



South Padre ISLAND

COMPREHENSIVE ANNUAL
FINANCIAL REPORT
FOR THE FISCAL YEAR ENDED
SEPTEMBER 30, 2014

PREPARED BY:

City of South Padre Island
Finance Department
Rodrigo Gimenez,
Finance Director

City of

**SOUTH PADRE
ISLAND, TEXAS**

COMPREHENSIVE ANNUAL
FINANCIAL REPORT
FOR THE FISCAL YEAR ENDED
SEPTEMBER 30, 2014

CITY OF SOUTH PADRE ISLAND, TEXAS

**COMPREHENSIVE ANNUAL
FINANCIAL REPORT**

For the Fiscal Year Ended
September 30, 2014

City of South Padre Island, Texas
COMPREHENSIVE ANNUAL FINANCIAL REPORT
 For The Fiscal Year Ended September 30, 2014

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**CITY OF
SOUTH PADRE
ISLAND, TEXAS**

INTRODUCTORY SECTION



March 4, 2015

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

We are pleased to submit to you the Comprehensive Annual Financial Report (CAFR) of the City of South Padre Island (City), Texas for the fiscal year ended September 30, 2014. This report was prepared from the books and records of the City of South Padre Island, Texas and includes the financial activities of the primary government and its component unit. All disclosures necessary to enable the reader to gain an understanding of the City's financial activities have been included.

Responsibility for both the accuracy of the presented data and the completeness and fairness of the presentation including all disclosures rests with the City. To the best of our knowledge and belief, the enclosed data is accurate, in all material respects, and is reported in a manner designed to present fairly the results of operations of the various funds of the City.

The goal of the independent audit, conducted by Long Chilton, LLP, was to provide reasonable assurance that the financial statements of the City for the fiscal year ended September 30, 2014, were free of material misstatement. The independent audit involved examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; assessing the accounting principles used and significant estimates made by management; and evaluating the overall financial statement presentation. The independent auditor's report is included in this document.

GAAP require that management provide a narrative introduction, overview, and analysis to accompany the basic financial statements in the form of Management's 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 City's MD&A can be found immediately following the report of the independent auditors.

PROFILE OF THE CITY

Known as the Tropical Tip of Texas, the City is a tourist oriented resort community as well as a certified retirement community. The white sandy beaches of South Padre are known throughout the United States and are ranked as one of America's top 10 beaches. The City occupies approximately 2.5 square miles and serves a full time residential population of approximately 5,900.

The Town of South Padre Island was incorporated in 1973, and became the City of South Padre Island when the Home Rule Charter was adopted in 2009. The City operates under the council-manager form of government. Policy making and legislative authority are vested in a governing council consisting of the Mayor and five (5) Council members. City Council is responsible, among other things, for passing ordinances, adopting the budget, appointing committees, and hiring both the City Manager and the City Attorney. The City Manager is responsible for carrying out the policies and ordinances of the City Council, for overseeing the day-to-day operations of the City, and for appointing heads of various departments. The Mayor and the Council members serve three (3) year staggered terms and are elected at large.

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MAJOR INITIATIVES

In order to provide a safe and attractive environment as well as ensure suitable street infrastructure, the Public Works Department continued with street and sidewalk improvements. City streets that were enhanced include Huisache, Morningside, Acapulco, and Campeche. Phase 2 of the Gulf Boulevard project is expected to be completed early in 2015 and includes bicycle, pedestrian and parking improvements. Upgrades made at Water Tower Park included the installation of rubber mats in the playground area and the planting of Sabal palms donated by the Parks, Recreation, and Beautification committee.

The City Council agreed to spend almost \$4.9 million to upgrade the Convention Centre infrastructure. This includes replacement of the skylights in the lobby with windstorm-rated roofing material, replacing exterior doors, replacing a portion of the parking lot with concrete, improving site drainage, improving parking lot lighting for safety, landscaping, and strengthening the exterior walls of the building to increase structural integrity.

The Transit Department received federal grants for Phase I of the construction of a multimodal facility which includes the development of parking spaces, pedestrian sidewalks, bus berths, and landscaping. The local transportation system known as the "WAVE" provides a service that has a significant impact on our island by facilitating travel for visitors and commuters. Additionally, a new intercity bus service transportation program referred to as Metro Connect started during the fiscal year.

FACTORS AFFECTING FINANCIAL CONDITION

Local Economy

The City of South Padre Island is a tourist oriented resort community. The Queen Isabella Causeway crossings are estimated to be 7,600,000 per year per the Texas Department of Transportation. In the most recent Resort Market Analysis, an estimated 4.35 million visitors come to the island annually. As a result of the City's dependence on tourism, visitor travel may reflect the swings in the national and state economy as well as the economy of northern Mexico. Despite the economic uncertainties, the City has experienced stability in revenue receipts. Stable property tax receipts, increases in sales tax as well as hotel/motel tax receipts are key indicators of the strength of the City's economic position.

Long Term Financial Planning

Budgeting is an essential element of the financial planning, control and evaluation process of municipal government. Multi-year budgeting provides a means to identify the impact of implementing new programs and projects on future budgets. The Five Year Financial Plan is the City's long range operations and capital plan. The plan includes all of the operating departments of the General Fund as well as the capital improvement funds of the City. The plan is reviewed and updated annually.

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POLICIES AND PRACTICES

Internal control

City management is responsible for establishing and maintaining an internal control structure designed to ensure that the assets of the City are protected from loss, theft, or misuse and to ensure that adequate accounting data are compiled to allow for the preparation of financial statements in conformity with generally accepted accounting principles. Because the cost of internal controls should not exceed any benefits of the control, the objective of internal controls is to provide reasonable, rather than absolute assurance, that the financial statements are free of material misstatements.

Single Audit

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

As part of the City's single audit, tests are made to determine the adequacy of the internal control structure, including that portion related to federal financial assistance programs, as well as to determine that the City has complied with applicable laws and regulations. The results of the City's single audit for the fiscal year ended September 30, 2014, identified no material weaknesses of the internal control or violations of applicable laws and regulations.

OTHER INFORMATION

Independent Audit

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

Awards

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the City of South Padre Island for its comprehensive annual financial report for the fiscal year ended September 30, 2013. This was the twenty fourth consecutive year the City has achieved this prestigious award. In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

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

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Acknowledgments

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

Sincerely,

William DiLibero, City Manager

Rodrigo Gimenez, Finance Director

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Government Finance Officers Association

**Certificate of
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for Excellence
in Financial
Reporting**

Presented to

**City of South Padre Island
Texas**

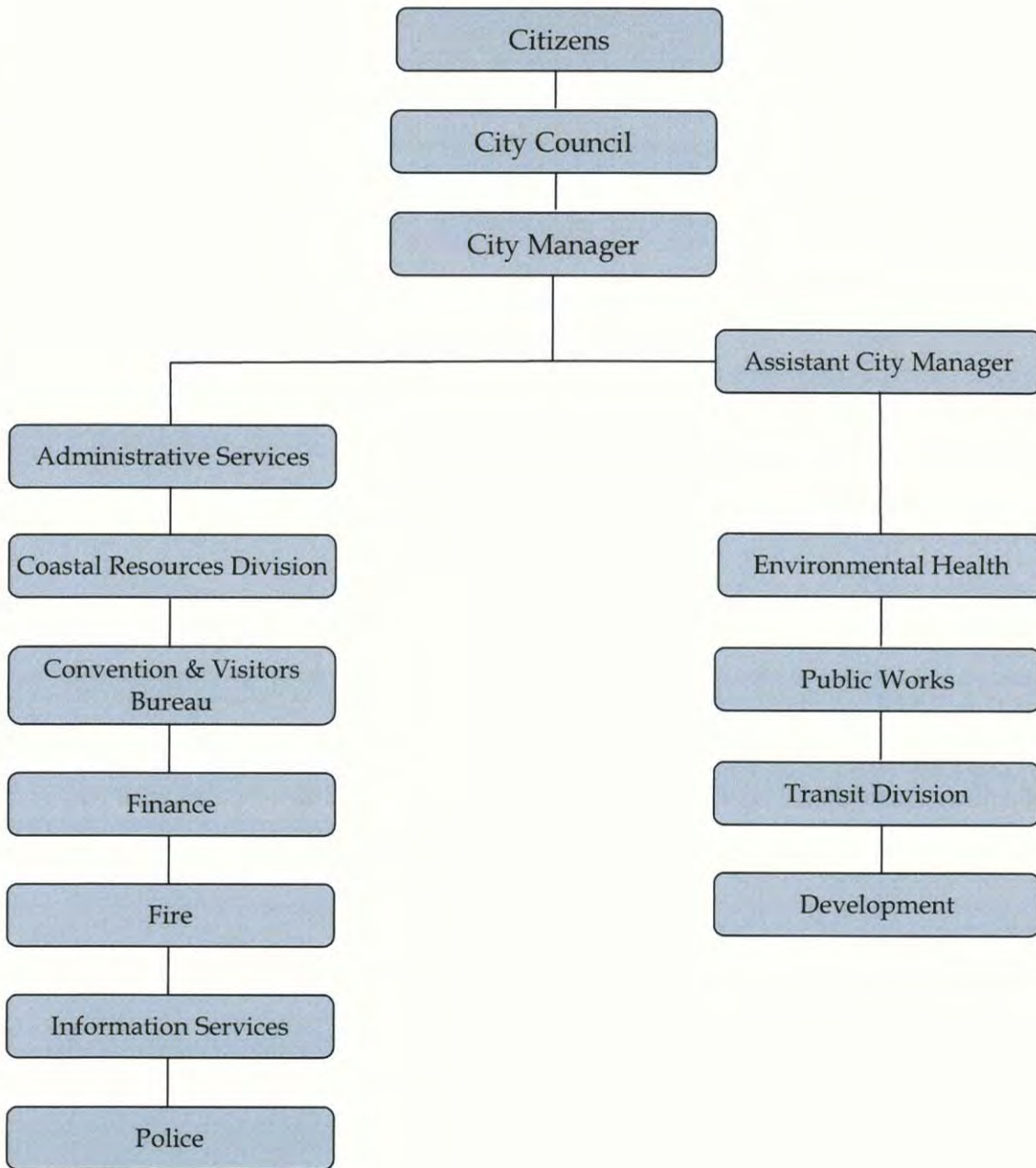
For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended

September 30, 2013

Executive Director/CEO



City of South Padre Island Organizational Chart



City of South Padre Island, Texas
LIST OF PRINCIPAL OFFICIALS

ELECTED OFFICIALS

<u>NAME</u>	<u>TITLE</u>
ROBERT N. PINKERTON JR.	<i>MAYOR</i> , COUNCIL MEMBER
JO ANN EVANS	MAYOR PRO TEM, COUNCIL MEMBER
SAM A. LISTI	COUNCIL MEMBER
ALITA BAGLEY	COUNCIL MEMBER
BARRY PATEL	COUNCIL MEMBER
ALEX AVALOS	COUNCIL MEMBER

APPOINTED OFFICIALS

<u>NAME</u>	<u>TITLE</u>
WILLIAM DILIBERO	<i>CITY MANAGER</i>
DARLA A. JONES	ASSISTANT CITY MANAGER
RODRIGO GIMENEZ	FINANCE DIRECTOR
RACHEL FLORES	DIRECTOR OF CONVENTION AND VISITORS BUREAU
RANDY SMITH	POLICE CHIEF
MARCUS SMITH	FIRE CHIEF
(VACANT)	DIRECTOR OF PUBLIC WORKS
PAUL HOLTHUSEN, JR.	INFORMATION TECHNOLOGY DIRECTOR
WENDI DELGADO	ADMINISTRATIVE SERVICES DIRECTOR
VICTOR BALDOVINOS	ENVIRONMENTAL HEALTH SERVICES DIRECTOR
REUBEN TREVINO	COASTAL RESOURCES DIRECTOR
JESSE ARRIAGA	TRANSIT DIRECTOR
SUSAN HILL	CITY SECRETARY
PAUL Y. CUNNINGHAM, JR.	CITY ATTORNEY
DAVID COLWELL	MUNICIPAL COURT JUDGE

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**CITY OF
SOUTH PADRE
ISLAND, TEXAS**

FINANCIAL SECTION

INDEPENDENT AUDITORS' REPORT

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

Report on the Financial Statements

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 City of South Padre Island, Texas as of and for the year ended September 30, 2014 and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

INDEPENDENT AUDITORS' REPORT

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

Report on the Financial Statements

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We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

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Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the aggregate discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of South Padre Island, Texas, as of September 30, 2014, and the respective changes in financial position, for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and required supplementary information on pages 19 through 26 and 61 through 68 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of South Padre Island's basic financial statements. The introductory section, the other supplementary information, and statistical section, are presented for purposes of additional analysis and are not a required part of the basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements.

The other supplementary information and the schedule of expenditures of federal awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the other supplementary information and the schedule of expenditures of federal awards are fairly stated in all material respects in relation to the basic financial statements as a whole.



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The introductory and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated February 27, 2015, on our consideration of the City of South Padre Island's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering City of South Padre Island's internal control over financial reporting and compliance.



LONG CHILTON, LLP
Certified Public Accountants

Harlingen, Texas
February 27, 2015

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Management's Discussion and Analysis

As management of the City of South Padre Island (the City), we offer readers of the City's financial statements this narrative overview and analysis as of September 30, 2014. 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 5-8 of this report.

