.

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

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 Governmental Activities

During the year ended September 30, 2008, the following changes occurred in liabilities reported as non-current liabilities.

	<u>October 1, 2007</u>	<u>Additions</u>	<u>Reductions</u>	<u>September 30, 2008</u>	<u>Within One Year</u>
Compensated Absences*	\$ 666,085	\$360,775	\$ (349,265)	\$ 677,595	\$ 325,000
Bonds payable	<u>8,285,000</u>	-	<u>(1,110,000)</u>	<u>7,175,000</u>	<u>1,160,000</u>
	<u>\$8,951,085</u>	<u>\$360,775</u>	<u>\$(1,459,265)</u>	<u>\$7,852,595</u>	<u>\$1,485,000</u>

*Compensated absences are generally liquidated by the General Fund.

Town of South Padre Island, Texas
NOTES TO FINANCIAL STATEMENTS - CONTINUED
 September 30, 2008

NOTE J - INTERFUND ASSETS/LIABILITIES

Due to/from other funds:

<u>Payable Fund</u>	<u>Receivable Fund</u>								<u>Total</u>
	<u>General</u>	<u>Hotel Motel</u>	<u>Convention Centre</u>	<u>Transportation Grant</u>	<u>Street Improvements</u>	<u>City Hall Construction</u>	<u>Debt Service</u>	<u>NonMajor and Other</u>	
General Fund	\$ -	\$704	\$245,063	\$ 57	\$ 2,819	\$ 2	\$ 770	\$ 1,784	\$ 251,199
Hotel/Motel Fund	1,343	-	-	47,520	-	-	-	10,554	59,417
Transportation Grant	560,226	105	423	-	-	-	-	-	560,754
Hurricane Recovery	468,122	-	-	-	-	-	-	-	468,122
Beach Maintenance Fund	108,528	-	-	-	-	-	-	-	108,528
City Hall Construction	15,701	-	-	-	-	-	-	-	15,701
Nonmajor and other	<u>38,370</u>	-	-	-	-	-	-	-	<u>38,370</u>
	<u>\$1,192,290</u>	<u>\$809</u>	<u>\$245,486</u>	<u>\$47,577</u>	<u>\$ 2,819</u>	<u>\$ 2</u>	<u>\$ 770</u>	<u>\$ 12,338</u>	<u>\$1,502,091</u>

Due to/from Component Unit:

<u>Payable Fund</u>	<u>Receivable Fund</u>
Economic Development Corporation	Birding Center Construction Fund
EDC Debt Service Reserve Fund	\$317,008
	<u>290</u>
	<u>\$317,298</u>

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>Receiving Fund</u>	<u>Paying Fund</u>	<u>Amount</u>
<i>Primary Government</i>		
General Fund	Beach Maintenance Fund	\$ 235,088
Beach Nourishment Fund	Beach Maintenance Fund	500,000
Beach Access Fund	Beach Maintenance Fund	<u>250,000</u>
		985,088
Debt Service Fund	Convention Centre Fund	807,025
Capital Replacement Fund	General Fund	277,000
Long Range Planning Fund	General Fund	<u>80,000</u>
		357,000
Transportation Grant	Hotel/Motel Tax Fund	<u>60,307</u>
		<u>\$2,209,420</u>

Town of South Padre Island, Texas
NOTES TO FINANCIAL STATEMENTS - CONTINUED
September 30, 2008

NOTE K – TRANSFERS - Continued

During this fiscal year, the beach maintenance fund transferred \$235,088 to the general fund to reimburse amounts expended for beach maintenance that are funded by the Town's 1% additional Hotel Occupancy Tax, which are deposited in the beach maintenance fund. The beach maintenance fund also transferred \$500,000 to the beach nourishment fund to pay for sand replacement on the Town's beaches as well as transferring \$250,000 to the beach access fund to pay for a dune crossover walkway. The convention center transferred \$807,025 to the debt service fund to provide debt service payments currently due and payable on the convention center facility. The convention center also transferred \$60,307 to the transportation fund representing the Town's match for grant purposes. The general fund transferred \$357,000 of surplus funds to fund the purchase of fire department apparatus and long range planning for lobbyists in Austin, Texas and Washington, D.C.

NOTE L - COMMITMENTS AND CONTINGENT LIABILITIES

1. *Litigation*

The Town 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 Town Attorney, the resolution of these matters will not have a material adverse effect on the financial condition of the Town.

2. *Grant Programs*

The Town 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 - DEFERRED COMPENSATION PLAN

The Town offers its employees a deferred compensation plan created in accordance with Internal Revenue Section 457. The plan, available to all Town employees, permits them to defer a portion of their salary until future years. Participation in the plan is optional. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency.

In prior years the Internal Revenue Code specified that the plan's assets were the property of the Town until paid or made available to participants, subject only on an equal basis to the claims of the Town's general creditors. Therefore, the plan's assets were recorded as a separate agency fund in the Comprehensive Annual Financial Report of the Town. A 1996 federal law now requires all assets and income of the Internal Revenue Code 457 deferred compensation plans to be held in trust, custodial accounts, or annuity contracts for the exclusive benefit of the participants and their beneficiaries.

Assets of the Town's plan are administered by private corporations under contract with the Town. The private administrators have amended the plans to comply with the new federal law. Consequently, the plan's assets and liabilities have been removed from the Town's financial statements.

Town of South Padre Island, Texas
NOTES TO FINANCIAL STATEMENTS - CONTINUED
September 30, 2008

NOTE N - RISK MANAGEMENT

The Town 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 Town 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 Town is a member of an intergovernmental risk pool.

The risk pool is an interlocal non-assessable agency with present unreserved resources in excess of \$400,000,000 (as of September 30, 2006, 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. Town management is not aware of any pending or alleged claims that could exceed the policy limits of the present insurance coverage.

NOTE O – PENSION PLANS

Plan Description

The Town provides pension benefits for all of its full-time employees through a nontraditional, joint contributory, hybrid defined benefit plan in the state-wide Texas Municipal Retirement System (TMRS), one of 827 currently administered by TMRS, an agent multiple-employer public employee retirement system.

Benefits depend upon the sum of the employee's contributions to the plan, with interest, and the Town-financed monetary credits, with interest. At the date the plan began, the Town granted monetary credits for service rendered before the plan began of a theoretical amount equal to two times what would have been contributed by the employee, with interest, prior to establishment of the plan.

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

Members can retire at ages 60 and above with 5 or more years of service or with 20 years of service regardless of age. A member is vested after 5 years. The plan provisions are adopted by the governing body of the Town, within the options available in the state statutes governing TMRS and within the actuarial constraints also in the statutes.

Town of South Padre Island, Texas
NOTES TO FINANCIAL STATEMENTS - CONTINUED
September 30, 2008

NOTE O – PENSION PLANS - Continued

Contributions

The contribution rate for the employees is 7%, and the Town's matching percent is currently 2 to 1, both as adopted by the governing body of the Town. Under the state law governing TMRS, the actuary annually determines the Town contribution rate. This rate consists of the normal cost contribution rate and the prior service contribution rate, both of which are calculated to be a level percent of payroll from year to year. The normal cost contribution rate finances the currently accruing monetary credits due to the Town matching percent, which are the obligation of the Town as of an employee's retirement date, not at the time the employee's contributions are made. The normal cost contribution rate is the actuarially determined percent of payroll necessary to satisfy the obligation of the Town to each employee at the time his/her retirement becomes effective. The prior service contribution rate amortizes the unfunded (overfunded) actuarial liability (asset) over the remainder of the plan's 25-year amortization period. In 2007, the unit credit actuarial cost method is used for determining the Town contribution rate. Both the employees and the Town make contributions monthly. Since the Town needs to know its contribution rate in advance to budget for it, there is a one-year delay between the actuarial valuation that is the basis for the rate and the calendar year when the rate goes into effect (i.e., December 31, 2007 valuation is effective for rates beginning January 2009).

At its December 8, 2007 meeting, the TMRS Board of Trustees adopted actuarial assumptions to be used in the actuarial valuation for the year ended December 31, 2007. A summary of actuarial assumptions and definitions can be found in the December 31, 2007 TMRS Comprehensive Annual Financial Report (CAFR), a copy of which may be obtained by writing to P. O Box 149153, Austin, Texas 78714-9153.

Since its inception, TMRS has used the Unit Credit actuarial funding method. This method accounts for liability accrued as of the valuation date, but does not project the potential future liability of provisions adopted by a Town. Two-thirds of the cities participating in TMRS have adopted the Updated Service Credit and Annuity Increases provisions on an annually repeating basis. For the December 31, 2007 valuation, the TMRS Board determined that the Projected Unit Credit (PUC) funding method should be used, which facilitates advance funding for future updated service credits and annuity increases that are adopted on an annually repeating basis. In addition, the Board also adopted a change in the amortization period from a 25-year "open" to a 25-year "closed" period. TMRS Board of Trustees rules provide that, whenever a change in actuarial assumptions or methods results in a contribution rate increase in an amount greater than 0.5%, the amortization period will be increased to 30 years, unless a Town requests that the period remain at 25 years. For cities with repeating features, these changes would likely result initially in higher required contributions and lower funded ratios, however, the funded ratio should show steady improvement over time. To assist in this transition to higher rates, the Board also approved an eight-year phase-in period, which will allow cities the opportunity to increase their contributions gradually (approximately 12.5% each year) to their full rate (or their required contribution rate).