Financial Highlights

- The assets and deferred outflows of resources of the City of South Padre Island exceeded its liabilities at the close of the most recent fiscal year by \$34,466,194 (net position). Of this amount, \$6,390,495 (unrestricted net position) may be used to meet the government's ongoing obligations to citizens and creditors.
- Total net position for the City of South Padre Island increased by \$2,978,034 during the fiscal year.
- As of the close of the current fiscal year, the City of South Padre Island governmental funds reported combined ending fund balances of \$18,804,256. Approximately 8% of this amount, \$1,521,873 is available for spending at the government's discretion (unassigned fund balance). In addition 28% of this amount or \$5,348,967 is assigned (the six month reserve established by the city charter).
- At the end of the current fiscal year 63%, \$11,832,909 of the governmental funds fund balance was restricted and less than 1%, \$100,507 was nonspendable.
- The City of South Padre Island's total debt decreased by \$405,000 during the current fiscal year. This is the result of 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 City's basic financial statements. The City of South Padre Island's basic financial statements are comprised of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements, including information on individual funds.

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

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

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

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

The government-wide financial statements include not only the City of South Padre Island itself (known as the primary government), but also a legally separate Economic Development Corporation for which the City of South Padre Island is

financially accountable. Financial information for this component unit is reported separately from the financial information presented for the primary government itself.

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

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

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

The City of South Padre Island maintains 17 individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the General Fund, the Hotel/Motel Fund, the Convention Centre Fund and the Beach Nourishment Fund all of which are considered to be major funds. Data for the other governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these non-major governmental funds is provided in the form of combining statements elsewhere in this report.

The City follows the Governmental Accounting Standard Board (GASB) Statement 54 – "Fund Balance Reporting and Governmental Fund Type Definitions" on March 11, 2009, which was effective for the fiscal year ending September 30, 2011. This statement provides more structured classifications. Previously, fund balance was classified as "reserved" or "unreserved". GASB 54 has changed how fund balance is reported. The hierarchy of five possible classifications is as follows.

Non spendable fund balances are balances that cannot be spent because they are not expected to be converted to cash or they are legally or contractually required to remain intact.

The spendable fund balances include restricted, committed, assigned and unassigned based upon the hierarchy of spending constraints. **Restricted:** fund balances that are constrained by external parties, constitutional provisions or enabling legislation; **Committed:** fund balances that contain self-imposed constraints of the government from its highest level of decision making authority (the city council); **Assigned:** fund balances that contained self-imposed constraints of the government to be used for a particular purpose (the city manager has the authority to assign funds for specific purposes); and **Unassigned:** fund balance of the general fund that has not been constrained for any particular purpose.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

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

Government-wide Financial Analysis

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

	Total Governmental Activities 2014	Total Governmental Activities 2013
<u>ASSETS</u>		
Current and other assets	\$20,441	\$16,887
Capital assets	24,533	25,477
Total assets	<u>44,974</u>	<u>42,364</u>
<u>DEFERRED OUTFLOWS OF RESOURCES</u>		
Deferred amount on refunding	257	280
Total deferred outflows of resources	<u>257</u>	<u>280</u>
<u>LIABILITIES</u>		
Current liabilities	1,237	923
Non-current liabilities	9,527	10,233
	<u>10,764</u>	<u>11,156</u>
<u>NET POSITION</u>		
Net Investment in capital assets	16,217	15,534
Restricted	11,859	9,366
Unrestricted	6,390	6,588
Total net position	<u>\$34,466</u>	<u>\$31,488</u>

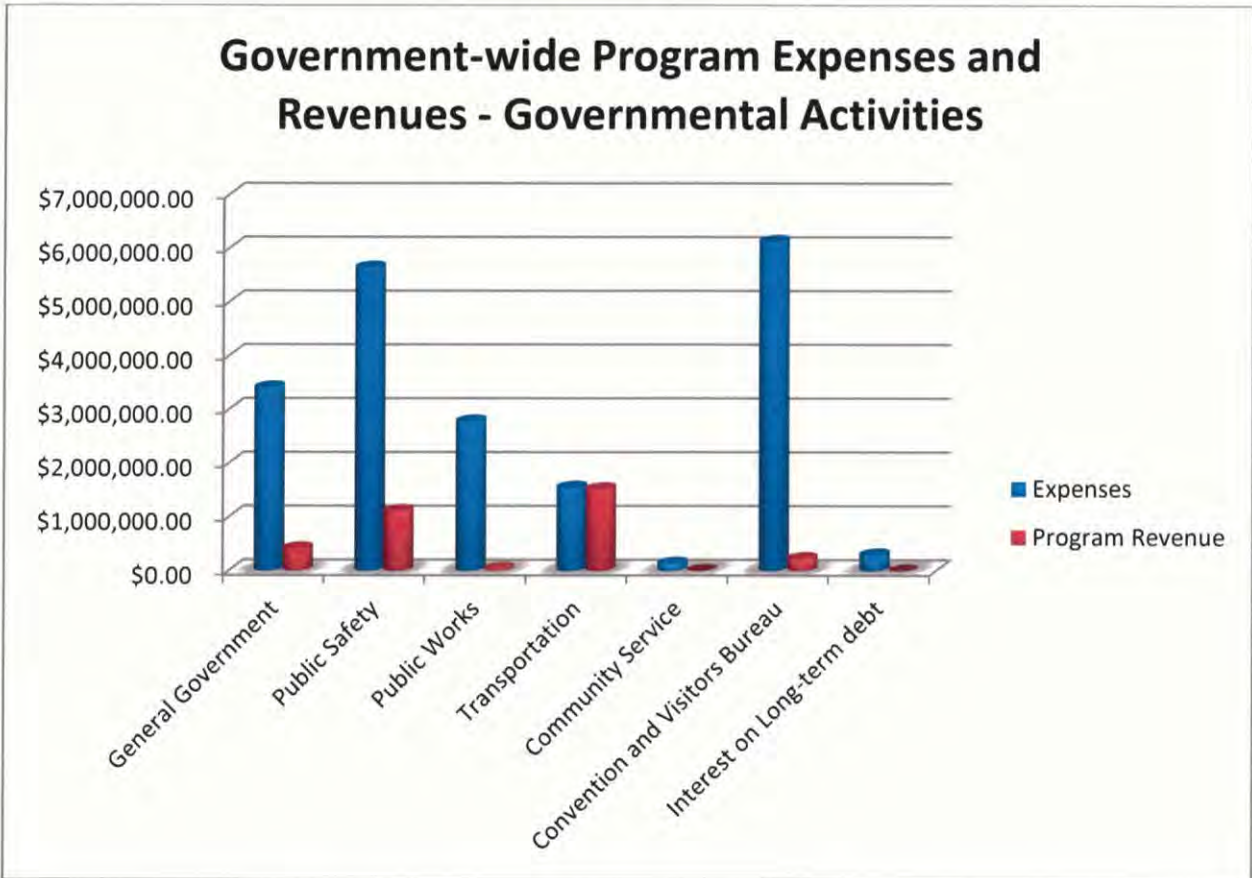
As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the City of South Padre Island, assets and deferred outflows of resources exceeded liabilities by \$34,466,194 at the close of the most recent fiscal year.

A large portion of the City's net position (47%) reflects its investment in capital assets (e.g., land, buildings, machinery, and equipment), less any related debt used to acquire those assets that is still outstanding. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

Changes in Net Position. Governmental activities increased the City's net position by \$2,978,034. Total revenues increased approximately \$1,249,000. This includes increases in sales tax (8.6% or \$182,925), hotel motel tax (8.4% or \$549,750) and hotel motel beach maintenance tax (30.38% or \$499,554). The increase on hotel motel beach maintenance tax is associated with the additional 1% hotel/motel occupancy tax allocation from the State. Expenses during the fiscal period decreased by \$219,409.

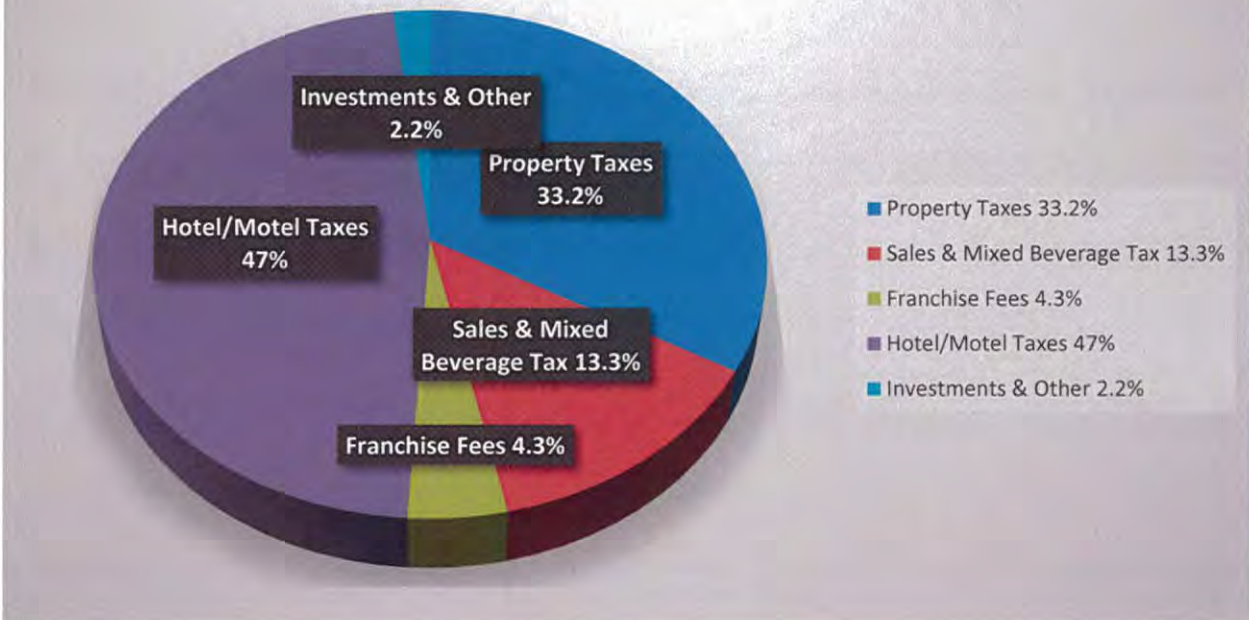
	Total Governmental Activities	Total Governmental Activities
	2014	2013
Program Revenues:		
Charges for Services	\$1,652,770	\$1,386,217
Operating Grants & Contributions	1,220,114	954,301
Capital Grants & Contributions	439,114	1,277,434
General Revenues:		
Property Tax	6,520,967	6,598,351
Sales Tax	2,299,574	2,116,649
Franchise Tax	851,056	819,865
Hotel Motel Tax	7,083,965	6,534,215
Hotel Motel Beach Mtn. Tax	2,144,126	1,644,572
Mixed Beverage Tax	305,351	218,657
Gain (loss) on Sale of Capital Assets	56,072	(61,001)
Interest & Other	324,541	158,987
Total Revenues	22,897,650	21,648,247
Program Expenses:		
General Government	3,403,281	3,616,084
Public Safety	5,635,589	5,617,282
Public Works	2,778,620	2,766,161
Transportation	1,547,923	1,898,136
Community Service	135,357	621,036
Convention and Visitors Bureau	6,121,250	5,313,518
Interest on long-term debt	297,596	306,808
Total Expenses	19,919,616	20,139,025
Increase (decrease) in net position	2,978,034	1,509,222
Beginning Net Position	31,488,160	29,978,938
Ending Net Position	\$34,466,194	\$31,488,160

The chart below illustrates the City's governmental expense and revenues by function: general government; public safety; public works; transportation; community service, convention and visitor's bureau, 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. Hotel Motel Taxes are the largest source of general governmental revenues, followed by Property Tax and Sales & Franchise Tax.

Government-wide Revenues by Source - Governmental Activities



Financial Analysis of the Government's Funds

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

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

As of the end of the current fiscal year, the City of South Padre Island's governmental funds reported combined ending fund balances of \$18,804,256 an increase of \$3,207,093 in comparison with the prior year. Approximately 8%, or \$1,521,873, constitutes unassigned fund balance, which is available for spending at the government's discretion. 28% or \$5,348,967 constitutes assigned fund balance. This portion is the General Fund six month reserve required by City Charter. 63% or \$11,832,909 of the total fund balance is restricted. This portion is the amount of the fund that is subject to externally enforceable legal restrictions such as imposed by creditors, grantors, laws or regulations or imposed by law through constitutional provisions or enabling legislation. Less than 1% or \$100,507 of the fund balance is nonspendable; in this case all of the \$100,507 consists of prepaid expenses.

The General Fund is the chief operating fund of the City. At the end of the current fiscal year, unassigned fund balance of the General Fund was \$1,499,570 while total fund balance reached \$6,906,405. As a measure of the general fund's liquidity, it may be useful to compare both unassigned fund balance and total fund balance to total fund expenditures. Unassigned fund balance represents 14.8% of total general fund expenditures, while total fund balance represents 68% of that same amount.

The fund balance of the City General Fund increased by \$692,580 during the current fiscal year:

- In comparison with last year, the total actual expenditures decreased by \$665,651 mainly due to a reduction in capital outlay associated with the leasing of vehicles.

- Revenues increased by \$693,992 due to increases in nonproperty taxes as well as increases in fines and forfeitures.

Nonproperty taxes for both the Hotel Motel and Convention Centre funds, increased by 8.4% or \$549,750 compared to last fiscal year. The Hotel Motel fund expenditures increased by \$226,401 while the Convention Centre fund increased its expenditures by \$266,672 mainly due to professional services associated with the Convention Centre renovation project.

The Transportation fund didn't have significant variances in fund balance. A total of \$220,607 was spent in architectural and engineering services for the future Transit Multimodal facility.

The fund balance of the Beach Nourishment fund increased by 17.4% or \$361,516 due to reduction of expenditures associated with the beneficial uses of dredge material project.

General Fund budgetary highlights

The original budget of the General Fund was amended twenty one times during fiscal year 2014. Expenditures and transfers were increased by \$954,091. Of this amount, \$417,013 was for the Gulf Boulevard paving project and \$250,000 was to fund the New City Park. In addition \$50,000 was budgeted for license plate scanners and \$45,340 was taken out of fund balance to relocate the Public Works yard.

General Fund budget variances

During the year, revenues were \$480,524 higher than budgeted. This was primarily due to an increase of \$391,846 of non-property taxes which includes an increase of \$275,000 in Sales Tax and an increase of \$89,000 in Mixed Beverage tax. Fines and Forfeitures revenue increased by \$144,000 over budget.

Total expenditures were \$812,075 less than what was budgeted. All operating and capital outlay expenditures of the general fund departments came in under budget.

Capital Asset and Debt Administration

Capital Assets. The City's investment in capital assets for its governmental activities as of September 30, 2014 amounts to \$24,533,137 (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 2014	Total Governmental Activities 2013
Land	1,497,793	1,497,793
Construction in progress	611,836	64,198
Buildings	15,246,285	16,265,519
Improvements	1,944,406	2,122,063
Furniture and equipment	2,480,371	3,057,222
Infrastructure	2,752,448	2,470,411
Total capital assets, net	<u>\$24,533,139</u>	<u>\$25,477,206</u>

Long-term debt. At the end of the current fiscal year, the City had total bonded debt outstanding of \$7,020,000. The table below reflects the outstanding debt at September 30. Additional information can be found in Note J. The City's outstanding bonds underlying rating is "AA/Stable" by Standard and Poor's Rating Service and Aa2 Moody's rating.

	Outstanding Debt September 30	
	Total Governmental Activities	Total Governmental Activities
	2014	2013
General Obligation Bonds	\$7,020,000	\$7,425,000
	<u>\$7,020,000</u>	<u>\$7,425,000</u>

The City of South Padre Island's total debt decreased by \$405,000 during the current fiscal year. This decrease is the result of paying \$225,000 principal on the General Obligation 2005 series bonds, \$155,000 principal on the General Obligation 2011 series bonds, and \$25,000 principal on the General Obligation Refunding 2012 series bonds.

Economic Factors and Next Year's Budgets and Rates

All of these factors were considered in preparing the City's budget for the 2014-2015 fiscal year.

Certified property tax values for the City showed a decrease in market value of approximately \$50 million or 1.87% from the preceding year and council adopted the effective tax rate of 0.262754 cents per hundred. The tax rate has been split with .235468 per hundred for maintenance and operations and .027286 per hundred for the debt service fund for the retirement of the general obligation bonds.

Requests for Information

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

City of South Padre Island, Texas
STATEMENT OF NET POSITION
September 30, 2014

	Primary Government Total Governmental Activities	Component Unit
ASSETS		
Cash and cash equivalents	\$ 16,563,142	\$ 941,478
Investments	1,002,500	-
Receivables, net	1,454,027	94,317
Due from other governments	1,320,376	-
Prepaid expenses	100,507	306,031
Loans receivable	-	77,080
Capital assets, net		
Non-depreciable assets	2,109,629	657,236
Depreciable assets	22,423,510	6,061,494
TOTAL ASSETS	44,973,691	8,137,636
DEFERRED OUTFLOWS OF RESOURCES		
Deferred amount on refunding	256,922	-
TOTAL DEFERRED OUTFLOWS OF RESOURCES	256,922	-
LIABILITIES		
Accounts payable	923,239	-
Other liabilities	267,116	1,738
Unearned revenues	47,301	-
Non-current liabilities		
Due within one year	1,194,185	210,000
Due in more than one year	8,332,578	4,187,270
TOTAL LIABILITIES	10,764,419	4,399,008
NET POSITION		
Net investment in capital assets	16,216,778	2,323,730
Restricted		
Debt service	372,614	542,739
Capital projects	700,897	-
Beach nourishment	2,435,967	-
Transportation	301,277	-
Beach maintenance	1,382,753	-
Municipal court	63,068	-
Criminal justice	3,644	-
Parks and recreation	1,837	-
Hotel/motel taxes	6,596,864	-
Unrestricted	6,390,495	872,159
TOTAL NET POSITION	\$ 34,466,194	\$ 3,738,628

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

City of South Padre Island, Texas
STATEMENT OF ACTIVITIES
For the Year Ended September 30, 2014

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>	
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>
Governmental activities:			
General government	\$ 3,403,281	\$ 277,881	\$ 41,075
Public safety	5,635,589	1,108,781	2,387
Public works	2,778,620	39,717	-
Transportation	1,547,923	-	1,176,652
Community service	135,357	-	-
Convention and visitors bureau	6,121,250	226,391	-
Interest on long-term debt	297,596	-	-
Total governmental activities	19,919,616	1,652,770	1,220,114
Component unit:			
Economic development services	379,265	-	13,253
Interest expense	196,121	-	-
Total component unit	\$ 575,386	\$ -	\$ 13,253

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
- Mixed beverage taxes
- Unrestricted investment earnings
- Gain on disposal of capital assets
- Miscellaneous
- Total general revenues, special items, and transfers
- Change in net assets

Net position - beginning

Net position - ending

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

Program Revenues	Net (Expense) Revenue and Changes in Net Position	
	Primary Government	
Capital Grants and Contributions	Total Governmental Activities	Component Unit
\$ 96,084	\$ (2,988,241)	\$ -
-	(4,524,421)	-
-	(2,738,903)	-
343,030	(28,241)	-
-	(135,357)	-
-	(5,894,859)	-
-	(297,596)	-
<u>439,114</u>	<u>(16,607,618)</u>	<u>-</u>
113,291	-	(252,721)
-	-	(196,121)
<u>\$ 113,291</u>	<u>\$ -</u>	<u>\$ (448,842)</u>
	5,840,499	-
	680,468	-
	2,299,574	766,525
	851,056	-
	7,083,965	-
	2,144,126	-
	305,351	-
	31,373	4,491
	56,072	-
	293,168	628
	<u>19,585,652</u>	<u>771,644</u>
	2,978,034	322,802
	<u>31,488,160</u>	<u>3,415,826</u>
	<u>\$ 34,466,194</u>	<u>\$ 3,738,628</u>

City of South Padre Island, Texas
BALANCE SHEET
GOVERNMENTAL FUNDS
September 30, 2014

	General Fund	Hotel Motel Fund	Convention Centre Fund	Beach Nourishment Fund	Other Governmental Funds	Total Governmental Funds
ASSETS						
Cash and cash equivalents	\$6,368,131	\$2,235,918	\$3,994,226	\$ 2,409,557	\$ 1,555,310	\$16,563,142
Investments	1,002,500	-	-	-	-	1,002,500
Receivables (net of allowance for uncollectibles)						
Property taxes	272,473	-	-	-	29,847	302,320
Accounts	628,141	269,406	179,487	26,410	48,263	1,151,707
Due from other governments	-	-	-	-	1,320,376	1,320,376
Due from other funds	98,585	-	-	-	-	98,585
Prepaid items	57,868	7,402	26,540	-	8,697	100,507
TOTAL ASSETS	<u>\$8,427,698</u>	<u>\$2,512,726</u>	<u>\$4,200,253</u>	<u>\$ 2,435,967</u>	<u>\$ 2,962,493</u>	<u>\$20,539,137</u>
LIABILITIES						
Accounts payable	\$ 864,153	\$ 51,400	\$ 868	\$ -	\$ 6,818	\$ 923,239
Due to other funds	-	-	-	-	98,585	98,585
Other liabilities	206,255	-	-	-	-	206,255
Unearned revenues - other	17,396	-	29,905	-	-	47,301
Total liabilities	1,087,804	51,400	30,773	-	105,403	1,275,380
DEFERRED INFLOWS OF RESOURCES						
Unavailable revenue - property taxes	239,733	-	-	-	26,012	265,745
Unavailable revenue - other	193,756	-	-	-	-	193,756
Total deferred inflows of resources	433,489	-	-	-	26,012	459,501
FUND BALANCE						
Nonspendable	57,868	7,402	26,540	-	8,697	100,507
Restricted	-	2,453,924	4,142,940	2,435,967	2,800,078	11,832,909
Assigned	5,348,967	-	-	-	-	5,348,967
Unassigned	1,499,570	-	-	-	22,303	1,521,873
Total fund balances	<u>6,906,405</u>	<u>2,461,326</u>	<u>4,169,480</u>	<u>2,435,967</u>	<u>2,831,078</u>	<u>18,804,256</u>
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCE	<u>\$8,427,698</u>	<u>\$2,512,726</u>	<u>\$4,200,253</u>	<u>\$ 2,435,967</u>	<u>\$ 2,962,493</u>	<u>\$20,539,137</u>

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

City of South Padre Island, Texas
**RECONCILIATION OF THE BALANCE SHEET OF THE GOVERNMENTAL FUNDS
 TO THE STATEMENT OF NET POSITION**
 September 30, 2014

Fund balances of governmental funds	\$ 18,804,256
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Amounts reported for *governmental activities* in the statement of net position are different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	24,533,139
Some liabilities, including bonds payable (\$7,020,000 and premium of \$278,254) and capital leases (\$1,275,029) are not due in the current period and therefore not reported in the funds.	(8,573,283)
Deferred outflows of resources are related to amounts deferred on refundings of long term debt and are not reported in the funds.	256,922
Liabilities for compensated absences are not due in the current period and therefore are not reported in the funds.	(817,185)
Other long-term assets are not available to pay for current period expenditures and therefore are deferred in the funds.	459,501
Liabilities for accrued interest on long-term debt are not due in the current period and therefore are not reported in the funds.	(60,861)
Liabilities for net pension obligations are not due in the current period and therefore are not reported in the funds.	<u>(136,295)</u>

Net position of governmental activities	\$ <u>34,466,194</u>
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The notes of the financial statements are an integral part of this statement.

City of South Padre Island, Texas
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
For the Year Ended September 30, 2014

	General Fund	Hotel Motel Fund	Convention Centre Fund	Beach Nourishment Fund	Other Governmental Funds	Total Governmental Funds
REVENUES						
Property taxes	\$ 5,869,686	\$ -	\$ -	\$ -	\$ 684,357	\$ 6,554,043
Nonproperty taxes	3,455,982	4,105,553	2,978,412	442,748	1,701,378	12,684,073
Fees and services	652,994	9,029	217,361	-	-	879,384
Fines and forfeitures	553,326	-	-	-	23,035	576,361
Licenses and permits	137,367	-	-	-	-	137,367
Intergovernmental	43,462	-	-	-	1,565,766	1,609,228
Miscellaneous	228,715	47,471	8,095	35,517	54,743	374,541
Total revenues	<u>10,941,532</u>	<u>4,162,053</u>	<u>3,203,868</u>	<u>478,265</u>	<u>4,029,279</u>	<u>22,814,997</u>
EXPENDITURES						
Current						
General government	3,021,145	-	-	-	1,500	3,022,645
Public safety	4,870,426	-	-	-	209,329	5,079,755
Public works	1,801,287	-	-	-	314,312	2,115,599
Transportation	-	-	-	-	1,336,549	1,336,549
Community service	-	-	-	116,749	14,513	131,262
Convention and visitors bureau	-	3,681,773	1,637,241	-	-	5,319,014
Capital outlay	133,287	-	531,755	-	1,011,761	1,676,803
Debt service						
Principal retirement - bonds	-	-	-	-	405,000	405,000
Principal retirement - capital lease	272,671	-	5,249	-	13,281	291,201
Interest	54,968	-	522	-	242,058	297,548
Administrative charges	2,257	-	142	-	1,909	4,308
Total expenditures	<u>10,156,041</u>	<u>3,681,773</u>	<u>2,174,909</u>	<u>116,749</u>	<u>3,550,212</u>	<u>19,679,684</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	785,491	480,280	1,028,959	361,516	479,067	3,135,313
Other financing sources (uses)						
Sale of capital assets	27,739	-	4,888	-	39,153	71,780
Transfers in	546,067	-	-	-	816,717	1,362,784
Transfers out	(666,717)	-	-	-	(696,067)	(1,362,784)
Total other financing sources (uses)	<u>(92,911)</u>	<u>-</u>	<u>4,888</u>	<u>-</u>	<u>159,803</u>	<u>71,780</u>
Net change in fund balances	692,580	480,280	1,033,847	361,516	638,870	3,207,093
Fund balance -- beginning	<u>6,213,825</u>	<u>1,981,046</u>	<u>3,135,633</u>	<u>2,074,451</u>	<u>2,192,208</u>	<u>15,597,163</u>
Fund balance -- ending	<u>\$ 6,906,405</u>	<u>\$ 2,461,326</u>	<u>\$ 4,169,480</u>	<u>\$ 2,435,967</u>	<u>\$ 2,831,078</u>	<u>\$ 18,804,256</u>

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

City of South Padre Island, Texas
**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCE OF THE GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES**
For the Year Ended September 30, 2014

Net change in fund balances --total governmental funds \$ 3,207,093

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. The effect of removing capital outlays (\$1,676,803) and including depreciation (\$2,605,162), in the current period is to decrease net position. (928,359)

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 position differs from the change in fund balance by the book value of the assets sold. (15,708)

Repayment of bond and capital lease principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position. 696,201

The increase in compensated absences payable of \$3,228 during the year is reported as an increase to expenditures in the statement of activities but not in the governmental funds. The amortization of bond premiums (\$22,528), as well as amortization of deferred outflows of resources of \$23,357, are expenditures in the statement of activities but not in the governmental funds. The net effect of including the amortization of deferred outflows of resources, bond premiums and the change in compensated absences is to decrease net position. (3,353)

The change in Net Pension Obligation during the year is reported as an increase or decrease to expenditures in the statement of activities but not in the governmental funds. (9,509)

Some revenues (\$73,753 change in deferred revenue) and expenses reported in the statement of activities do not provide or require the use of current financial resources and therefore are not reported as revenues or expenditures in governmental funds. Interest expense (\$5,164) in the statement of activities differs from the amount reported in governmental funds due to the change in accrued interest. 31,669

Change in net position of governmental activities \$ 2,978,034

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

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**CITY OF
SOUTH PADRE
ISLAND, TEXAS**

**NOTES TO FINANCIAL
STATEMENTS**

City of South Padre Island, Texas
NOTES TO FINANCIAL STATEMENTS
September 30, 2014

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

1. *Reporting Entity*

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

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

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

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

Effective fiscal year ending 2012, the component unit no longer includes the Birding and Nature Center activity.