If the changes in actuarial funding method and assumptions had not been adopted for the 2007 valuation, the Town's unfunded actuarial accrued liability would have been \$507,179 and the funded ratio would have been 94.9%.

Town of South Padre Island, Texas
NOTES TO FINANCIAL STATEMENTS - CONTINUED
September 30, 2008

NOTE O – PENSION PLANS - Continued

In addition, TMRS is currently working on its legislative package for 2009. There is a possibility that the investment rate of return (IRR) assumption of 7% would need to be lowered if desired legislation for the 2009 session is unsuccessful. Maintaining a 7% IRR assumption is contingent in part on the continued diversification of the TMRS portfolio, from an almost exclusive bond portfolio to a portfolio that includes equities as well. If state legislation needed to facilitate the continued diversification is not enacted, TMRS may have to revisit the continued diversification of the portfolio and consider reducing the assumed IRR. A reduction in the IRR would result in increased actuarial accrued liabilities, thus causing further increases in Town contribution rates, following the December 31, 2009 actuarial valuation.

Annual Pension Cost - The Town's pension cost for the year ended September 30, 2008 and 2007, and related information follow.

Contribution rates:

Town	
Plan members	10.50%
Annual pension cost	\$431,398
Contributions made	\$431,398
Actuarial valuation date	12/31/07
Actuarial cost method	projected unit credit

Actuarial assumptions:

Investment rate of return	7%
Projected salary increases	varies by age and service
Includes inflation at	3.0%
Cost-of-living adjustments	2.1% (3.0% CPI)
Amortization method	level percent of payroll
Remaining amortization period	30 years - closed period
Asset valuation method	amortized cost

Trend Information - Information for each of the six most recent actuarial valuations for the Town follows.

Contributions Required and Contributions Made

<u>Year Ended</u> <u>September 30</u>	<u>Annual Pension</u> <u>Cost (APC)</u>	<u>Percentage of</u> <u>APC</u> <u>Contributed</u>	<u>Net</u> <u>Pension</u> <u>Obligation</u>
2008	\$431,398	100%	\$ 0
2007	408,743	100%	0
2006	418,167	100%	0
2005	362,672	100%	0
2004	323,641	100%	0
2003	292,724	100%	0

Town of South Padre Island, Texas
NOTES TO FINANCIAL STATEMENTS - CONTINUED
September 30, 2008

NOTE P - OTHER POST EMPLOYMENT BENEFITS

Plan Description

The Town also provides a Supplemental Death Benefit to all active employees and retirees through a cost sharing multiple-employer defined benefit group term life insurance plan. The Texas Municipal Retirement System also administers this insurance plan known as the Supplemental Death Benefits Fund (SDBF). This is a voluntary program in which participating municipalities may elect, by ordinance, to provide group-term life insurance coverage ("supplemental death benefits") for their active members and/or retirees. The Town 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 1st.

Benefits

Payments from this fund are similar to group-term life insurance benefits, and are paid to the designated beneficiaries upon the receipt of an approved application for payment. 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). The death benefit for retirees is considered a post employment benefit other than pension benefit (OPEB or other post employment benefit) and is a fixed amount of \$7,500. The obligations of this plan are payable only from the SDBF and are not an obligation of, or a claim against, the Pension Trust Fund.

Contributions

Contributions are made monthly based on the covered payroll of employee members of the Town. The contractually required contribution rate is determined annually. The rate is based on the mortality and service experience of all employees covered by the SDBF and the demographics specific to the workforce of the Town. There is a one-year delay between the actuarial valuation that serves as the basis for the employer contribution rate and the calendar year when the rate goes into effect. The contributions to the SDBF are pooled for investment purposes with those of the Pension Trust Fund. The TMRS Act requires the Pension Trust Fund to allocate investment income to the SDBF on an annual basis. The funding policy of this plan is to assure that adequate resources are available to meet all death benefit payments for the upcoming year; the intent is not to prefund retiree term life insurance during employees' entire careers. As such, contributions are utilized to fund active member deaths on a pay-as-you-go basis; any excess contributions and investment income over payments then become net assets available for OPEB.

Town of South Padre Island, Texas
NOTES TO FINANCIAL STATEMENTS - CONTINUED
September 30, 2008

NOTE P - OTHER POST EMPLOYMENT BENEFITS - Continued

Annual Pension Cost - The Town's OPEB cost for the year ended September 30, 2007 and 2006, and related information follow.

Valuation date	12/31/2007
Actuarial cost method	projected unit credit
Amortization method	level percent of payroll
Amortization period	25 years – open period
Asset valuation method	fund value
Assumptions:	
	Investment return 4.25%
	Projected salary increases none
	Inflation 3.00%
	Cost of living adjustments none

The Town contributes to the SDBF at a contractually required rate as determined by an annual actuarial valuation. Such rates were 0.25% and 0.23% in 2007 and 2006, respectively, as a percentage of covered payroll. 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 prefund retiree term life insurance during employees' entire careers. The Town's contributions to the SDBF for the years ended December 31, 2007 and 2006 were \$10,145, and \$9,132, respectively, which equaled the required contributions each year.

NOTE Q - 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 Town. The Town received \$630,474 as a result of this additional allocation and expended \$1,203,017 of it and reserved funds during the fiscal year ended September 30, 2008. The Town accounts for this activity in the Beach Maintenance Fund. The balance of the unexpended funds at the beginning of the year, \$1,320,614, together with interest earned on these funds of \$37,883, is decreased by the current year expenditure amount being larger than current year revenue amount, leaving \$1,000,669 legally reserved in the fund equity portion of the balance sheet at year end.

NOTE R - IMPAIRMENT OF CAPITAL ASSETS

The Town sustained damages to various Town structures a result of Hurricane Dolly on July 23, 2008. The Convention Centre and Fire Department suffered extensive damage while other Town structures required minor repairs. The Town expended \$1,482,055 to mitigate damages and to begin the repair process. Insurance proceeds in the amount of \$1,000,000 were received and used to fund a majority of these repairs. The Town is in the process of determining the actual cash value of the damages along with negotiating an appropriate settlement with the insurance carrier. While the amounts involved are undeterminable at this time, it is the opinion of the Town that the resolution of these matters will not have a material adverse effect on the financial condition of the Town.

Town of South Padre Island, Texas
NOTES TO FINANCIAL STATEMENTS - CONTINUED
September 30, 2008

NOTE R - IMPAIRMENT OF CAPITAL ASSETS - Continued

The Town evaluates prominent events or changes in circumstances affecting capital assets to determine whether impairment of a capital asset has occurred in accordance with GASB 42, "Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries."

Town management has determined that certain identified capital assets were impaired and recorded an impairment loss of \$809,220 resulting from the hurricane. The Town recorded the impairment loss in the government wide financial statements. General Government expenses include an impairment loss of \$32,106, Public Safety expenses include an impairment loss of \$32,137, Public Works expenses include an impairment loss of \$3,259 and Community Service expenses include an impairment loss of \$741,718. This loss was not recorded as an extraordinary item since the Texas Gulf Coast is susceptible to hurricanes.

	<u>General Government Real Property</u>	<u>Public Safety Real Property</u>	<u>Public Works Real Property</u>	<u>Community Service Real Property</u>	<u>Machinery Equipment</u>	<u>Total</u>
Historical cost	\$8,824,552	\$226,676	\$281,061	\$10,140,261	\$428,423	\$19,900,973
Less accumulated depreciation	<u>758,624</u>	<u>107,192</u>	<u>91,433</u>	<u>5,577,144</u>	<u>268,789</u>	<u>6,803,182</u>
Net book value	<u>\$8,065,928</u>	<u>\$119,484</u>	<u>\$189,628</u>	<u>\$ 4,563,117</u>	<u>\$159,634</u>	<u>\$13,097,791</u>
Estimated restoration costs	<u>\$ 35,141</u>	<u>\$109,588</u>	<u>\$ 7,199</u>	<u>\$ 1,952,409</u>	<u>\$518,373</u>	<u>\$ 2,622,710</u>
Loss on impairment*	<u>\$ 32,106</u>	<u>\$ 32,137</u>	<u>\$ 3,259</u>	<u>\$ 579,467</u>	<u>\$162,251</u>	<u>\$ 809,220</u>

*In accordance with GASB 42, the impairment loss is measured by deflating the estimated costs to restore the asset by a cost index based on the age of the impaired assets.

NOTE S - SUBSEQUENT EVENT

On March 25, 2009, the Town received approximately \$2,000,000 in insurance recoveries related to damages sustained from Hurricane Dolly. Additionally, the Town received FEMA grant funds of approximately \$112,000 related to the hurricane.

(This page intentionally left blank)

**REQUIRED SUPPLEMENTARY
INFORMATION**

Town of South Padre Island, Texas
Pension Plan Schedule of Funding Progress
September 30, 2008

Funding Progress - An analysis of funding progress for the entities as of September 30, 2008, follows.

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL) - Unit Credit	Overfunded (Unfunded) AAL (UAAL)	Funded Ratio	Covered Payroll	AAL (UAAL) as a Percentage of Covered Payroll
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	(9.20%)
12/31/04	7,548,520	7,751,625	(203,105)	97.4	3,632,677	(5.67%)
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	(1,567,645)	86.3	4,748,977	(31.75%)

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, 2008

	Budget		Actual	Variance
	Original	Final		Final Budget Positive (Negative)
REVENUES				
Property taxes - including penalty and interest	\$ 4,769,564	4,769,564	\$ 4,763,250	\$ (6,314)
Nonproperty taxes	2,587,000	2,587,000	2,758,355	171,355
Fees and services	27,500	27,500	27,302	(198)
Fines and forfeitures	300,000	300,000	211,084	(88,916)
Licenses and permits	446,600	446,600	573,866	127,266
Intergovernmental	81,000	81,000	343,842	262,842
Miscellaneous and program revenues	<u>272,300</u>	<u>272,300</u>	<u>347,189</u>	<u>74,889</u>
Total revenues	8,483,964	8,483,964	9,024,888	540,924
EXPENDITURES				
Current				
General government				
Board of aldermen	20,500	20,500	8,496	12,004
City administration	470,819	464,466	408,187	56,279
Finance	280,754	295,954	298,874	(2,920)
Planning	121,149	131,149	126,197	4,952
Technology	251,869	253,869	244,353	9,516
General services	2,397,296	2,450,380	1,098,264	1,352,116
Special projects	<u>397,870</u>	<u>490,870</u>	<u>273,348</u>	<u>217,522</u>
Total general government	3,940,257	4,107,188	2,457,719	1,649,469
Public safety				
Municipal court	142,573	152,673	155,656	(2,983)
Police	2,197,665	2,206,695	2,165,577	41,118
Fire	<u>1,255,122</u>	<u>1,322,262</u>	<u>1,468,311</u>	<u>(146,049)</u>
Total public safety	3,595,360	3,681,630	3,789,544	(107,914)
Public works				
Building maintenance	36,811	36,016	25,659	10,357
Inspections	215,154	222,722	223,932	(1,210)
Public works	<u>1,167,239</u>	<u>1,168,839</u>	<u>1,116,293</u>	<u>52,546</u>
Total public works	1,419,204	1,427,577	1,365,884	61,693
Community service				
Code enforcement	<u>287,172</u>	<u>322,353</u>	<u>326,736</u>	<u>(4,383)</u>
Total community service	287,172	322,353	326,736	(4,383)
Capital outlay				
Total expenditures	<u>614,550</u>	<u>671,795</u>	<u>308,026</u>	<u>363,769</u>
Total expenditures	<u>9,856,543</u>	<u>10,210,543</u>	<u>8,247,909</u>	<u>1,962,634</u>
EXCESS OF REVENUES OVER EXPENDITURES	(1,372,579)	(1,726,579)	776,979	2,503,558

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, 2008

	Budget		Actual	Variance Final Budget Positive (Negative)
	Original	Final		
OTHER FINANCING SOURCES (USES)				
Sale of fixed asset	\$ -	\$ -	\$ 785	\$ 785
Transfers in	400,000	400,000	235,088	(164,912)
Transfers out	<u>(330,000)</u>	<u>(330,000)</u>	<u>(357,000)</u>	<u>(27,000)</u>
Total other financing sources (uses)	<u>70,000</u>	<u>70,000</u>	<u>(121,127)</u>	<u>(191,127)</u>
NET CHANGE IN FUND BALANCE	<u>\$ (1,302,579)</u>	<u>\$ (1,656,579)</u>	655,852	<u>\$ 2,312,431</u>
Fund balance -- beginning			<u>5,149,648</u>	
Fund balance -- ending			<u>\$ 5,805,500</u>	

Town 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, 2008

	Budget		Actual	Variance
	Original	Final		Final Budget Positive (Negative)
REVENUES				
Nonproperty taxes	\$ 3,884,846	\$ 3,884,846	\$ 3,013,228	\$ (871,618)
Fees and services	93,000	93,000	35,297	(57,703)
Miscellaneous and program revenues	<u>30,000</u>	<u>30,000</u>	<u>18,545</u>	<u>(11,455)</u>
Total revenues	4,007,846	4,007,846	3,067,070	(940,776)
EXPENDITURES				
Current				
Community service				
Visitors bureau	435,915	352,315	316,208	36,107
Sales and marketing	2,836,893	3,136,893	3,082,585	54,308
Events marketing	<u>732,245</u>	<u>698,345</u>	<u>697,980</u>	<u>365</u>
Total community service	4,005,053	4,187,553	4,096,773	90,780
Capital outlay				
	<u>-</u>	<u>47,500</u>	<u>17,886</u>	<u>29,614</u>
Total expenditures	<u>4,005,053</u>	<u>4,235,053</u>	<u>4,114,659</u>	<u>120,394</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES				
	2,793	(227,207)	(1,047,589)	(820,382)
OTHER FINANCING SOURCES (USES)				
Transfers out	<u>-</u>	<u>(50,000)</u>	<u>(60,307)</u>	<u>(10,307)</u>
Total other financing sources (uses)	<u>-</u>	<u>(50,000)</u>	<u>(60,307)</u>	<u>(10,307)</u>
NET CHANGE IN FUND BALANCE				
	<u>\$ 2,793</u>	<u>\$ (277,207)</u>	(1,107,896)	<u>\$ (830,689)</u>
Fund balance -- beginning			<u>1,693,948</u>	
Fund balance -- ending			<u>\$ 586,052</u>	

Town 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, 2008

	Budget		Actual	Variance
	Original	Final		Final Budget Positive (Negative)
REVENUES				
Nonproperty taxes	\$ 2,027,333	\$ 2,027,333	\$ 1,597,011	\$ (430,322)
Convention center revenue	197,500	297,500	235,590	(61,910)
Miscellaneous and program revenues	<u>77,000</u>	<u>77,000</u>	<u>48,683</u>	<u>(28,317)</u>
Total revenues	2,301,833	2,401,833	1,881,284	(520,549)
EXPENDITURES				
Current				
Community service				
Convention centre	<u>2,301,790</u>	<u>1,013,540</u>	<u>1,045,290</u>	<u>(31,750)</u>
Total community service	2,301,790	1,013,540	1,045,290	(31,750)
Capital outlay	<u>-</u>	<u>414,000</u>	<u>261,414</u>	<u>152,586</u>
Total expenditures	<u>2,301,790</u>	<u>1,427,540</u>	<u>1,306,704</u>	<u>120,836</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES				
	43	974,293	574,580	(399,713)
OTHER FINANCING SOURCES (USES)				
Transfers out	<u>-</u>	<u>(807,250)</u>	<u>(807,025)</u>	<u>225</u>
Total other financing sources (uses)	<u>-</u>	<u>(807,250)</u>	<u>(807,025)</u>	<u>225</u>
NET CHANGE IN FUND BALANCE				
	<u>\$ 43</u>	<u>\$ 167,043</u>	(232,445)	<u>\$ (399,488)</u>
Fund balance -- beginning			<u>2,183,744</u>	
Fund balance -- ending			<u>\$ 1,951,299</u>	

Town 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, 2008

	Budget		Actual	Variance
	Original	Final		Final Budget Positive (Negative)
REVENUES				
Intergovernmental	\$ 538,081	\$ 538,081	\$ 634,136	\$ 96,055
Miscellaneous and program revenues	<u>-</u>	<u>-</u>	<u>10,372</u>	<u>10,372</u>
Total revenues	538,081	538,081	644,508	106,427
EXPENDITURES				
Current				
Transportation				
Transportation	<u>407,662</u>	<u>407,662</u>	<u>535,026</u>	<u>(127,364)</u>
Total transportation	407,662	407,662	535,026	(127,364)
Capital outlay				
Capital outlay	<u>208,948</u>	<u>208,948</u>	<u>187,339</u>	<u>21,609</u>
Total expenditures	<u>616,610</u>	<u>616,610</u>	<u>722,365</u>	<u>(105,755)</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(78,529)	(78,529)	(77,857)	672
OTHER FINANCING SOURCES (USES)				
Transfers in	<u>50,000</u>	<u>50,000</u>	<u>60,307</u>	<u>10,307</u>
Total other financing sources (uses)	<u>50,000</u>	<u>50,000</u>	<u>60,307</u>	<u>10,307</u>
NET CHANGE IN FUND BALANCE	<u>\$ (28,529)</u>	<u>\$ (28,529)</u>	(17,550)	<u>\$ 10,979</u>
Fund balance -- beginning			<u>74,951</u>	
Fund balance -- ending			<u>\$ 57,401</u>	

(This page intentionally left blank)

Town of South Padre Island, Texas
NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
Year Ended September 30, 2008

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 Town 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 Town 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 Board of Aldermen 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 Town Hall to obtain taxpayer and elected officials’ comments.
- d. Prior to October 1, the budget is legally adopted by the Board of Aldermen.
- e. Revisions that alter budgets at the department level within a fund must be approved by the Board of Aldermen. 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 Town Aldermen for review. The Town Aldermen 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 Town Manager or the revenue estimates must be changed by an affirmative vote of a majority of the Town Aldermen.