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:

South Padre Island Economic Development Corporation
6801 Padre Boulevard
South Padre Island, Texas 78597

City of South Padre Island, Texas
NOTES TO FINANCIAL STATEMENTS – CONTINUED
September 30, 2014

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

2. *Government-Wide and Fund Financial Statements*

Government-wide Financial Statements

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

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

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

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

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

The government-wide financial statements are presented using the *economic resources measurement focus* and the *accrual basis of accounting*; consistent with the presentation of proprietary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, without regard to the timing of the related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met. Restricted resources will be used before unrestricted resources when all requirements to relieve the restriction have been met.

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

City of South Padre Island, Texas
NOTES TO FINANCIAL STATEMENTS – CONTINUED
September 30, 2014

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

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

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

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

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

Hotel/Motel Fund is used to account for local 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 local occupancy tax collections used for Convention Centre operations.

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

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

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

The modified accrual basis of accounting is used by all governmental fund types. Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual (i.e., when they become both measurable and available). "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period.

City of South Padre Island, Texas
NOTES TO FINANCIAL STATEMENTS – CONTINUED
September 30, 2014

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

The government considers property taxes as available if they are collected within 60 days after year end. A 60-day availability period is also used for revenue recognition for all other governmental fund revenues. Expenditures are recorded when the related fund liability is incurred. Principal and interest on general long-term debt are recorded as fund liabilities when due or when amounts have been accumulated in the debt service fund for payments to be made early in the following year.

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

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

4. *Assets, Deferred Inflows of Resources and Net Position, Liabilities, Deferred Outflows of Resources*

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, 2014 are recorded as prepaid items, in both governmental and fund financial statements. The cost of prepaid items is recorded as expenditures/expenses when consumed rather than when purchased.

City of South Padre Island, Texas
NOTES TO FINANCIAL STATEMENTS – CONTINUED
September 30, 2014

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

4. *Assets, Deferred Inflows of Resources and Net Position, Liabilities, Deferred Outflows of Resources - Continued*

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. Capital assets are defined by the City as assets with an initial, individual cost of \$5,000 or more and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated assets are reflected at estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Improvements are capitalized and depreciated over the remaining useful lives of the related capital assets, as applicable.

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

Depreciation of capital assets used by funds categorized as governmental activities is not provided in the fund financial statements; however, it is included in the gross expense by function in the government-wide Statement of Activities. Capital assets, net of accumulated depreciation, are reported in the governmental activities column of the government-wide statement of net position. 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.

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

City of South Padre Island, Texas
NOTES TO FINANCIAL STATEMENTS - CONTINUED
September 30, 2014

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

4. *Assets, Deferred Inflows of Resources and Net Position, Liabilities, Deferred Outflows of Resources - Continued*

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, except bond insurance costs are reported as expense in the period incurred. Bond insurance costs are considered as prepaid items.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. Premiums received on debt issuances are reported as other financing sources and discounts are reported as other financing uses. Issuance costs, whether or not withheld from debt proceeds, are reported as debt service expenditures.

h. Bond Discounts/Issue Costs

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

i. Comparative Data

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

j. 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.

k. 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.

l. 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.

m. Fund Balance Reporting

GASB 54 provides for two major types of fund balances, which are nonspendable and spendable. Nonspendable fund balances are balances that cannot be spent because they are not expected to be converted to cash or they are legally or contractually required to remain intact. Examples of this classification are prepaid items and inventories.

City of South Padre Island, Texas
NOTES TO FINANCIAL STATEMENTS - CONTINUED
September 30, 2014

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

4. *Assets, Deferred Inflows of Resources and Net Position, Liabilities, Deferred Outflows of Resources – Continued*

In addition to the nonspendable fund balance, GASB Statement No. 54 has provided a hierarchy of spendable fund balances, based on a hierarchy of spending constraints.

- Restricted: fund balances that are constrained by external parties, constitutional provisions, or enabling legislation.
- Committed: fund balances that contain self-imposed constraints of the government from its highest level of decision making authority. The responsibility to commit funds rests with the City Council Members. Committed amounts cannot be released without formal action from the council.
- Assigned: fund balances that contain self-imposed constraints of the government to be used for a particular purpose. The responsibility to assign funds rests with the City Manager.
- Unassigned: fund balance of the general fund that is not constrained for any particular purpose.

In the instance when restricted, committed, assigned or unassigned resources are available for use, it is the government's policy to use the highest level of restricted, committed or assigned resources first, then unassigned resources as they are needed.

n. Net Position

The City's net position is classified as follows:

Net investments: consists of capital assets, net of accumulated depreciation and reduced by the outstanding balances of any debt attributable to the acquisition, construction, or improvement of those assets.

Restricted net position: consists of net position that is subject to a legally enforceable restriction on their use.

Unrestricted: consists of all other net position that does not meet the definition of "restricted" or "invested in capital assets, net of related debt."

o. Deferred Outflows and Inflows of Resources

The City follows GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position* during the year ended September 30, 2013, which provides guidance for reporting the financial statement elements of deferred outflows of resources, which represent the consumption of the City's net position that is applicable to a future reporting period, and deferred inflows of resources, which represent the City's acquisition of net position applicable to a future reporting period.

The City follows GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities* during the year ended September 30, 2013, which establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. The City has an accounting loss on refunding bonds which is a deferred resource outflow and also has unavailable revenues from property taxes which are deferred resource inflows under this standard.

City of South Padre Island, Texas
NOTES TO FINANCIAL STATEMENTS - CONTINUED
September 30, 2014

NOTE B - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

1. *Budgetary Information*

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

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

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

During fiscal year 2014, 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 Beach Nourishment), that have adopted a budget.

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

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

City of South Padre Island, Texas
NOTES TO FINANCIAL STATEMENTS - CONTINUED
September 30, 2014

NOTE B - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY - Continued

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

2. *Expenditures over Appropriations*

None noted.

NOTE C – DEPOSITS AND INVESTMENTS

It is the City’s policy for deposits plus accrued interest thereon to be 102% secured by collateral valued at fair value, less the amount of the Federal Deposit Insurance Corporation insurance. During the year ended September 30, 2014, the City’s cash deposits were covered by federal deposit insurance or were secured by collateral held by the City’s agent in the City’s name pursuant to the City’s investment policy and its depository agreement.

Investments

Investments at fair value, including accrued interest, as of September 30, 2014 are as follows:

	<u>Investment Maturities (in years)</u>		<u>Greater than 1 year</u>
	<u>Fair Value</u>	<u>1 or less</u>	
Primary Government			
Cash and cash equivalents	\$16,441,740	\$16,441,740	\$ -
TexPool	7,417	7,417	-
Texas Term	<u>113,985</u>	<u>113,985</u>	-
	16,563,142	16,563,142	-
Investments			
Certificates of deposit	<u>1,002,500</u>	<u>500,843</u>	<u>501,657</u>
	<u>\$17,565,642</u>	<u>\$17,565,642</u>	<u>\$ -</u>
Component Unit			
Cash and cash equivalents	\$ 919,231	\$ 919,231	\$ -
Tex Pool	<u>22,247</u>	<u>22,247</u>	-
	<u>\$ 941,478</u>	<u>\$ 941,478</u>	<u>\$ -</u>

City of South Padre Island, Texas
NOTES TO FINANCIAL STATEMENTS - CONTINUED
September 30, 2014

NOTE C - DEPOSITS AND INVESTMENTS – Continued

A reconciliation of cash and investments follows:

	<u>Primary Governmental Activities</u>	<u>Component Units</u>	<u>Total</u>
Cash	\$16,441,740	\$ 919,231	\$17,360,971
Cash equivalents			
Texas Term	113,985	22,247	136,232
TexPool	<u>7,417</u>	<u>-</u>	<u>7,417</u>
	121,402	22,247	143,649
Investments			
Certificates of deposit	<u>1,002,500</u>	<u>-</u>	<u>1,002,500</u>
	<u>\$17,565,642</u>	<u>\$ 941,478</u>	<u>\$18,507,120</u>

Interest Rate Risk

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

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

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

<u>Description</u>	<u>Rate</u>	<u>Amount</u>	<u>Maturity</u>
Certificate of deposit	0.29%	\$ 500,843	August 10, 2015
Certificate of deposit	0.57%	<u>501,657</u>	February 10, 2016
		<u>\$1,002,500</u>	

The investment policy states that operating funds and commingled pools shall not have an average 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, 2014, the investments in TexPool and Texas Term investment risk pools were rated AAAM and AA Af by Standard and Poor's, respectively.

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

NOTE C – DEPOSITS AND INVESTMENTS – Continued

Public Funds Investment Pools

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

The Trust Company was incorporated by the State Treasurer by authority of the Texas Legislature as a special purpose trust company with direct access to the services of the Federal Reserve Bank to manage, disburse, transfer, safekeep, and invest public funds and securities more efficiently and economically. The State Comptroller of Public Accounts exercises oversight responsibility over TexPool. Oversight includes the ability to significantly influence operations, designation of management, and accountability for fiscal matters.

TexPool operates in a manner consistent with the Security and Exchange Commission's Rule 2a7 of the Investment Company Act of 1940. TexPool uses amortized cost rather than market value to report net assets to compute share prices. The fair value of the position in TexPool is the same as the value of TexPool shares. Accordingly, the City's investments in TexPool are stated at cost, which approximates fair value. TexPool is currently rated AAAM by Standard and Poor's. This rating indicates excellent safety and a superior capacity to maintain principal value and limit exposure to loss.

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 Af 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.

NOTE D - PROPERTY TAXES

The assessed value for the tax roll as of January 1, 2013 upon which the 2013 levy was based, was \$2,583,563,287. State statutes require that all assessments be made on one hundred percent (100%) of fair market value.

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

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

City of South Padre Island, Texas
NOTES TO FINANCIAL STATEMENTS - CONTINUED
September 30, 2014

NOTE D - PROPERTY TAXES - Continued

Taxes receivable in the General Fund includes uncollected tax levies since 1983. All real property taxes receivable less than twenty years old are considered collectible. All personal property taxes receivable less than ten years old are considered collectible. All revenues were deferred at the time the levies were recorded. The Texas Legislature enacted a provision during the 1992 legislative session which requires all liens attached to properties because of delinquent taxes to be removed after twenty years. Also, liens attached to personal property for delinquent taxes are required to be removed after ten years. This legislation became effective August 27, 1992.

The City is permitted by the Municipal Finance Law of Texas to levy taxes up to \$1.50 per \$100 of assessed valuation for general governmental services other than the payment of principal and interest on long-term debt and in unlimited amounts for the payment of principal and interest on long-term debt. The combined tax rate to finance general governmental service and the payment of principal and interest on long-term debt for the year ended September 30, 2014, was \$.254384 per \$100.

The City Charter provides for taxes to become due on October 1st of the year of levy and shall be paid by January 31st of the following year. Liens for unpaid taxes go into effect on July 1st as the taxes become delinquent. Current tax collections for the year ended September 30, 2014, were 97.8 percent of the tax levy.

NOTE E - RECEIVABLES

Receivables at September 30, 2014, consist of the following:

	Primary Government						Component Unit
	General	Hotel/Motel Fund	Convention Center Fund	Beach Nourishment Fund	Other Governmental Funds	Total Governmental Funds	
Receivables							
Taxes	\$286,814	\$ -	\$ -	\$ -	\$ 31,418	\$ 318,232	\$ -
Accounts	<u>628,141</u>	<u>269,406</u>	<u>179,487</u>	<u>26,410</u>	<u>48,263</u>	<u>1,151,707</u>	<u>94,317</u>
Gross receivables	914,955	269,406	179,487	26,410	79,681	1,469,939	94,317
Less allowance for uncollectibles	<u>(14,341)</u>	-	-	-	<u>(1,571)</u>	<u>(15,912)</u>	-
Total receivables, net	<u>\$900,614</u>	<u>\$269,406</u>	<u>\$179,487</u>	<u>\$ 26,410</u>	<u>\$ 78,110</u>	<u>\$1,454,027</u>	<u>\$ 94,317</u>

NOTE F - DUE FROM OTHER GOVERNMENTS

Due from other governments at September 30, 2014 consist of the following:

	Primary Government		Total
	Transportation Fund	Beach Maintenance Fund	
Texas State Comptroller – occupancy taxes	\$ -	\$939,711	\$ 939,711
State of Texas – Department of Transportation	<u>380,665</u>	-	<u>380,665</u>
Net total receivables	<u>\$380,665</u>	<u>\$939,711</u>	<u>\$1,320,376</u>

City of South Padre Island, Texas
NOTES TO FINANCIAL STATEMENTS - CONTINUED
September 30, 2014

NOTE G - CAPITAL ASSETS

Capital asset activity for the year ended September 30, 2014 is as follows:

Governmental Activities

	Beginning Balance October 1, 2013	Additions	Transfers	Retirements	Ending Balance September 30, 2014
Capital assets, not being depreciated:					
Land	\$ 1,497,793	\$ -	\$ -	\$ -	\$ 1,497,793
Construction in progress	<u>64,198</u>	<u>547,638</u>	-	-	<u>611,836</u>
	1,561,991	547,638	-	-	2,109,629
Capital assets, being depreciated:					
Buildings	29,283,179	137,464	-	(35,440)	29,385,203
Improvements	4,562,754	58,285	-	(71,721)	4,549,318
Furniture and equipment	7,705,864	341,384	-	(441,193)	7,606,055
Infrastructure	<u>7,912,199</u>	<u>592,032</u>	-	-	<u>8,504,231</u>
	49,463,996	1,129,165	-	(548,354)	50,044,807
Less accumulated depreciation for:					
Buildings	(13,017,660)	(1,150,796)	-	29,538	(14,138,918)
Improvements	(2,440,691)	(235,942)	-	71,721	(2,604,912)
Furniture and equipment	(4,648,642)	(908,429)	-	431,387	(5,125,684)
Infrastructure	<u>(5,441,788)</u>	<u>(309,995)</u>	-	-	<u>(5,751,783)</u>
Total accumulated depreciation	<u>(25,548,781)</u>	<u>(2,605,162)</u>	-	<u>532,646</u>	<u>(27,621,297)</u>
Total capital assets, being depreciated, net	<u>23,915,215</u>	<u>(1,475,997)</u>	-	<u>(15,708)</u>	<u>22,423,510</u>
Governmental activities, capital assets, net	<u>\$25,477,206</u>	<u>\$ (928,359)</u>	<u>\$ -</u>	<u>\$ (15,708)</u>	<u>\$24,533,139</u>

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

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

Depreciation was charged to government functions as follows:

General government	\$ 368,602
Public safety	555,834
Public works	663,021
Community service	4,095
Convention and visitors bureau	802,236
Transportation	<u>211,374</u>
Total depreciation - governmental activities	<u>\$2,605,162</u>

City of South Padre Island, Texas
NOTES TO FINANCIAL STATEMENTS - CONTINUED
September 30, 2014

NOTE G - CAPITAL ASSETS - Continued

Component Unit:

Activity for Economic Development Corporation is as follows:

	Beginning Balance October 1, 2013	Additions	Transfers	Retirements	Ending Balance September 30, 2014
Capital assets, not being depreciated					
Land	\$ 657,236	\$ -	\$ -	\$ -	\$ 657,236
Construction in progress	248,456	126,544	(375,000)	-	-
	905,692	126,544	(375,000)	-	657,236
Capital assets, being depreciated					
Buildings	6,569,015	-	-	-	6,569,015
Improvements	-	-	375,000	-	375,000
Furniture and equipment	21,604	-	-	-	21,604
	6,590,619	-	375,000	-	6,965,619
Less accumulated depreciation					
Buildings	(726,039)	(136,147)	-	-	(862,186)
Improvements	-	(20,335)	-	-	(20,335)
Furniture and equipment	(21,604)	-	-	-	(21,604)
Total accumulated depreciation	(747,643)	(156,482)	-	-	(904,125)
Total capital assets being depreciated, net	5,842,976	(156,482)	-	-	6,061,494
Governmental activities, capital assets, net	\$6,748,668	\$ (29,938)	\$ -	\$ -	\$6,718,730

NOTE H - DEFERRED INFLOWS AND OUTFLOWS OF RESOURCES

Governmental funds report *deferred inflows of resources* 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 inflows of resources reported in the fund financial statements was as follows:

	<u>Unavailable</u>
Governmental funds	
Delinquent property taxes receivable	\$265,745
Grants and other	193,756
Total deferred/inflows of resources for governmental funds	\$459,501

Deferred outflows of resources consist of \$256,922 of deferred charges on refundings of long-term debt.

NOTE I - UNEARNED REVENUE

Unearned revenues principally consist of amounts for which the City has received funds in advanced for having completed the earning process and do not meet the definition of a deferred inflow of resources.

For the year ended September 30, 2014, \$47,301 of unearned revenues are reported in the government funds and in the statement of net position for amounts received for in advance of the City performing the related services.

City of South Padre Island, Texas
NOTES TO FINANCIAL STATEMENTS - CONTINUED
September 30, 2014

NOTE J - LONG-TERM DEBT

Primary Government

General Obligation Bonds

The City issues general obligation bonds and certificates of obligation to provide funds for the acquisition and construction of major capital facilities.

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

1. Bonds

	Beginning Balance <u>10-1-13</u>	<u>Additions</u>	<u>Reductions</u>	Ending Balance <u>9-30-14</u>	<u>Due In One Year</u>
<i>General Government:</i>					
2005 Series, General Obligation Bonds	\$ 460,000	\$ -	\$(225,000)	\$ 235,000	\$235,000
2011 Series, General Obligation Bonds	3,800,000	-	(155,000)	3,645,000	160,000
2012 Series, General Obligation Refunding Bonds	<u>3,165,000</u>	<u>-</u>	<u>(25,000)</u>	<u>3,140,000</u>	<u>25,000</u>
Total bonds	<u>\$7,425,000</u>	<u>\$ -</u>	<u>\$(405,000)</u>	<u>\$7,020,000</u>	<u>\$420,000</u>

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

Year Ending <u>September 30,</u>	<u>General Obligation Bonds</u>		<u>Total</u>		<u>Principal and Interest</u>
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	
2015	\$ 420,000	\$ 225,163	\$ 420,000	\$ 225,163	\$ 645,163
2016	435,000	210,700	435,000	210,700	645,700
2017	450,000	197,425	450,000	197,425	647,425
2018	460,000	183,775	460,000	183,775	643,775
2019	480,000	168,775	480,000	168,775	648,775
2020-2024	2,640,000	594,513	2,640,000	594,513	3,234,513
2025-2029	1,575,000	242,000	1,575,000	242,000	1,817,000
2030-2034	<u>560,000</u>	<u>22,600</u>	<u>560,000</u>	<u>22,600</u>	<u>582,600</u>
	<u>\$7,020,000</u>	<u>\$1,844,951</u>	<u>\$7,020,000</u>	<u>\$1,927,576</u>	<u>\$8,864,951</u>

Component Unit

1. Revenue Bond

	Beginning Balance October 1, <u>2013</u>	<u>Additions</u>	<u>Reductions</u>	Ending Balance September 30, <u>2014</u>	<u>Amount Due In One Year</u>
2007 Series, Sales Tax Bond	\$4,585,000	\$ -	\$(190,000)	\$4,395,000	\$210,000
Total Revenue Bond	<u>\$4,585,000</u>	<u>\$ -</u>	<u>\$(190,000)</u>	<u>\$4,395,000</u>	<u>\$ -</u>

City of South Padre Island, Texas
NOTES TO FINANCIAL STATEMENTS - CONTINUED
September 30, 2014

NOTE J - LONG-TERM DEBT - Continued

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

Year Ending September 30,	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2015	\$ 210,000	\$ 187,473	\$ 397,473
2016	230,000	177,859	407,859
2017	250,000	167,371	417,371
2018	265,000	156,118	421,118
2019	280,000	144,210	424,210
2020-2024	1,595,000	522,761	2,117,761
2025-2029	<u>1,565,000</u>	<u>140,823</u>	<u>1,705,823</u>
	<u>\$4,395,000</u>	<u>\$1,496,615</u>	<u>\$5,891,615</u>

Primary Government

On April 20, 2005, the City issued 2005 Series General Obligation Bonds in order to construct and equip a new City Hall Complex, related parking and to 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 City issued Series 2006 Tax Notes in order to supplement previously secured debt funding (2005 Series GO Bonds) to construct and equip a new City Hall Complex. The additional funding is necessary as a result of significant increases in construction costs which exceeded the amount of funds on deposit from the previous bond issue. The Tax Notes are collateralized by the full faith and credit of the government, and carry a term of seven years, maturing March 1, 2013. Principal is due annually, and interest payments at the rate of 4.10% are due March 1 and September 1. The debt covenants require an interest and sinking fund wherein the ad valorem taxes levied sufficient to provide for the payment of the interest on and principal of the notes will be deposited.

During June 2011, the City issued Series 2011 General Obligation Bonds to construct and equip a new fire station. The bonds are collateralized by the full faith and credit of the government and will be repaid over the next 20 years. Principal is due annually, and interest payments at the rate of 3.00 – 4.00% are due March 1 and September 1.

City of South Padre Island, Texas
NOTES TO FINANCIAL STATEMENTS - CONTINUED
September 30, 2014

NOTE J - LONG-TERM DEBT – Continued

Advance Refunding

In August 2012, the City issued Series 2012 General Obligation Refunding bonds in the amount of \$3,165,000 to provide resources to refund the majority of the City's 2005 Series General Obligation bonds and cover costs of issuance. As a result, \$2,985,000 of the Series 2005 bonds are considered to be defeased and the liability has been removed from the accounts of the City. The cost of issuance totaled \$103,287 on the Series 2012 bonds. Principal and interest payments are due annually on March 1 of each year until maturity on March 1, 2025.

The advance refunding was undertaken to reduce the City's interest payments. The advance refunding resulted in an economic gain (difference between the present value of the debt service payment of the refunded and refunding bonds) of \$201,901, and a gross savings of \$223,738. At September 30, 2014, the defeased portion of the 2005 Series General Obligation bonds had a balance of \$2,985,000. The amount of the 2005 Series General Obligation bonds that are still on the City's books is \$235,000.

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

Capital Lease Obligations

In May 2011, the City entered into a lease-purchase agreement with Government Capital Corporation for the purchase of pickup truck. Lease payments are due annually beginning April 6, 2012.

In October 2010, the City entered into a lease-purchase agreement with Government Capital Corporation for the purchase of a Fire Ladder Truck. Lease payments are due annually beginning October 18, 2010.

In October 2010, the City entered into a lease-purchase agreement with Government Capital Corporation for the purchase of a Fire Quick Attack Truck. Lease payments are due annually beginning October 18, 2010.

In October 2011, the City entered into a lease-purchase agreement with Republic First National for the purchase of an ambulance. Lease payments are due annually beginning October 15, 2011.

In September 2012, the City entered into a lease-purchase agreement with Motorola Solutions, Inc. for the purchase of a Police Radio and Communication System. Lease payments are due in seven annual installments beginning September of 2013.

On October 10, 2012 the City entered into a master lease agreement with Merchants Automotive Group, Inc. for the purchase of a variety of vehicles for the City. The total vehicles acquired under capital leases with Merchants Automotive Group, Inc. as of September 30, 2013 was \$378,581. Lease payments are due annually beginning in June of 2013.

In May 2013, the City entered into a lease-purchase agreement with Merchants Automotive Group, Inc. for the purchase of an ambulance. Lease payments are due annually beginning May 2014.

City of South Padre Island, Texas
NOTES TO FINANCIAL STATEMENTS - CONTINUED
September 30, 2014

NOTE J - LONG-TERM DEBT – Continued

The following is a schedule of the future minimum lease payments under the capital lease together with the present value of the next minimum lease payments as of September 30, 2014:

Year ending September 30,	Pickup Truck	Fire Ladder Truck	Fire Quick Attack Truck	Ambulance	Ambulance	Police Radio Equipment	Vehicles Merchant	Total
2015	\$ 6,317	\$106,439	\$ 38,514	\$ 25,700	\$ 29,276	\$ 63,062	\$104,098	\$ 373,406
2016	-	106,439	-	25,700	29,276	63,062	77,130	301,607
2017	-	106,439	-	-	29,276	63,062	55,326	254,103
2018	-	242,788	-	-	29,276	63,062	36,346	371,472
2019	-	-	-	-	-	63,062	-	63,062
2020 and thereafter	-	-	-	-	-	63,062	-	63,062
Total minimum lease payments	6,317	562,106	38,514	51,400	117,104	378,371	272,900	1,426,712
Less the amount representing interest	(539)	(61,474)	(1,751)	(2,489)	(11,658)	(39,789)	(33,983)	(151,683)
Present value of net minimum lease payments	\$ 5,778	\$500,632	\$ 36,763	\$ 48,911	\$105,446	\$338,582	\$238,917	\$1,275,029

Changes in Long-term Liabilities for Governmental Activities

During the year ended September 30, 2014, the following changes occurred in liabilities reported as non-current liabilities.

	October 1, 2013	Additions	Reductions	September 30, 2014	Amount Due Within One Year
Compensated absences	\$ 814,660	\$ 480,896	\$ (478,371)	\$ 817,185	\$ 430,225
Bonds payable	7,425,000	-	(405,000)	7,020,000	420,000
Premium on bond issuances	300,783	-	(22,529)	278,254	22,529
Capital leases	1,566,230	-	(291,201)	1,275,029	321,431
Net pension obligation*	126,786	9,509	-	136,295	-
Total long-term debt	\$10,233,459	\$ 490,405	\$(1,197,101)	\$ 9,526,763	\$1,194,185

*Compensated absences and the net pension obligation are generally liquidated by the General Fund.

Component Unit

During July 2007, the Economic Development Corporation (“EDC”) issued Sales Tax Revenue Bond Series 2007 for the purpose of paying the costs of the acquisition and construction of land, buildings, equipment, facilities and improvements relating to a birding and nature center as a public facility, funding a debt service reserve fund and paying the costs of issuance. The bonds are collateralized and secured with a pledge of revenues derived from sales and use tax levied in the City of South Padre Island, as allocated to 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.