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

At September 30, 2008, expenditures exceeded appropriations in the Transportation Grant Fund. Additional grant funds were awarded to the Town subsequent to the budget approval process. Neither the revenue nor expenditure budgets were amended to reflect this increase in awards. Future periods will reflect the appropriate budget changes.

(This page intentionally left blank)

**OTHER SUPPLEMENTARY
INFORMATION**

(This page intentionally left blank)

OTHER MAJOR GOVERNMENTAL FUNDS

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

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

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.

Town of South Padre Island, Texas
BEACH MAINTENANCE FUND
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
For the Year Ended September 30, 2008

	Budget		Actual	Variance
	Original	Final		Final Budget Positive (Negative)
REVENUES				
Nonproperty taxes	\$ 725,000	\$ 725,000	\$ 630,474	\$ (94,526)
Miscellaneous and program revenues	<u>50,000</u>	<u>50,000</u>	<u>37,883</u>	<u>(12,117)</u>
Total revenues	775,000	775,000	668,357	(106,643)
EXPENDITURES				
Current				
Public works				
Public works	<u>40,000</u>	<u>79,000</u>	<u>77,917</u>	<u>1,083</u>
Total public works	40,000	79,000	77,917	1,083
Capital outlay				
Capital outlay	<u>158,850</u>	<u>180,725</u>	<u>140,012</u>	<u>40,713</u>
Total expenditures	<u>198,850</u>	<u>259,725</u>	<u>217,929</u>	<u>41,796</u>
EXCESS OF REVENUES OVER EXPENDITURES	576,150	515,275	450,428	(64,847)
OTHER FINANCING SOURCES (USES)				
Transfers out	<u>(1,150,000)</u>	<u>(1,150,000)</u>	<u>(985,088)</u>	<u>164,912</u>
Total other financing sources (uses)	<u>(1,150,000)</u>	<u>(1,150,000)</u>	<u>(985,088)</u>	<u>164,912</u>
NET CHANGE IN FUND BALANCE	<u>\$ (573,850)</u>	<u>\$ (634,725)</u>	(534,660)	<u>\$ 100,065</u>
Fund balance -- beginning			<u>1,535,329</u>	
Fund balance -- ending			<u>\$ 1,000,669</u>	

Town of South Padre Island, Texas
MUNICIPAL COMPLEX FUND
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
For the Year Ended September 30, 2008

	Budget		Actual	Variance Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Miscellaneous and program revenues	\$ 2,000	\$ 2,000	\$ 13,849	\$ 11,849
Total revenues	2,000	2,000	13,849	11,849
EXPENDITURES				
Current				
General government	-	-	26,726	(26,726)
Capital outlay	4,000,000	4,000,000	1,383,466	2,616,534
Total expenditures	4,000,000	4,000,000	1,410,192	2,589,808
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(3,998,000)	(3,998,000)	(1,396,343)	2,601,657
NET CHANGE IN FUND BALANCE	<u>\$ (3,998,000)</u>	<u>\$ (3,998,000)</u>	\$ (1,396,343)	<u>\$ 2,601,657</u>
Fund balance -- beginning			<u>1,342,423</u>	
Fund balance -- ending			<u>\$ (53,920)</u>	

Town 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, 2008

	Budget		Actual	Variance
	Original	Final		Final Budget Positive (Negative)
REVENUES				
Property taxes	\$ 632,361	\$ 632,361	\$ 630,199	\$ (2,162)
Miscellaneous and program revenues	<u>10,000</u>	<u>10,000</u>	<u>28,352</u>	<u>18,352</u>
Total revenues	642,361	642,361	658,551	16,190
EXPENDITURES				
Debt service				
Principal retirement	1,110,000	1,110,000	1,110,000	-
Interest	329,386	329,386	329,243	143
Community Service	<u>750</u>	<u>750</u>	<u>500</u>	<u>250</u>
Total expenditures	<u>1,440,136</u>	<u>1,440,136</u>	<u>1,439,743</u>	<u>393</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(797,775)	(797,775)	(781,192)	16,583
OTHER FINANCING SOURCES (USES)				
Transfers in	<u>807,025</u>	<u>807,025</u>	<u>807,025</u>	<u>-</u>
Total other financing sources (uses)	<u>807,025</u>	<u>807,025</u>	<u>807,025</u>	<u>-</u>
NET CHANGE IN FUND BALANCE	<u>\$ 9,250</u>	<u>\$ 9,250</u>	25,833	<u>\$ 16,583</u>
Fund balance -- beginning			<u>330,961</u>	
Fund balance -- ending			<u>\$ 356,794</u>	

**NON-MAJOR GOVERNMENTAL FUNDS
COMBINING 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: **Criminal Justice Fund** is used to account for miscellaneous grant revenues that are received.

Special revenue fund: **The Beach Nourishment Fund** was established to account for nourishment efforts on the beach.

Special revenue fund: **Padre Blvd Improvements Fund** was established to account for a special hotel motel tax that was collected to make specific improvements to Padre Blvd.

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

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

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

Town of South Padre Island, Texas
NON MAJOR GOVERNMENTAL FUNDS
BALANCE SHEETS
September 30, 2008

	Special Revenue Funds			
	Municipal Court Technology Fund	Municipal Court Security Fund	Criminal Justice Grant	Beach Nourishment Fund
ASSETS				
Cash and cash equivalents	\$ 15,427	\$ 14,196	\$ 4,058	\$ 331,645
Due from other funds	33	30	9	926
Due from component unit	-	-	-	100,000
Due from other governments	-	-	-	-
Prepaid items	-	-	-	-
TOTAL ASSETS	<u>\$ 15,460</u>	<u>\$ 14,226</u>	<u>\$ 4,067</u>	<u>\$ 432,571</u>
 LIABILITIES AND FUND BALANCE				
Due to other funds	\$ -	\$ -	\$ -	\$ -
Other liabilities	-	-	-	-
Deferred revenues	-	-	317	-
TOTAL LIABILITIES	-	-	317	-
 Fund balance				
Unreserved, undesignated	15,460	14,226	3,750	432,571
Reserved for debt service	-	-	-	-
	<u>15,460</u>	<u>14,226</u>	<u>3,750</u>	<u>432,571</u>
 TOTAL LIABILITIES AND FUND BALANCE	<u>\$ 15,460</u>	<u>\$ 14,226</u>	<u>\$ 4,067</u>	<u>\$ 432,571</u>

<u>Special Revenue Funds</u>		<u>Capital Projects Funds</u>			<u>Total Non Major Governmental Funds</u>
<u>Pirate Days Fund</u>	<u>Capital Replacement Fund</u>	<u>Long Range Planning Fund</u>	<u>Bay Access Fund</u>	<u>Beach Access Fund</u>	
\$ 27,817	\$ 70,734	\$ 21,534	\$ 75,888	\$ 198,534	\$ 759,833
10,554	152	46	163	425	12,338
-	-	-	-	-	100,000
-	-	-	-	-	-
-	-	102	-	-	102
<u>\$ 38,371</u>	<u>\$ 70,886</u>	<u>\$ 21,682</u>	<u>\$ 76,051</u>	<u>\$ 198,959</u>	<u>\$ 872,273</u>
\$ 38,370	\$ -	\$ -	\$ -	\$ -	\$ 38,370
1	-	-	-	-	1
-	-	-	-	-	317
38,371	-	-	-	-	38,688
-	70,886	21,682	76,051	47,205	681,831
-	-	-	-	151,754	151,754
-	70,886	21,682	76,051	198,959	833,585
<u>\$ 38,371</u>	<u>\$ 70,886</u>	<u>\$ 21,682</u>	<u>\$ 76,051</u>	<u>\$ 198,959</u>	<u>\$ 872,273</u>

Town of South Padre Island, Texas
NON MAJOR GOVERNMENTAL FUNDS
STATEMENT OF REVENUE, EXPENDITURES AND
CHANGES IN FUND BALANCES
For the Year Ended September 30, 2008

	Special Revenue Funds			
	Municipal Court Technology Fund	Municipal Court Security Fund	Criminal Justice Grant	Beach Nourishment Fund
Revenues				
Fines and forfeitures	\$ 4,643	\$ 3,482	\$ -	\$ -
Intergovernmental	-	-	-	100,000
Miscellaneous and program revenue	<u>753</u>	<u>382</u>	<u>70</u>	<u>11,243</u>
Total revenues	5,396	3,864	70	111,243
Expenditures				
Current			-	
General government	-	-	-	-
Public safety	4,648	-	-	-
Public works	-	-	-	-
Transportation	-	-	-	528,546
Capital outlay	<u>16,369</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total expenditures	<u>21,017</u>	<u>-</u>	<u>-</u>	<u>528,546</u>
EXCESS (DEFICIENCY) REVENUES OVER (UNDER) EXPENDITURES	(15,621)	3,864	70	(417,303)
Other financing sources (uses)				
Transfers in	<u>-</u>	<u>-</u>	<u>-</u>	<u>500,000</u>
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>-</u>	<u>500,000</u>
EXCESS (DEFICIENCY) OF REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	(15,621)	3,864	70	82,697
Fund balance, beginning of year	<u>31,081</u>	<u>10,362</u>	<u>3,680</u>	<u>349,874</u>
Fund balance, end of year	<u>\$ 15,460</u>	<u>\$ 14,226</u>	<u>\$ 3,750</u>	<u>\$ 432,571</u>

Special Revenue Funds		Capital Projects Funds			Total Non Major Governmental Funds
Pirate Days Fund	Capital Replacement Fund	Long Range Planning Fund	Bay Access Fund	Beach Access Fund	
\$ -	\$ -	\$ -	\$ -	\$ -	\$ 8,125
-	-	-	-	-	100,000
<u>38,282</u>	<u>3,787</u>	<u>1,917</u>	<u>2,922</u>	<u>7,738</u>	<u>67,094</u>
38,282	3,787	1,917	2,922	7,738	175,219
38,282	-	79,939	-	-	118,221
-	-	-	-	-	4,648
-	-	-	22,082	8,496	30,578
-	-	-	-	-	528,546
-	<u>276,999</u>	-	-	<u>202,038</u>	<u>495,406</u>
<u>38,282</u>	<u>276,999</u>	<u>79,939</u>	<u>22,082</u>	<u>210,534</u>	<u>1,177,399</u>
-	(273,212)	(78,022)	(19,160)	(202,796)	(1,002,180)
-	<u>277,000</u>	<u>80,000</u>	-	<u>250,000</u>	<u>1,107,000</u>
-	<u>277,000</u>	<u>80,000</u>	-	<u>250,000</u>	<u>1,107,000</u>
-	3,788	1,978	(19,160)	47,204	104,820
-	<u>67,098</u>	<u>19,704</u>	<u>95,211</u>	<u>151,755</u>	<u>728,765</u>
<u>\$ -</u>	<u>\$ 70,886</u>	<u>\$ 21,682</u>	<u>\$ 76,051</u>	<u>\$ 198,959</u>	<u>\$ 833,585</u>

Town 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, 2008

	<u>Budget</u>		<u>Actual</u>	Variance
	<u>Original</u>	<u>Final</u>		Final Budget Positive (Negative)
REVENUES				
Fines and forfeitures	\$ 7,000	\$ 7,000	\$ 4,643	\$ (2,357)
Miscellaneous and program revenues	<u>800</u>	<u>800</u>	<u>753</u>	<u>(47)</u>
Total revenues	7,800	7,800	5,396	(2,404)
 EXPENDITURES				
Current				
Municipal court	5,600	5,600	4,648	952
Capital outlay	<u>10,000</u>	<u>10,000</u>	<u>16,369</u>	<u>(6,369)</u>
Total expenditures	<u>15,600</u>	<u>15,600</u>	<u>21,017</u>	<u>(5,417)</u>
 NET CHANGE IN FUND BALANCE	 <u>\$ (7,800)</u>	 <u>\$ (7,800)</u>	 (15,621)	 <u>\$ (7,821)</u>
 Fund balance -- beginning			 <u>31,081</u>	
Fund balance -- ending			 <u>\$ 15,460</u>	

Town 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, 2008

	<u>Budget</u>		<u>Actual</u>	Variance
	<u>Original</u>	<u>Final</u>		Final Budget Positive (Negative)
REVENUES				
Fines and forfeitures	\$ 4,500	\$ 4,500	\$ 3,482	\$ (1,018)
Miscellaneous and program revenues	<u>200</u>	<u>200</u>	<u>382</u>	<u>182</u>
Total revenues	4,700	4,700	3,864	(836)
EXPENDITURES				
Current				
Public safety	<u>5,000</u>	<u>5,000</u>	<u>-</u>	<u>5,000</u>
Total expenditures	<u>5,000</u>	<u>5,000</u>	<u>-</u>	<u>5,000</u>
NET CHANGE IN FUND BALANCE	<u>\$ (300)</u>	<u>\$ (300)</u>	3,864	<u>\$ 4,164</u>
Fund balance -- beginning			<u>10,362</u>	
Fund balance -- ending			<u>\$ 14,226</u>	

Town 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, 2008

	Budget		Actual	Variance Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Intergovernmental	\$ -	\$ -	\$ 100,000	\$ 100,000
Miscellaneous and program revenues	<u>12,000</u>	<u>12,000</u>	<u>11,243</u>	<u>(757)</u>
Total revenues	12,000	12,000	111,243	99,243
EXPENDITURES				
Current				
Community service	<u>500,000</u>	<u>500,000</u>	<u>528,546</u>	<u>(28,546)</u>
Total expenditures	<u>500,000</u>	<u>500,000</u>	<u>528,546</u>	<u>(28,546)</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES				
	(488,000)	(488,000)	(417,303)	70,697
Transfer in	500,000	500,000	500,000	-
NET CHANGE IN FUND BALANCE	<u>\$ 12,000</u>	<u>\$ 12,000</u>	82,697	<u>\$ 70,697</u>
Fund balance -- beginning			<u>349,874</u>	
Fund balance -- ending			<u>\$ 432,571</u>	

COMPONENT UNIT

South Padre Island Economic Development Corporation (EDC): The five-member board of directors is appointed by the Town Board of Aldermen. 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 Town. The EDC's operational and capital budget must be approved by the Board of Aldermen of the Town.

Town of South Padre Island, Texas
SOUTH PADRE ISLAND ECONOMIC DEVELOPMENT CORPORATION
DISCRETELY PRESENTED COMPONENT UNIT
COMBINING BALANCE SHEET
September 30, 2008

ASSETS	Economic Development Corporation General Fund	Birding Center Construction Fund	EDC Debt Service Reserve Fund	EDC Debt Service Fund	Total Component Unit
Cash	\$ 685,298	\$ 1,338,499	\$ 430,917	\$ 3,915	\$ 2,458,629
Prepaid expenses	520	-	-	193,620	194,140
Due from other governments	50,656	32,990	-	-	83,646
Due from primary government	947	205	-	8	1,160
Due from other funds	-	317,298	-	-	317,298
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
TOTAL ASSETS	<u>\$ 737,421</u>	<u>\$ 1,688,992</u>	<u>\$ 430,917</u>	<u>\$ 197,543</u>	<u>\$ 3,054,873</u>
 LIABILITIES AND FUND BALANCE					
Liabilities					
Accounts payable	\$ -	\$ 199,508	\$ -	\$ -	\$ 199,508
Other liabilities	1,096	-	-	-	1,096
Due to primary government	225,489	-	-	-	225,489
Due to other funds	317,008	-	290	-	317,298
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total liabilities	543,593	199,508	290	-	743,391
 Fund balance					
Reserved for debt service			430,627	197,535	628,162
Unreserved	193,828	1,489,484	-	8	1,683,320
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
	193,828	1,489,484	430,627	197,543	2,311,482
TOTAL LIABILITIES AND FUND BALANCE	<u>\$ 737,421</u>	<u>\$ 1,688,992</u>	<u>\$ 430,917</u>	<u>\$ 197,543</u>	<u>\$ 3,054,873</u>

Town 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, 2008

Fund balances of the component unit funds \$ 2,311,482

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. 5,297,994

Some liabilities, including bonds payable, are not due in the current period and therefore not reported in the funds. (5,200,000)

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. 63,741

Net assets of governmental type activities \$ 2,473,217

Town 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, 2008

	Economic Development Corporation General Fund	Birding Center Construction Fund	EDC Debt Service Reserve Fund	EDC Debt Service Fund	Total Component Unit
REVENUES					
Sales taxes	\$ 586,459	\$ -	\$ -	\$ -	\$ 586,459
Intergovernmental revenues	-	1,009,982	-	-	1,009,982
Miscellaneous and program revenues	<u>8,570</u>	<u>17,799</u>	<u>1,740</u>	<u>3,923</u>	<u>32,032</u>
Total revenues	595,029	1,027,781	1,740	3,923	1,628,473
EXPENDITURES					
Current					
Community service	462,821	-	-	-	462,821
Debt service					
Interest expense				155,912	155,912
Capital outlay	<u>-</u>	<u>3,899,934</u>	<u>-</u>	<u>-</u>	<u>3,899,934</u>
Total expenditures	<u>462,821</u>	<u>3,899,934</u>	<u>-</u>	<u>155,912</u>	<u>4,518,667</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES					
	132,208	(2,872,153)	1,740	(151,989)	(2,890,194)
Other financing sources (uses)					
Transfers out	(310,555)	-	(290)	-	(310,845)
Transfers in	<u>-</u>	<u>290</u>	<u>-</u>	<u>310,555</u>	<u>310,845</u>
Total other financing sources (uses)	<u>(310,555)</u>	<u>290</u>	<u>(290)</u>	<u>310,555</u>	<u>-</u>
Net change in fund balances	(178,347)	(2,871,863)	1,450	158,566	(2,890,194)
Fund balance -- beginning	<u>372,175</u>	<u>4,361,347</u>	<u>429,177</u>	<u>38,977</u>	<u>5,201,676</u>
Fund balance -- ending	<u>\$ 193,828</u>	<u>\$ 1,489,484</u>	<u>\$ 430,627</u>	<u>\$ 197,543</u>	<u>\$2,311,482</u>

Town 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, 2008

Net change in fund balances --total component unit funds \$ (2,890,194)

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 (\$3,899,934) exceeded depreciation, (\$2,695) in the current period.

3,897,239

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)

Change in net assets of governmental activities

\$ 1,003,504

(This page intentionally left blank)

STATISTICAL SECTION

This part of the Town 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.