City of South Padre Island, Texas
NOTES TO FINANCIAL STATEMENTS - CONTINUED
September 30, 2014

NOTE J- LONG-TERM DEBT – Continued

Changes in Long-term Liabilities for Component Units

	October 1, <u>2013</u>	<u>Additions</u>	<u>Reductions</u>	September 30, <u>2014</u>	Amount Due Within <u>One Year</u>
2007 Series, Sales Tax Bond	\$4,585,000	\$ -	\$(190,000)	\$4,395,000	\$210,000
Net pension obligation	<u>2,112</u>	<u>158</u>	<u>-</u>	<u>2,270</u>	<u>-</u>
Total long-term debt	<u>\$4,587,112</u>	<u>\$ 158</u>	<u>\$(190,000)</u>	<u>\$4,397,270</u>	<u>\$210,000</u>

NOTE K - INTERFUND ASSETS/LIABILITIES

Due to/from other funds:

<u>Payable Fund</u>	<u>Receivable Fund</u>
	<u>General</u>
Transportation Grant	\$ <u>98,585</u>
	\$ <u>98,585</u>

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

NOTE L - TRANSFERS

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

<u>Transfer in Funds</u>							
<u>Transfer out Funds</u>	<u>General</u>	Parks and <u>Beautification</u> <u>Fund</u>	Transportation <u>Grant</u>	Street <u>Improvement</u>	Bay <u>Access</u>	Beach <u>Access</u>	<u>Total</u>
General	\$ -	\$ 11,000	\$ 50,000	\$ 590,217	\$ 15,500	\$ -	\$ 666,717
Construction in progress fund	6,102	-	-	-	-	-	6,102
Capital replacement fund	54,500	-	-	-	-	-	54,500
Hurricane recovery fund	181,185	-	-	-	-	-	181,185
Beach maintenance	<u>304,280</u>	-	-	-	-	150,000	<u>454,280</u>
Total receivables, net	<u>\$546,067</u>	<u>\$ 11,000</u>	<u>\$ 50,000</u>	<u>\$ 590,217</u>	<u>\$ 15,500</u>	<u>\$ 150,000</u>	<u>\$1,362,784</u>

Transfer between funds within the Component Units

<u>Transfer Out Funds</u>	<u>Transfer in Funds</u>
	EDC
	<u>Debt Service Fund</u>
Economic Development Corporation General Fund	<u>\$402,062</u>

City of South Padre Island, Texas
NOTES TO FINANCIAL STATEMENTS - CONTINUED
September 30, 2014

NOTE M - COMMITMENTS AND CONTINGENT LIABILITIES

1. *Litigation*

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

2. *Grant Programs*

The City and component unit participate 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 N - RISK MANAGEMENT

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

The risk pool is an interlocal non-assessable agency with present unreserved resources in excess of \$392,687,606 (as of September 30, 2013, 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 the type of insurance coverage. The City must promptly pay contributions to the risk pool as outlined by the coverage contracts, comply with underwriting standards and implement loss control recommendations deemed necessary by a risk pool representative due to an eminent high risk of loss situation. City management is not aware of any pending or alleged claims that could exceed the policy limits of the present insurance coverage.

NOTE O - PENSION PLAN

Plan Description

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

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

City of South Padre Island, Texas
NOTES TO FINANCIAL STATEMENTS - CONTINUED
September 30, 2014

NOTE O - PENSION PLAN - Continued

Plan Description - Continued

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

	<u>Plan Year 2013</u>	<u>Plan Year 2014</u>
Employee deposit rate	7.0%	7.0%
Matching ratio (City to employee)	2 to 1	2 to 1
Years required for vesting	5	5
Service retirement eligibility (expressed as age/ years of service)	60/5,0/20	60/5,0/20
Updated service credit	100% repeating transfers	100% repeating transfers
Annuity increase (to retirees)	70% of CPI	70% of CPI

Contributions

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

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

	<u>Primary Government</u>	<u>Component Unit</u>
Annual Required Contribution (ARC)	\$876,708	\$ 6,638
Interest on net pension obligation	9,509	158
Adjustment to the ARC *	<u>-0-</u>	<u>-0-</u>
Annual Pension Cost (APC)	886,217	6,796
Contributions made	<u>(876,708)</u>	<u>(6,638)</u>
Increase (decrease) in net pension obligation	9,509	158
Net pension obligation/(asset), beginning of year	<u>126,786</u>	<u>2,112</u>
Net pension obligation/(asset), end of year	<u>\$136,295</u>	<u>\$ 2,270</u>

*No adjustments were required to be made to the ARC at September 30, 2014.

City of South Padre Island, Texas
NOTES TO FINANCIAL STATEMENTS - CONTINUED
September 30, 2014

NOTE O - PENSION PLAN - Continued

Three year trend information is as follows:

	<u>Primary Government</u>	<u>Component Unit</u>
City's Annual Pension Cost (APC)		
2012	\$859,094	\$7,746
2013	893,990	6,929
2014	886,217	6,797
Percentage of APC Contributed		
2012	99%	99%
2013	99%	98%
2014	99%	98%
Net Pension Obligation		
2012	117,940	1,965
2013	126,786	2,112
2014	136,295	2,270

The required contribution rates for fiscal year 2014 were determined as part of the December 31, 2011 and 2012 actuarial valuations. Additional information as of the latest actuarial valuation, December 31, 2013, also follows:

<u>Valuation Date</u>	<u>December 31, 2011</u>	<u>December 31, 2012</u>	<u>December 31, 2013</u>
Actuarial Cost Method	Projected Unit Credit	Projected Unit Credit	Entry Age Normal
Amortization Method	Level Percent of Payroll	Level Percent of Payroll	Level Percent of Payroll
GASB 25 Equivalent Single Amortization Period	26.5 years; closed period	26.5 years; closed period	30.0 years; closed period
Amortization Period for New Gains/Losses	30 years	30 years	30 years
Asset Valuation Method	10-year Smoothed Market	10-year Smoothed Market	10-year Smoothed Market
Actuarial Assumptions:			
Investment Rate of Return*	7.0%	7.0%	7.0%
Projected Salary Increases*	Varies by age and service	Varies by age and service	Varies by age and service
*Includes Inflation at	3.00%	3.00%	3.00%
Cost of Living Adjustments	2.1%	2.1%	2.1%

City of South Padre Island, Texas
NOTES TO FINANCIAL STATEMENTS - CONTINUED
 September 30, 2014

NOTE O - PENSION PLAN - Continued

The funded status as of December 31, 2013, the most recent actuarial valuation date, is as follows:

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets</u> (1)	<u>Actuarial Accrued Liability (AAL)</u> (2)	<u>Funded Ratio</u> (3)	<u>Unfunded AAL (UAAL)</u> (4)	<u>Covered Payroll</u> (5)	<u>UAAL as a Percentage of Covered Payroll</u> (6)
			(1)/(2)	(2)-(1)		(4)/(5)
12/31/2013	\$22,358,470	\$24,822,353	90.1%	\$(2,463,883)	\$7,025,031	35.1%

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

NOTE P - OTHER POST EMPLOYMENT BENEFITS

Plan Description

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

Benefits

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

Contributions

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

City of South Padre Island, Texas
NOTES TO FINANCIAL STATEMENTS - CONTINUED
 September 30, 2014

NOTE P - OTHER POST EMPLOYMENT BENEFITS – Continued

The City's contributions to the TMRS SDBF for the years ended 2012, 2013 and 2014 were \$1,340, \$1,382 and \$1,395, respectively, which equaled the required contributions each year.

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

Plan/ Calendar Year	Annual Required Contribution (Rate)	Actual Contribution Made (Rate)	Percentage of ARC Contributed
2012	0.02%	0.02%	100.0%
2013	0.02%	0.02%	100.0%
2014	0.02%	0.02%	100.0%

NOTE Q – GASB STATEMENT NO. 54 FUND BALANCE REPORTING

Nonspendable – These funds were used for prepaid items.

Assigned – The City Council has authorized by resolution the assignment of a six month reserve of operating expenses in the General Fund.

Restricted – External parties have restricted these funds to be used for their intended purpose.

Unassigned – The unassigned fund balance has no constraints.

	General Fund	Hotel Motel/ Fund	Convention Centre Fund	Beach Nourishment Fund	Other Governmental Funds	Total Government Funds
Fund balance (deficit)						
Non-spendable						
Prepaid	\$ 57,868	\$ 7,402	\$ 26,540	\$ -	\$ 8,697	\$ 100,507
Assigned						
Six month operating reserve	5,348,967	-	-	-	-	5,348,967
Restricted						
Debt service	-	-	-	-	346,602	346,602
Capital projects	-	-	-	-	700,897	700,897
Beach nourishment	-	-	-	2,435,967	-	2,435,967
Transportation	-	-	-	-	301,277	301,277
Beach maintenance	-	-	-	-	1,382,753	1,382,753
Municipal court	-	-	-	-	63,068	63,068
Criminal justice	-	-	-	-	3,644	3,644
Parks and recreation	-	-	-	-	1,837	1,837
Hotel/motel tax	-	2,453,924	4,142,940	-	-	6,596,864
Unassigned	<u>1,499,570</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>22,303</u>	<u>1,521,873</u>
	<u>\$6,906,405</u>	<u>\$2,461,326</u>	<u>\$4,169,480</u>	<u>\$2,435,967</u>	<u>\$2,831,078</u>	<u>\$18,804,256</u>

City of South Padre Island, Texas
NOTES TO FINANCIAL STATEMENTS - CONTINUED
September 30, 2014

NOTE R – NET POSITION

Net position is composed of three categories: Net Investment in Capital Assets, Restricted and Unrestricted.

	<u>Governmental Activities</u>	<u>Component Units</u>
Net investment in capital assets:		
Capital assets, net of accumulated depreciation	\$24,533,139	\$ 6,739,065
Deferred outflows of resources – deferred amount on refunding	256,922	-
Less related liabilities (bonds and capital leases)	<u>(8,573,283)</u>	<u>(4,395,000)</u>
Net investment in capital assets – total	16,216,778	2,344,065
Restricted net position consist of the following:		
Restricted for debt service	372,614	542,739
Restricted for capital projects	700,897	-
Restricted for beach nourishment	2,435,967	-
Transportation	301,277	-
Restricted for beach maintenance	1,382,753	-
Restricted for municipal court	63,068	-
Restricted for criminal justice	3,644	-
Restricted for parks and recreation	1,837	-
Restricted for hotel/motel taxes	<u>6,596,864</u>	<u>-</u>
Restricted net position – total	11,858,921	542,739
Unrestricted net position	<u>6,390,495</u>	<u>872,159</u>
Total net position	<u>\$34,466,194</u>	<u>\$ 3,758,963</u>

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**CITY OF
SOUTH PADRE
ISLAND, TEXAS**

**REQUIRED SUPPLEMENTARY
INFORMATION**

**REQUIRED SUPPLEMENTARY
INFORMATION**

City 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, 2014

	Budget		Actual	Variance
	Original	Final		Final Budget Positive (Negative)
REVENUES				
Property taxes - including penalty and interest	\$ 5,993,484	\$ 5,993,484	\$ 5,869,686	\$ (123,798)
Nonproperty taxes	3,064,136	\$ 3,064,136	3,455,982	391,846
Fees and services	549,460	549,460	652,994	103,534
Fines and forfeitures	408,848	408,848	553,326	144,478
Licenses and permits	162,475	162,475	137,367	(25,108)
Intergovernmental	47,405	52,400	43,462	(8,938)
Miscellaneous and program revenues	63,000	230,205	228,715	(1,490)
Total revenues	<u>10,288,808</u>	<u>10,461,008</u>	<u>10,941,532</u>	<u>480,524</u>
EXPENDITURES				
Current				
General government				
City council	24,000	24,000	13,847	10,153
City administration	679,668	679,668	604,878	74,790
Finance	323,304	323,304	313,756	9,548
Planning	163,842	163,842	158,666	5,176
Information services	475,643	475,643	463,431	12,212
Environmental health services	424,799	428,799	392,918	35,881
General services	838,630	838,630	816,788	21,842
Special projects	214,700	259,950	256,861	3,089
Total general government	<u>3,144,586</u>	<u>3,193,836</u>	<u>3,021,145</u>	<u>172,691</u>
Public safety				
Municipal court	186,886	186,886	164,603	22,283
Police	2,692,839	2,714,078	2,525,019	189,059
Fire	2,122,548	2,119,178	2,119,175	3
Emergency management	62,570	62,570	61,629	941
Total public safety	<u>5,064,843</u>	<u>5,082,712</u>	<u>4,870,426</u>	<u>212,286</u>
Public works				
Building maintenance	185,380	185,380	183,590	1,790
Inspections	185,583	185,583	161,954	23,629
Fleet Management	493,264	493,264	428,427	64,837
Public works	1,072,685	1,111,143	1,027,316	83,827
Total public works	<u>1,936,912</u>	<u>1,975,370</u>	<u>1,801,287</u>	<u>174,083</u>
Capital outlay				
	28,000	386,297	133,287	253,010
Debt service				
Principal retirement - capital lease	272,660	272,660	272,671	(11)
Interest and fees	57,241	57,241	57,225	16
Total debt service	<u>329,901</u>	<u>329,901</u>	<u>329,896</u>	<u>5</u>
Total expenditures	<u>10,504,242</u>	<u>10,968,116</u>	<u>10,156,041</u>	<u>812,075</u>
EXCESS OF REVENUES OVER EXPENDITURES	(215,434)	(507,108)	785,491	1,292,599

City 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, 2014

	Budget		Actual	Variance Final Budget Positive (Negative)
	Original	Final		
OTHER FINANCING SOURCES (USES)				
Sale of fixed asset	-	\$ 21,239	\$ 27,739	\$ 6,500
Transfers in	442,165	442,165	546,067	103,902
Transfers out	(226,500)	(666,717)	(666,717)	-
Total other financing sources (uses)	<u>215,665</u>	<u>(203,313)</u>	<u>(92,911)</u>	<u>110,402</u>
 NET CHANGE IN FUND BALANCE	 <u>\$ 231</u>	 <u>\$ (710,421)</u>	 692,580	 <u>\$ 1,403,001</u>
 Fund balance -- beginning			 <u>6,213,825</u>	
 Fund balance -- ending			 <u>\$ 6,906,405</u>	

City of South Padre Island, Texas
HOTEL/MOTEL TAX FUND
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
For the Year Ended September 30, 2014

	Budget		Actual	Variance
	Original	Final		Final Budget Positive (Negative)
REVENUES				
Nonproperty taxes	\$ 3,574,117	\$ 3,574,117	\$ 4,105,553	\$ 531,436
Fees and services	6,000	6,000	9,029	3,029
Miscellaneous and program revenues	<u>7,000</u>	<u>7,000</u>	<u>47,471</u>	<u>40,471</u>
Total revenues	3,587,117	3,587,117	4,162,053	574,936
EXPENDITURES				
Current				
Convention and visitors bureau				
Visitors bureau	222,496	222,496	199,446	23,050
Sales and marketing	939,104	939,104	854,276	84,828
Events marketing	425,517	437,217	434,473	2,744
Marketing	<u>2,000,000</u>	<u>2,475,000</u>	<u>2,193,578</u>	<u>281,422</u>
Total community service	<u>3,587,117</u>	<u>4,073,817</u>	<u>3,681,773</u>	<u>392,044</u>
Total expenditures	3,587,117	4,073,817	3,681,773	392,044
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES				
	-	(486,700)	480,280	966,980
NET CHANGE IN FUND BALANCE				
	<u>\$ -</u>	<u>\$ (486,700)</u>	480,280	<u>\$ 966,980</u>
Fund balance -- beginning			<u>1,981,046</u>	
Fund balance -- ending			<u>\$ 2,461,326</u>	

City of South Padre Island, Texas
CONVENTION CENTRE FUND
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
For the Year Ended September 30, 2014

	Budget		Actual	Variance
	Original	Final		Final Budget Positive (Negative)
REVENUES				
Nonproperty taxes	2,592,877	2,592,877	\$ 2,978,412	\$ 385,535
Convention centre revenue	201,000	201,000	217,361	16,361
Miscellaneous and program revenues	-	-	8,095	8,095
Total revenues	<u>2,793,877</u>	<u>2,793,877</u>	3,203,868	409,991
EXPENDITURES				
Current				
Convention and visitors bureau				
Convention centre	<u>1,120,670</u>	<u>1,988,164</u>	<u>1,637,241</u>	<u>350,923</u>
Total community service	1,120,670	1,988,164	1,637,241	350,923
Debt service				
Principal retirement - capital lease	5,249	5,249	5,249	-
Interest and fees	663	663	664	(1)
Capital outlay	<u>35,000</u>	<u>719,814</u>	<u>531,755</u>	<u>188,059</u>
Total expenditures	<u>1,161,582</u>	<u>2,713,890</u>	<u>2,174,909</u>	<u>538,981</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	1,632,295	79,987	1,028,959	948,972
OTHER FINANCING SOURCES (USES)				
Sale of capital assets	<u>-</u>	<u>-</u>	4,888	4,888
Total other financing sources (uses)	<u>-</u>	<u>-</u>	4,888	4,888
NET CHANGE IN FUND BALANCE	<u>\$ 1,632,295</u>	<u>\$ 79,987</u>	1,033,847	<u>\$ 948,972</u>
Fund balance -- beginning			<u>3,135,633</u>	
Fund balance -- ending			<u>\$ 4,169,480</u>	

City of South Padre Island, Texas
BEACH NOURISHMENT FUND
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL
For the Year Ended September 30, 2014

	Budget		Actual	Variance
	Original	Final		Final Budget Positive (Negative)
REVENUES				
Nonproperty taxes	\$ 384,684	\$ 384,684	\$ 442,748	\$ 58,064
Miscellaneous and program revenues	-	-	35,517	35,517
Total revenues	384,684	384,684	478,265	93,581
EXPENDITURES				
Current				
Community service	690,000	690,000	116,749	573,251
Total expenditures	690,000	690,000	116,749	573,251
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(305,316)	(305,316)	361,516	666,832
NET CHANGE IN FUND BALANCE	\$ (305,316)	\$ (305,316)	361,516	\$ 666,832
Fund balance -- beginning			2,074,451	
Fund balance -- ending			\$ 2,435,967	

City of South Padre Island, Texas
Pension Plan (TMRS) Schedule of Funding Progress
September 30, 2014

Funding Progress - An analysis of funding progress for the entity as of September 30, 2014, 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	(9.18%)
12/31/04	7,548,520	7,751,625	(203,105)	97.4	3,632,677	(5.59%)
12/31/05	8,454,007	8,728,488	(274,481)	96.9	4,265,760	(6.43%)
12/31/06	9,414,303	9,739,958	(325,655)	96.7	4,604,059	(7.07%)
12/31/07	9,493,921	11,001,566	(1,507,645)	86.3	4,748,977	(31.75%)
12/31/08	10,760,696	12,965,920	(2,205,224)	83.0	5,769,030	(38.23%)
12/31/09	11,621,877	14,279,003	(2,657,126)	81.4	6,483,656	(40.98%)
12/31/10	15,874,558	18,452,536	(2,577,978)	86.0	6,403,565	(40.26%)
12/31/11	17,787,878	19,875,154	(2,087,276)	89.5	6,572,549	(31.76%)
12/31/12	19,912,595	21,571,594	(1,658,999)	92.3	6,794,662	(24.4%)
12/31/13	22,358,470	24,822,353	(2,463,883)	90.1	7,025,031	(35.1%)

City of South Padre Island, Texas
NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
Year Ended September 30, 2014

Stewardship, compliance, and accountability

1. *Budgetary information*

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

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

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

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

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

2. *Expenditures over Appropriations*

None noted.

**CITY OF
SOUTH PADRE
ISLAND, TEXAS**

**OTHER SUPPLEMENTARY
INFORMATION**

NON-MAJOR GOVERNMENTAL FUND STATEMENTS AND SCHEDULES

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

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

Special revenue fund: **Transportation Grant Fund** is used to account for the grant proceeds and expenditures that pertain to the Wave and Metro Connect bus programs and other grants received from Texas Department of Transportation.

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

Special revenue fund: **Hurricane Recovery Fund** was established to account for insurance, grant and local funds that will be used for future hurricane related expenditures.

Special revenue fund: **Parks and Recreation Fund** was established to account for funds set aside for upgrades to City parks.

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

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

Capital project fund: **Construction in Progress Fund** is used to account for the bond proceeds received to fund the expenditures associated with the construction of the City's new fire station.

Special Revenue fund: **Beach Maintenance Fund** is used to clean and maintain the beach. The State of Texas sends the City 2% of the hotel/motel tax collected by the State for these efforts.

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

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

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

City of South Padre Island, Texas
NON MAJOR GOVERNMENTAL FUNDS
COMBINING BALANCE SHEETS
September 30, 2014

	Special Revenue Funds					
	Municipal Court Technology Fund	Municipal Court Security Fund	Transportation Grant Fund	Criminal Justice Grant	Hurricane Recovery Fund	Parks and Recreation Fund
ASSETS						
Cash and cash equivalents	\$ 12,211	\$ 50,857	\$ -	\$ 3,644	\$ -	\$ 1,837
Receivables (net of allowance)						
Taxes	-	-	-	-	-	-
Accounts	-	-	19,197	-	-	-
Due from other governments	-	-	380,665	-	-	-
Prepaid items	-	-	2,798	-	-	-
TOTAL ASSETS	<u>\$ 12,211</u>	<u>\$ 50,857</u>	<u>\$ 402,660</u>	<u>\$ 3,644</u>	<u>\$ -</u>	<u>\$ 1,837</u>
LIABILITIES AND FUND BALANCE						
Accounts payable	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Due to other funds	-	-	98,585	-	-	-
TOTAL LIABILITIES	-	-	98,585	-	-	-
DEFERRED INFLOWS OF RESOURCES						
Unavailable revenue - property taxes	-	-	-	-	-	-
TOTAL DEFERRED INFLOWS OF RESOURCES	-	-	-	-	-	-
Fund balance						
Nonspendable	-	-	2,798	-	-	-
Restricted	12,211	50,857	301,277	3,644	-	1,837
Unassigned	-	-	-	-	-	-
TOTAL FUND BALANCE	<u>12,211</u>	<u>50,857</u>	<u>304,075</u>	<u>3,644</u>	<u>-</u>	<u>1,837</u>
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCE						
	<u>\$ 12,211</u>	<u>\$ 50,857</u>	<u>\$ 402,660</u>	<u>\$ 3,644</u>	<u>\$ -</u>	<u>\$ 1,837</u>

		Capital Projects Funds							Total Non Major Governmental Funds
Capital Replacement Fund	Beach Maintenance Fund	Street Improvement Fund	Construction In Progress Fund	Beach Access Fund	Bay Access Fund	Total	Debt Service		
\$ 20,038	\$ 443,042	\$ 521,235	\$ -	\$ 139,270	\$ 22,303	\$ 1,214,437	\$ 340,873	\$1,555,310	
-	-	-	-	-	-	-	29,847	29,847	
-	-	27,172	-	-	-	46,369	1,894	48,263	
-	939,711	-	-	-	-	1,320,376	-	1,320,376	
-	5,899	-	-	-	-	8,697	-	8,697	
<u>\$ 20,038</u>	<u>\$ 1,388,652</u>	<u>\$ 548,407</u>	<u>\$ -</u>	<u>\$ 139,270</u>	<u>\$ 22,303</u>	<u>\$ 2,589,879</u>	<u>\$ 372,614</u>	<u>\$2,962,493</u>	
\$ -	\$ -	\$ 6,818	\$ -	\$ -	\$ -	\$ 6,818	\$ -	\$ 6,818	
-	-	-	-	-	-	98,585	-	98,585	
-	-	6,818	-	-	-	105,403	-	105,403	
-	-	-	-	-	-	-	26,012	26,012	
-	-	-	-	-	-	-	26,012	26,012	
-	5,899	-	-	-	-	8,697	-	8,697	
20,038	1,382,753	541,589	-	139,270	-	2,453,476	346,602	2,800,078	
-	-	-	-	-	22,303	22,303	-	22,303	
<u>20,038</u>	<u>1,388,652</u>	<u>541,589</u>	<u>-</u>	<u>139,270</u>	<u>22,303</u>	<u>2,484,476</u>	<u>346,602</u>	<u>2,831,078</u>	
<u>\$ 20,038</u>	<u>\$ 1,388,652</u>	<u>\$ 548,407</u>	<u>\$ -</u>	<u>\$ 139,270</u>	<u>\$ 22,303</u>	<u>\$ 2,589,879</u>	<u>\$ 372,614</u>	<u>\$2,962,493</u>	

City of South Padre Island, Texas
NON MAJOR GOVERNMENTAL FUNDS
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES
For the Year Ended September 30, 2014

	Special Revenue Funds						
	Municipal Court Technology Fund	Municipal Court Security Fund	Transportation Grant Fund	Criminal Justice Grant	Hurricane Recovery Fund	Parks and Recreation Fund	
Revenues							
Property taxes	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Nonproperty taxes	-	-	-	-	-	-	-
Fees and services	-	-	-	-	-	-	-
Fines and forfeitures	13,163	9,872	-	-	-	-	-
Intergovernmental	-	-	1,469,682	-	-	-	-
Miscellaneous	-	-	51,813	-	-	2,930	-
Total revenues	<u>13,163</u>	<u>9,872</u>	<u>1,521,495</u>	<u>-</u>	<u>-</u>	<u>2,930</u>	<u>-</u>
Expenditures							
Current							
General government	-	-	-	-	-	1,500	-
Public safety	13,561	-	-	-	-	-	-
Public works	-	-	-	-	-	-	-
Transportation	-	-	1,336,549	-	-	-	-
Community service	-	-	-	-	-	14,513	-
Capital outlay	-	-	220,607	-	-	-	-
Debt service							
Principal - bonds	-	-	-	-	-	-	-
Principal - capital lease	-	-	7,580	-	-	-	-
Interest	-	-	753	-	-	-	-
Administrative charges	-	-	205	-	-	-	-
Total expenditures	<u>13,561</u>	<u>-</u>	<u>1,565,694</u>	<u>-</u>	<u>-</u>	<u>16,013</u>	<u>-</u>
EXCESS (DEFICIENCY) REVENUES OVER (UNDER) EXPENDITURES	(398)	9,872	(44,199)	-	-	(13,083)	-
Other financing sources (uses)							
Sale of capital assets	-	-	6,054	-	-	-	20,038
Transfers in	-	-	50,000	-	-	11,000	-
Transfers (out)	-	-	-	-	(181,185)	-	(54,500)
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>56,054</u>	<u>-</u>	<u>(181,185)</u>	<u>11,000</u>	<u>(34,462)</u>
NET CHANGE IN FUND BALANCES	(398)	9,872	11,855	-	(181,185)	(2,083)	(34,462)
Fund balance, beginning of year	<u>12,609</u>	<u>40,985</u>	<u>292,220</u>	<u>3,644</u>	<u>181,185</u>	<u>3,920</u>	<u>54,500</u>
Fund balance, end of year	<u>\$ 12,211</u>	<u>\$ 50,857</u>	<u>\$ 304,075</u>	<u>\$ 3,644</u>	<u>\$ -</u>	<u>\$ 1,837</u>	<u>\$ 20,038</u>