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

Source:	Fiscal Year				
	2004	2005	2006	2007	2008
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
Unrestricted	<u>10,454,635</u>	<u>12,393,418</u>	<u>13,151,809</u>	<u>12,975,461</u>	<u>11,160,639</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>\$ -</u>

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

Schedule 2

<u>Source:</u>	Fiscal Year				
	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>
Expenses					
Governmental activities:					
General government	\$ 1,820,340	\$ 2,290,443	\$ 2,077,020	\$ 3,412,111	\$ 3,668,745
Public safety	2,979,773	3,122,467	3,322,420	3,408,818	4,106,050
Public works	1,466,481	1,565,958	1,640,199	1,833,529	2,090,705
Transportation	330,647	336,807	438,652	474,087	1,129,802
Community service	3,650,369	6,223,221	5,331,206	4,621,231	6,852,646
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>
Total primary governmental activities expenses	10,418,918	13,559,596	13,145,804	14,132,913	18,188,168
Program Revenues					
Governmental activities:					
Charges for services:					
General government	33,493	35,720	39,589	35,585	30,642
Public safety	495,914	430,254	265,699	295,561	219,209
Public works	314,149	465,949	838,069	399,519	529,974
Transportation	27,216	27,206	28,945	32,050	27,302
Community service	256,112	271,599	316,844	271,693	275,347
Operating grants and contributions	262,471	2,036,705	618,358	777,984	843,668
Capital grants and contributions	<u>89,710</u>	<u>130,064</u>	<u>71,000</u>	<u>123,767</u>	<u>234,310</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>
Net (Expense)/Revenue					
Total primary government net expense	(8,939,853)	(10,162,099)	(10,967,300)	(12,196,754)	(16,027,716)
General revenues					
Property taxes	3,126,830	3,732,956	4,165,498	4,780,512	5,483,386
Sales taxes	1,642,306	1,711,622	1,866,426	1,897,938	1,965,363
Franchise taxes	602,821	621,012	644,126	748,363	792,992
Hotel motel taxes	4,473,153	4,878,739	5,191,304	5,334,627	4,610,239
Hotel motel padre blvd. taxes	331,870	350,414	33,305	-	-
Hotel motel beach maintenance taxes	626,481	661,420	704,337	741,411	630,474
Unrestricted investment earnings	92,230	375,354	734,068	796,864	546,491
Sale of fixed assets	-	10,365	(5,767)	-	1,485,785
Miscellaneous	<u>10,718</u>	<u>22,847</u>	<u>36,701</u>	<u>425,776</u>	<u>79,056</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>
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>

Source: Statement of Activities

(This page intentionally left blank)

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

Source:	Fiscal Year									
	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
General fund										
Restricted	\$ 75,065	\$ 188,909	\$ 124,105	\$ 206,631	\$ 126,658	\$ 481,152	\$ 448,862	\$ 35,721	\$ 54,073	\$ 37,322
Unrestricted	1,515,687	2,280,416	2,520,959	3,283,352	3,241,689	3,454,047	4,250,065	4,329,297	5,095,575	5,768,178
Total General fund	\$ 1,590,752	\$ 2,469,325	\$ 2,645,064	\$ 3,489,983	\$ 3,368,347	\$ 3,935,199	\$ 4,698,927	\$ 4,365,018	\$ 5,149,648	\$ 5,805,500
All Other Governmental Funds										
Restricted	\$ 472,894	\$ 452,924	\$ 711,187	\$ 1,153,404	\$ 1,134,956	\$ 485,622	\$ 427,649	\$ 577,625	\$ 568,453	\$ 766,366
Unrestricted, reported in:										
Special revenue funds	2,027,065	2,701,510	3,144,092	3,507,383	3,539,846	5,736,110	6,598,953	6,133,843	5,857,458	2,549,217
Capital projects funds	156,109	430,631	532,575	764,078	924,292	625,681	5,700,520	7,307,966	1,609,091	2,180,800
Total all other governmental funds	\$ 2,656,068	\$ 3,585,065	\$ 4,387,854	\$ 5,424,865	\$ 5,599,094	\$ 6,847,413	\$ 12,727,122	\$ 14,019,434	\$ 8,035,002	\$ 5,496,383

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

Schedule 4

Source:	1999	2000	2001	2002
REVENUES				
Property taxes	\$1,890,650	\$1,983,352	\$2,144,755	\$2,373,906
Nonproperty taxes	5,323,902	6,362,700	6,871,130	7,136,979
Fees and services	290,273	310,391	341,174	273,336
Fines and forfeitures	262,446	392,967	404,229	490,373
Licenses and permits	156,838	274,710	255,371	351,697
Intergovernmental	494,378	765,298	966,728	1,025,363
Miscellaneous and program	213,365	277,657	386,984	173,923
Total revenues	8,631,852	10,367,075	11,370,371	11,825,577
EXPENDITURES				
General	1,092,089	1,120,404	1,187,929	1,199,137
Public safety	1,716,284	1,863,782	1,951,917	2,188,162
Public works	561,007	639,465	715,740	776,603
Transportation	211,342	200,839	279,857	700,312
Community service	2,411,665	2,227,393	3,765,124	3,219,760
Debt service				
Principal retirement	1,192,000	1,251,000	690,000	719,000
Interest	476,033	406,263	354,213	320,271
Administrative charges	-	-	-	-
Capital outlay	1,083,133	906,224	1,580,868	877,359
Total expenditures	8,743,553	8,615,370	10,525,648	10,000,604
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES:	(111,701)	1,751,705	844,723	1,824,973
Other financing sources (uses)				
Sale of fixed assets	4,445	5,465	3,369	10,711
Bond proceeds	-	-	-	-
Insurance proceeds	-	-	-	-
Transfers out	(1,330,086)	(1,666,720)	(2,102,567)	(1,734,839)
Transfers in	1,380,086	1,716,720	2,233,403	1,781,085
Total other financing sources and (uses)	54,445	55,465	134,205	56,957
Net change in fund balances	(\$57,256)	\$1,807,170	\$978,928	\$1,881,930
Debt service as a percentage of noncapital expenditures	21.77%	21.50%	11.67%	11.39%

Source: Statement of Revenues, Expenditures, and
 Changes in Fund Balances of Governmental
 Funds

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

Schedule 4

2003	2004	2005	2006	2007	2008
\$2,622,048	\$3,126,553	\$3,743,132	\$4,123,204	\$4,719,773	\$5,393,449
6,996,138	7,676,631	8,223,206	8,439,497	8,722,337	7,999,068
326,843	273,285	288,136	335,617	287,475	298,189
499,703	454,340	386,011	265,700	295,560	219,209
292,731	316,180	512,384	887,829	451,372	573,866
3,113,629	434,464	2,210,966	489,358	920,629	1,077,978
146,666	103,745	398,202	970,769	1,203,760	616,757
<u>13,997,758</u>	<u>12,385,198</u>	<u>15,762,037</u>	<u>15,511,974</u>	<u>16,600,906</u>	<u>16,178,516</u>
1,470,151	1,788,195	2,123,657	1,967,410	2,179,937	4,084,721
2,335,486	2,697,669	2,860,988	3,135,257	3,256,352	3,822,108
919,703	1,028,903	1,101,741	1,158,093	1,346,075	1,484,580
271,787	292,721	295,769	382,221	430,979	1,063,572
6,152,517	3,136,498	5,717,119	4,806,573	5,039,678	5,440,883
808,000	585,000	655,000	845,000	1,065,000	1,110,000
318,399	171,308	234,820	329,844	372,160	329,243
-	-	119,461	32,100	500	500
<u>1,772,868</u>	<u>869,735</u>	<u>1,065,470</u>	<u>3,503,133</u>	<u>8,110,027</u>	<u>3,211,465</u>
<u>14,048,911</u>	<u>10,570,029</u>	<u>14,174,025</u>	<u>16,159,631</u>	<u>21,800,708</u>	<u>20,547,072</u>
(51,153)	1,815,169	1,588,012	(647,657)	(5,199,802)	(4,368,556)
8,500	-	10,365	6,060	-	1,485,785
112,854	-	5,045,060	1,600,000	-	-
-	-	-	-	-	1,000,000
(1,749,908)	(1,648,535)	(1,929,200)	(3,105,238)	(2,031,131)	(2,209,420)
<u>1,809,319</u>	<u>1,648,535</u>	<u>1,929,200</u>	<u>3,105,238</u>	<u>2,031,131</u>	<u>2,209,420</u>
<u>180,765</u>	<u>0</u>	<u>5,055,425</u>	<u>1,606,060</u>	<u>0</u>	<u>2,485,785</u>
<u>\$129,612</u>	<u>\$1,815,169</u>	<u>\$6,643,437</u>	<u>\$958,403</u>	<u>(\$5,199,802)</u>	<u>(\$1,882,771)</u>
9.18%	7.80%	7.70%	9.54%	10.50%	8.31%

Town 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			
1999	728,383,113	19,202,376	33,060,184	714,525,305	0.26811
2000	788,887,621	20,972,057	28,102,492	781,757,186	0.25829
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

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.

Town 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	Total Direct					
1999	0.254440	0.268110	0.208100	1.25500	0.325934	0.126085	0.0372
2000	0.244620	0.258290	0.226820	1.25500	0.345843	0.131400	0.0372
2001	0.246360	0.258110	0.212260	1.30500	0.340536	0.131400	0.0392
2002	0.247360	0.258110	0.187420	1.35612	0.340536	0.131400	0.0392
2003	0.248640	0.258110	0.139306	1.35612	0.358191	0.131400	0.0392
2004	0.258110	0.258110	0.139306	1.35612	0.358191	0.131400	0.0392
2005	0.258110	0.258110	0.123807	1.35612	0.358191	0.128782	0.0392
2006	0.230197	0.253110	0.105800	1.35612	0.358191	0.162772	0.0392
2007	0.219598	0.253110	0.080820	1.06163	0.343191	0.161089	0.0492
2008	0.216810	0.245610	0.08082	1.06163	0.353191	0.161089	0.0492

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

Town of South Padre Island, Texas
PRINCIPAL PROPERTY TAXPAYERS
 Current Year and Nine Years Ago

Schedule 7

Taxpayer	2008			2000		
	Taxable Assessed Valuation	Rank	Percentage of Total Assessed Valuation	Taxable Assessed Valuation	Rank	Percentage of Total Assessed Valuation
Sapphire VP LP	\$ 34,674,915	1	1.39%			
Shores Development Inc	12,999,214	2	0.52%			
ICS Management Company	11,963,869	3	0.48%	4,768,213	4	0.61%
Peninsula Island Resort & Spa Llc	10,169,586	4	0.41%			
SPI La Copa Ltd	7,659,200	5	0.31%			
SPI Oleander Ltd	7,472,989	6	0.30%			
Bayside Capital Llc	7,089,491	7	0.28%			
SSPIBR Ltd	6,770,780	8	0.27%	10,277,143	1	1.32%
AEP Texas Central Co.	6,727,450	9	0.27%			
Alma Investments Inc.	6,631,616	10	0.27%	4,679,598	5	0.60%
The Villas of South Padre, Llc				5,129,427	2	0.66%
SPI Management				4,910,533	3	0.63%
HISPI, Ltd				4,040,315	6	0.52%
Sayda 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				289,828	10	0.38%
Total	\$ 112,159,110		5.02%	\$ 46,306,765		5.96%

Source: Cameron County Appraisal District

Town 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	Amount			
1999	1998	1,915,688	1,851,162	96.63%	63,589	1,914,751	99.95%	
2000	1999	2,017,794	1,941,216	96.20%	70,031	2,011,247	99.68%	
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%	-	5,215,751	95.19%	

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>
1999	1,890,650	1,178,840	442,511	3,475,887	6,987,888
2000	1,983,352	1,261,012	509,706	3,882,354	7,636,424
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	3,126,830	1,642,306	602,821	4,473,153	9,845,110
2005	3,732,956	1,711,622	621,012	4,878,739	10,944,329
2006	4,165,498	1,866,426	644,126	5,191,304	11,867,354
2007	4,780,512	1,897,938	748,363	5,334,627	12,761,440
2008	5,483,386	1,965,363	792,992	4,610,239	12,851,980

Town 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								
1999	-	610,000	7,330,000	328,000	-	-	-	-	-	-	8,268,000	16.44%	4,930
2000	-	505,000	6,260,000	252,000	-	-	-	-	-	-	7,017,000	7.93%	2,474
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	6.76%	2,499
2006	4,785,000	-	2,965,000	-	-	-	-	1,600,000	-	-	9,350,000	6.59%	2,610
2007	4,615,000	-	2,265,000	-	-	-	-	1,405,000	-	-	8,285,000	5.99%	2,307
2008	4,440,000	-	1,540,000	-	-	-	-	1,195,000	-	-	7,175,000	5.70%	2,055

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

¹ See Schedule 15 for personal income and population data.

Town of South Padre Island, Texas
RATIO OF GENERAL BONDED DEBT OUTSTANDING
 Last Ten Fiscal Years

Schedule 11

<u>Fiscal Year</u>	<u>General Obligation Bonds</u>	<u>Percentage of Actual Taxable Value of Property (1)</u>	<u>Per Capita (2)</u>
1999	-	-	-
2000	-	-	-
2001	-	-	-
2002	-	-	-
2003	-	-	-
2004	-	-	-
2005	4,950,000	0.34%	1,439
2006	4,785,000	0.29%	1,335
2007	4,615,000	0.24%	1,285
2008	4,440,000	0.20%	1,271

Note: Details regarding the Town'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

DIRECT AND OVERLAPPING GOVERNMENTAL ACTIVITIES DEBT

As of September 30, 2008

Governmental Unit	Debt Outstanding	Estimated Percentage Applicable	Estimated Share of Overlapping Debt
Debt repaid with property taxes			
Cameron County	\$ 53,100,000	16.33%	\$ 8,671,230
Point Isabel Independent School District	36,196,819	72.89%	26,383,861
Laguna Madre Water District #1	3,416,167	69.99%	2,390,975
Texas Southmost College	100,527,369	23.55%	<u>23,674,195</u>
Subtotal, overlapping debt			61,120,261
City direct debt	5,635,000	100.00%	<u>5,635,000</u>
Total direct and overlapping debt			<u>\$ 66,755,261</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, 2008

Schedule 13

The Town is a Type A General-Law municipality as described in the Vernon's Texas Code of Annotated Local Government. The Town does not have a legal debt limit mandated by law.

Town of South Padre Island, Texas
PLEDGED-REVENUE COVERAGE
 Last Ten Fiscal Years

Fiscal Year	Gross Revenue (1)	Operating Expenditures (2)	Net Revenue Available For Debt Service	Debt Service Requirements		Coverage (3)
				Principal	Interest	
1999	1,741,687	559,753	1,181,934	1,020,000	415,073	0.82
2000	1,966,203	539,237	1,426,966	1,070,000	355,961	1.00
2001	2,064,632	625,371	1,439,261	495,000	313,825	1.78
2002	2,083,985	581,527	1,502,458	515,000	290,209	1.87
2003	2,129,496	692,439	1,437,057	590,000	219,625	1.77
2004	2,163,770	827,257	1,336,513	445,000	166,713	2.18
2005	2,059,075	837,927	1,221,148	655,000	150,213	1.52
2006	1,877,855	868,660	1,009,195	680,000	128,488	1.25
2007	2,172,451	899,167	1,273,284	700,000	105,650	1.58
2008	1,881,284	1,045,290	835,994	725,000	82,025	1.04

(1) Convention Center Fund revenues, including interest.

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

(3) Coverage is being computed for 2002 Combination Tax and Revenue Refunding Bonds. If Hotel/Motel Occupancy taxes are insufficient to pay these bonds, an ad valorem tax can be levied.

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

Schedule 15

<u>Year</u>	<u>Estimated Population</u> ¹	<u>Personal Income</u> ¹	<u>Per Capita Personal Income</u> ¹	<u>Median Age</u> ²	<u>School Enrollment</u> ³	<u>Unemployment Rate</u>	
1999	1,677	50,286,522	29,986	Not Available	2,339	10.00%	4
2000	2,836	88,539,920	31,220	49.7	2,378	7.00%	5
2001	3,443	102,002,318	29,626	46.6	2,389	7.90%	5
2002	3,026	125,954,224	41,624	50.4	2,447	9.00%	5
2003	3,220	123,599,700	38,385	51.4	2,246	9.50%	5
2004	3,346	120,673,490	36,065	50.7	2,500	8.70%	5
2005	3,439	127,088,245	36,955	51.8	2,487	7.60%	5
2006	3,583	141,911,881	39,607	51.9	2,585	6.60%	5
2007	3,591	138,285,819	38,509	52.3	2,593	6.00%	5
2008	3,492	125,886,600	36,050	57.2	2,418	8.20%	5

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 Bureau of Labor and Statistics: Information is for entire Cameron County as no data is available on Town only

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

Town of South Padre Island, Texas
PRINCIPAL EMPLOYERS
 Current Year and Nine Years Ago

Employer	2008			1999*		
	Number of Employees (Peak)	Rank	Percent of Total City Employment	Number of Employees	Rank	Percent of Total City Employment
Schlitterbahn Beach Water Park	350	1	4.87%	-	-	-
Isla Grand Resort	230	2	3.20%	-	-	-
Sheraton Fiesta Beach Resort	225	3	3.13%	-	-	-
Blackbeard's Restaurant	212	4	2.95%	-	-	-
Town of South Padre Island	170	5	2.36%	-	-	-
Louie's Backyard	150	6	2.09%	-	-	-
Amberjack's Restaurant	100	7	1.39%	-	-	-
Sea Ranch Enterprises	75	8	1.04%	-	-	-
Blue Marlin Supermarket	55	9	0.76%	-	-	-
Cameron Parks	43	10	0.60%	-	-	-
Total	1,610		22.39%			

Source: South Padre Island Economic Development Corporation and Claritas Market Place Executive Summary

* Information for 1999 not available

Town of South Padre Island, Texas
FULL-TIME EQUIVALENT CITY GOVERNMENT EMPLOYEES BY FUNCTION/PROGRAM
 Last Ten Fiscal Years

Function	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
General Fund										
City Administration	3	3	3	3	4	4	5	5	5	5
Finance	2	2	2	2	3	3	4	4	5	5
Planning	2	2	2	2	2	2	2	2	2	2
Technology	0	0	0	0	0	0	1	2	2	2
Municipal Court	1	1	2	2	2	2	2	2	2	2
Police	29	29	32	31	32	33	33	34	34	34
Fire	15	15	15	15	18	18	18	18	18	18
Code Enforcement	2	2	2	2	2	2	2	3	4	4
Inspections	1	1	3	3	3	3	3	4	4	4
Public Works	15	15	15	16	21	21	21	22	22	22
Hotel Motel Fund										
Visitor's Center	3	2	2	2	2	2	2	2	2	2
Hotel Motel	9	9	10	11	11	11	11	12	13.5	13
Events Marketing	0	0.5	0.5	0.5	1	1	1	1	2	2
Convention Centre										
Convention Centre	9	9.5	9.5	9.5	11	10	10	11	13.5	13
Transportation										
Transportation	0	0	0	0	0	5	5	6	7	7
Total Operating Budget FTE's	91	91	98	99	112	117	120	128	136	135

Source: Town of South Padre Island Annual Budget
 Note: Full-time budgeted positions are shown

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

Function	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Police											
Physical arrests	1,124	1,373	1,677	1,381	1,431	1,824	1,402	1,212	973	896	727
Parking violations	97	155	408	957	956	851	456	552	1,227	306	514
Traffic violations	2,111	2,548	3,148	3,955	3,660	3,877	3,277	2,803	2,215	3,100	942
Number of commissioned police officers	21	21	22	25	24	24	25	25	25	25	26
Number of employees - police officers & civilians	29	29	29	32	31	32	33	33	34	35	36
Fire											
Number of calls answered	n/a	716	755	568	1,121	477	470	821	928	1,194	1,420
EMS calls	n/a	n/a	n/a	304	259	165	199	443	536	712	838
Inspections	n/a	n/a	n/a	693	527	507	414	307	331	355	219
Number of firefighters	16	14	14	14	14	17	17	17	17	17	18
Number of employees - firefighters & civilians	17	15	15	15	15	18	18	18	18	18	21
Streets											
Street resurfacing (square yards)	n/a	17,130	14,200	-	23,500	24,617	18,679	10,811	-	7,040	16,837
Sidewalk construction (square yards)	-	-	-	-	2,105	-	-	-	1,160	647	220

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

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

Function/Program	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
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	47.31	47.31	47.09	47.09	47.09	47.09
City area (acres)	1333	1333	1333	1333	1333	1562	1562	1562	1589	1589
Parks and recreation										
Playground	1	1	1	1	1	1	1	1	1	1
Parks	1	1	1	1	1	1	1	2	2	2
Municipal Beach (miles)	4.5	4.5	4.5	4.5	4.5	5	5	5	5	5
Beach accesses (developed)	16	16	16	16	16	16	17	18	19	19
Beach accesses (undeveloped)	8	8	8	8	8	8	7	6	5	5
Transportation										
Transit - minibuses	4	4	4	4	4	4	6	5	6	8

Source: City Departments

Town of South Padre Island, Texas
MISCELLANEOUS STATISTICAL DATA
September 30, 2008

Schedule 20

Date of incorporation	1973
Fiscal year begins	October 1st
Number of budgeted Town employees	135

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

(This page intentionally left blank)

COMPLIANCE SECTION

(This page intentionally left blank)

**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 Board of Aldermen
Town 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 Town of South Padre Island, Texas (“the Town”) as of and for the year ended September 30, 2008, which collectively comprise the Town’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 Town 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 Town of South Padre Island, Texas’ internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Town of South Padre Island, Texas’ internal control over financial reporting.

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

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

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

(This page intentionally left blank)

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Town 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 one instance of noncompliance that is required to be reported under *Government Auditing Standards* and which is described in the accompanying schedule of findings and questioned costs as item 08-1.

We noted certain matters that we reported to management in a separate letter dated April 29, 2009.

This report is intended for the information of the Town Commission, 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
April 29, 2009

(This page intentionally left blank)

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

The Honorable Mayor and
Members of the Board of Aldermen
Town of South Padre Island, Texas

Compliance

We have audited the compliance of Town 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, 2008. Town 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 Town of South Padre Island, Texas' management. Our responsibility is to express an opinion on Town 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 Town 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 Town of South Padre Island, Texas compliance with those requirements.

In our opinion, Town 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, 2008.

Internal Control Over Compliance

The management of Town 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 Town 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 in order to determine our auditing procedures for the purpose of expressing our opinion on compliance but, not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Town of South Padre Island, Texas' internal control over compliance.

(This page intentionally left blank)

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

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

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

This report is intended solely for the information and use of the Board of Aldermen, 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.



LONG CHILTON, LLP
Certified Public Accountants

Harlingen, Texas
April 29, 2009

(This page intentionally left blank)

**REPORT ON COMPLIANCE WITH REQUIREMENTS
APPLICABLE TO EACH STATE MAJOR PROGRAM
AND ON INTERNAL CONTROL OVER COMPLIANCE IN
ACCORDANCE WITH THE STATE OF TEXAS SINGLE AUDIT CIRCULAR**

The Honorable Mayor and
Members of the Board of Aldermen
Town of South Padre Island, Texas

Compliance

We have audited the compliance of Town of South Padre Island, Texas with the types of compliance requirements described in the Texas Governor's Office of Budget and Planning, the State of Texas Single Audit Circular that are applicable to each of its major state programs for the year ended September 30, 2008. Town of South Padre Island, Texas' major state programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major state programs is the responsibility of the Town's management. Our responsibility is to express an opinion on the Town's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the State of Texas Single Audit Circular. Those standards and State of Texas Single Audit Circular 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 state program occurred. An audit includes examining, on a test basis, evidence about the Town's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the Town's compliance with those requirements.

In our opinion, the Town of South Padre Island, Texas complied, in all material respects, with the requirements referred to above that are applicable to each of its major state programs for the year ended September 30, 2008.

Internal Control Over Compliance

The management of the Town 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 state programs. In planning and performing our audit, we considered the Town's internal control over compliance with requirements that could have a direct and material effect on a major state program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Town's internal control over compliance.

(This page intentionally left blank)

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

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

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

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



LONG CHILTON, LLP
Certified Public Accountants

Harlingen, Texas
April 29, 2009

(This page intentionally left blank)

Town of South Padre Island, Texas
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
 For the Year Ended September 30, 2008

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:

<u>Federal</u> <i>CFDA Number(s)</i>	<i>Name of Federal Program or Cluster</i>
20.509	Department of Transportation WAVE Grant
 <u>State</u> 51-00054	 Texas Parks and Wildlife Grant

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

Auditee qualified as low-risk auditee? _____ yes X no

Town of South Padre Island, Texas
SCHEDULE OF FINDINGS AND QUESTIONED COSTS - CONTINUED
 For the Year Ended September 30, 2008

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

<u>PROGRAM DESCRIPTION</u>	<u>DESCRIPTION</u>
Schedule Reference Number: (08-1)	
General	
Criteria:	Expenditures in Excess of Budget Appropriations
Condition Found:	For the year ended September 30, 2008, the Town's transportation grant fund had excess expenditures over appropriations totaling \$105,755.
Questioned Costs/Basis:	None
Context:	Total expenditures exceed appropriations
Effect:	The Town incurs expenditures that are not budgeted in advance by the Town commission.
Recommendation:	Budget versus actual comparisons should be made on a monthly basis, and control over expenditures should include a review of available budget amounts prior to approval of purchase orders for the expenditure of funds.
Corrective Action Plan:	Additional grant funds were awarded to the Town subsequent to the budget approval process. Neither the revenue nor expenditure budgets were amended to reflect this increase in awards. Future periods will reflect the appropriate budget changes.

Section III – Federal and State Award Findings and Questioned Costs

None reported.

Town of South Padre Island, Texas
SCHEDULE OF STATUS OF PRIOR AUDIT FINDINGS
FEDERAL AND STATE
For the Year Ended September 30, 2008

None reported.

Town of South Padre Island, Texas
SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS
For the Year Ended September 30, 2008

<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 0708(21) 30 ED 0705(21) RPT 0806(21) 31	\$ 256,210 114,118 <u>71,243</u> 441,571
National Oceanic and Atmospheric Administration			
Texas Coastal Management Program Total Federal Awards	11.419	NADGNOS54190219	<u>59,982</u> 501,553
Texas Agencies			
Texas Parks and Wildlife Department		51-00054	<u>1,000,000</u>
Total Federal and State Financial Assistance Expended			<u>\$1,501,553</u>

Town of South Padre Island, Texas
NOTES ON ACCOUNTING POLICIES FOR FEDERAL AND STATE AWARDS
For the Year Ended September 30, 2008

1. General

The accompanying Schedule of Expenditures of Federal and State Awards presents the activity of all federal and state award programs of Town of South Padre Island, Texas, for the year ended September 30, 2008. 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 Town 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 and state 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.

Town of South Padre Island, Texas
EXIT CONFERENCE
Year Ended September 30, 2008

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

Lawrence Homan, Finance Director
Dewey Cashwell, City Manager

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