Capital Projects Funds

Beach Maintenance Fund	Street Improvement Fund	Construction In Progress Fund	Beach Access Fund	Bay Access Fund	Total	Debt Service	Total Non Major Governmental Funds
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 684,357	\$ 684,357
1,701,378	-	-	-	-	1,701,378	-	1,701,378
-	-	-	-	-	-	-	-
-	-	-	-	-	23,035	-	23,035
39,908	27,172	-	-	29,004	1,565,766	-	1,565,766
-	-	-	-	-	54,743	-	54,743
<u>1,741,286</u>	<u>27,172</u>	<u>-</u>	<u>-</u>	<u>29,004</u>	<u>3,344,922</u>	<u>684,357</u>	<u>4,029,279</u>
-	-	-	-	-	1,500	-	1,500
195,768	-	-	-	-	209,329	-	209,329
298,421	857	-	-	15,034	314,312	-	314,312
-	-	-	-	-	1,336,549	-	1,336,549
-	-	-	-	-	14,513	-	14,513
203,959	571,970	-	15,225	-	1,011,761	-	1,011,761
-	-	-	-	-	-	405,000	405,000
5,701	-	-	-	-	13,281	-	13,281
567	-	-	-	-	1,320	240,738	242,058
154	-	-	-	-	359	1,550	1,909
<u>704,570</u>	<u>572,827</u>	<u>-</u>	<u>15,225</u>	<u>15,034</u>	<u>2,902,924</u>	<u>647,288</u>	<u>3,550,212</u>
1,036,716	(545,655)	-	(15,225)	13,970	441,998	37,069	479,067
13,061	-	-	-	-	39,153	-	39,153
-	590,217	-	150,000	15,500	816,717	-	816,717
<u>(454,280)</u>	<u>-</u>	<u>(6,102)</u>	<u>-</u>	<u>-</u>	<u>(696,067)</u>	<u>-</u>	<u>(696,067)</u>
<u>(441,219)</u>	<u>590,217</u>	<u>(6,102)</u>	<u>150,000</u>	<u>15,500</u>	<u>159,803</u>	<u>-</u>	<u>159,803</u>
595,497	44,562	(6,102)	134,775	29,470	601,801	37,069	638,870
<u>793,155</u>	<u>497,027</u>	<u>6,102</u>	<u>4,495</u>	<u>(7,167)</u>	<u>1,882,675</u>	<u>309,533</u>	<u>2,192,208</u>
<u>\$ 1,388,652</u>	<u>\$ 541,589</u>	<u>\$ -</u>	<u>\$ 139,270</u>	<u>\$ 22,303</u>	<u>\$ 2,484,476</u>	<u>\$ 346,602</u>	<u>\$ 2,831,078</u>

City of South Padre Island, Texas
DEBT SERVICE FUND
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL
For the Year Ended September 30, 2014

	Budget		Actual	Variance Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Property taxes	\$ 645,738	\$ 645,738	\$ 684,357	\$ 38,619
Total revenues	<u>645,738</u>	<u>645,738</u>	<u>684,357</u>	<u>38,619</u>
EXPENDITURES				
Debt service				
Principal retirement	405,000	405,000	405,000	-
Interest	240,738	240,738	240,738	-
Administrative charges	<u>-</u>	<u>-</u>	<u>1,550</u>	<u>(1,550)</u>
Total expenditures	<u>645,738</u>	<u>645,738</u>	<u>647,288</u>	<u>(1,550)</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>-</u>	<u>-</u>	<u>37,069</u>	<u>37,069</u>
NET CHANGE IN FUND BALANCE	<u>\$ -</u>	<u>\$ -</u>	<u>37,069</u>	<u>\$ 37,069</u>
Fund balance -- beginning			<u>309,533</u>	
Fund balance -- ending			<u>\$ 346,602</u>	

COMPONENT UNIT

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

City of South Padre Island, Texas
SOUTH PADRE ISLAND ECONOMIC DEVELOPMENT CORPORATION
DISCRETELY PRESENTED COMPONENT UNIT
COMBINING BALANCE SHEET
September 30, 2014

ASSETS	Economic Development Corporation General Fund	EDC Debt Service Reserve Fund	EDC Debt Service Fund	Total Component Unit
Cash and cash equivalents	\$ 475,819	\$ 439,322	\$ 26,337	\$ 941,478
Receivables	94,317	-	-	94,317
Prepaid items	-	-	306,031	306,031
Loans receivable	<u>77,080</u>	<u>-</u>	<u>-</u>	<u>77,080</u>
 TOTAL ASSETS	 <u>\$ 647,216</u>	 <u>\$ 439,322</u>	 <u>\$ 332,368</u>	 <u>\$ 1,418,906</u>
 LIABILITIES				
Accounts payable	\$ -	\$ -	\$ -	\$ -
Other liabilities	<u>1,738</u>	<u>-</u>	<u>-</u>	<u>1,738</u>
 TOTAL LIABILITIES	 1,738	 -	 -	 1,738
 DEFERRED INFLOWS OF RESOURCES				
Unavailable revenue - noncurrent receivables	<u>77,080</u>	<u>-</u>	<u>-</u>	<u>77,080</u>
 TOTAL DEFERRED INFLOWS OF RESOURCES	 77,080	 -	 -	 77,080
 FUND BALANCE				
Nonspendable	-	-	306,031	306,031
Restricted	-	439,322	26,337	465,659
Unassigned	<u>568,398</u>	<u>-</u>	<u>-</u>	<u>568,398</u>
 TOTAL FUND BALANCES	 <u>568,398</u>	 <u>439,322</u>	 <u>332,368</u>	 <u>1,340,088</u>
 TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCE	 <u>\$ 647,216</u>	 <u>\$ 439,322</u>	 <u>\$ 332,368</u>	 <u>\$ 1,418,906</u>

City of South Padre Island, Texas
SOUTH PADRE ISLAND ECONOMIC DEVELOPMENT CORPORATION
RECONCILIATION OF THE COMBINING BALANCE SHEET OF THE
COMPONENT UNIT TO THE STATEMENT OF NET POSITION
September 30, 2014

Fund balances of the component unit funds	\$ 1,340,088
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Amounts reported for *governmental type activities* in the statement of net position are different because:

Capital assets used in governmental type activities are not financial resources and therefore are not reported in the	6,718,730
Other long-term assets are not available to pay for current period expenditures and therefore are deferred in the funds.	77,080
Some liabilities, including bonds payable, are not due in the current period and therefore not reported in the funds.	(4,397,112)
Liabilities for net pension obligations are not due in the current period and therefore are not reported in the funds.	<u>(158)</u>

Net position of governmental type activities	<u>\$ 3,738,628</u>
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City of South Padre Island, Texas
SOUTH PADRE ISLAND ECONOMIC DEVELOPMENT CORPORATION
DISCRETELY PRESENTED COMPONENT UNIT
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
For the Year Ended September 30, 2014

	Economic Development Corporation General Fund	EDC Debt Service Reserve Fund	EDC Debt Service Fund	Total Component Unit
REVENUES				
Sales taxes	\$ 766,525	\$ -	\$ -	\$ 766,525
Intergovernmental revenues	126,544	-	-	126,544
Loan revenue	12,908	-	-	12,908
Miscellaneous and program revenues	<u>4,598</u>	<u>514</u>	<u>7</u>	<u>5,119</u>
Total revenues	910,575	514	7	911,096
EXPENDITURES				
Current				
Community service	222,625	-	-	222,625
Debt service				
Principal retirement	-	-	190,000	190,000
Interest expense	-	-	196,121	196,121
Capital outlay	<u>126,544</u>	<u>-</u>	<u>-</u>	<u>126,544</u>
Total expenditures	<u>349,169</u>	<u>-</u>	<u>386,121</u>	<u>735,290</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	561,406	514	(386,114)	175,806
Other financing sources (uses)				
Transfers out	(402,062)	-	-	(402,062)
Transfers in	<u>-</u>	<u>-</u>	<u>402,062</u>	<u>402,062</u>
Total other financing sources (uses)	<u>(402,062)</u>	<u>-</u>	<u>402,062</u>	<u>-</u>
Net change in fund balances	159,344	514	15,948	175,806
Fund balance -- beginning	<u>409,054</u>	<u>438,808</u>	<u>316,420</u>	<u>1,164,282</u>
Fund balance -- ending	<u>\$ 568,398</u>	<u>\$ 439,322</u>	<u>\$ 332,368</u>	<u>\$1,340,088</u>

City of South Padre Island, Texas
SOUTH PADRE ISLAND ECONOMIC DEVELOPMENT CORPORATION
RECONCILIATION OF THE COMBINING STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCE OF THE COMPONENT UNIT FUNDS
TO THE STATEMENT OF ACTIVITIES
For the Year Ended September 30, 2014

Net change in fund balances --total component unit funds \$ 175,806

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 current period depreciation (\$156,482) exceeded capital outlay of \$126,544. (29,938)

The change in Net Pension Obligation during the year is reported as an increase or decrease to expenditures in the statement of activities but not in the governmental funds. (158)

Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position. 190,000

Governmental type funds report loans made to outside parties as expenditures. However, in government wide statements, it has no effect on the change in net position. (12,908)

Change in net position of governmental activities \$ 322,802

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**CITY OF
SOUTH PADRE
ISLAND, TEXAS**

STATISTICAL SECTION

STATISTICAL SECTION

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

CONTENTS

Financial Trends

Schedules 1-4

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

Revenue Capacity

Schedules 5-9

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

Debt Capacity

Schedules 10-13

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 14-15

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 16-19

These schedules contain service and infrastructure data to help the reader understand how the information in the government's financial report related to the services the government provides and the activities it performs.

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

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

	Fiscal Year										
	2005	2006	2007	2008	2009	2010	2011	2012	2012*	2014	
Governmental activities											
Invested in capital assets, net of related debt	\$ 9,506,514	\$ 11,150,821	\$ 13,855,905	\$ 15,236,797	\$ 19,257,279	\$ 17,882,812	\$ 17,420,780	\$ 18,312,199	\$ 15,534,981	\$ 16,216,778	
Restricted	-	1,320,614	1,535,329	1,000,669	308,130	5,034,471	4,700,307	6,079,979	9,364,342	11,858,921	
Unrestricted	12,393,418	11,831,195	11,440,132	10,159,970	10,088,864	5,768,869	6,174,054	5,697,496	6,588,837	6,390,495	
Total governmental activities net position	\$ 21,899,932	\$ 24,302,630	\$ 26,831,366	\$ 26,397,436	\$ 29,654,273	\$ 28,686,152	\$ 28,295,141	\$ 30,089,674	\$ 31,488,160	\$ 34,466,194	

* The City of South Padre Island first implemented GASB Statement No. 63 and 65 in 2013, resulting in adjustment to beginning net position. None of the years prior to fiscal year end 2013 have been restated to reflect implementation of the new standards.

City of South Padre Island, Texas
CHANGES IN NET POSITION
 Last ten Fiscal Years
 (acrnal basis of accounting)

	Fiscal Year									
	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Expenses										
Governmental activities:										
General government	\$ 2,290,443	\$ 2,077,020	\$ 3,412,111	\$ 3,668,745	\$ 3,680,425	\$ 4,244,372	\$ 3,916,708	\$ 3,262,899	\$ 3,616,084	\$ 3,403,281
Public safety	3,122,467	3,322,420	3,408,818	4,106,050	4,358,811	4,675,136	4,639,591	5,154,019	5,617,282	5,635,589
Public works	1,565,958	1,640,199	1,833,529	2,090,705	2,761,388	2,818,149	2,842,168	3,104,579	2,766,161	2,778,620
Transportation	336,807	438,652	474,087	1,129,802	647,664	899,298	1,103,616	1,275,542	1,898,136	1,547,923
Community service	-	-	365,753	528,546	832,168	40,494	820,784	119,300	621,036	135,357
Convention and visitors bureau	6,223,221	5,331,206	4,255,478	6,324,100	6,160,287	5,834,572	5,846,869	5,556,513	5,313,518	6,121,250
Interest on long-term debt	20,700	336,307	383,137	340,220	295,920	310,207	327,532	559,912	306,808	297,596
Total primary governmental activities expenses	13,559,596	13,145,804	14,132,913	18,188,168	18,736,663	18,822,228	19,497,268	19,032,764	20,139,025	19,919,616
Program Revenues										
Governmental activities:										
Charges for services:										
General government	35,720	39,589	35,585	30,642	28,222	27,973	222,573	218,276	156,108	277,881
Public safety	430,254	265,699	295,561	219,209	410,295	424,681	497,934	990,410	881,900	1,108,781
Public works	465,949	838,069	399,519	529,974	280,498	639,148	36,843	22,646	31,246	39,717
Transportation	27,206	28,945	32,050	27,302	30,000	74,500	30,000	52,250	30,000	-
Convention and visitors bureau	271,599	316,844	271,693	275,347	337,470	300,690	270,838	244,750	286,963	226,391
Operating grants and contributions	2,036,705	618,558	777,984	843,668	1,373,380	714,938	996,779	1,074,032	954,301	1,270,114
Capital grants and contributions	130,064	71,000	123,767	234,310	249,808	190,604	682,935	1,296,789	1,277,434	439,114
Total governmental activities program revenues	3,397,497	2,178,504	1,936,159	2,160,452	2,709,673	2,372,534	2,737,902	3,899,153	3,617,932	3,311,998
Net (Expense)/Revenue										
Total primary government net expense	(10,162,099)	(10,967,300)	(12,196,754)	(16,027,716)	(16,026,990)	(16,449,694)	(16,759,366)	(15,133,611)	(16,521,073)	(16,607,618)
General revenues										
Property taxes	3,732,956	4,165,498	4,780,512	5,483,386	6,089,968	6,098,437	6,391,852	6,512,050	6,598,351	6,570,967
Sales & Mixed Beverage taxes	1,711,622	1,866,426	1,897,938	1,965,363	2,295,465	2,001,606	2,116,727	2,171,134	2,335,306	2,604,925
Franchise taxes	621,012	644,126	748,363	792,992	792,501	802,819	821,796	806,646	819,865	851,056
Hotel motel taxes	4,878,739	5,191,304	5,334,627	4,610,239	4,638,099	5,238,745	5,658,555	6,166,994	6,534,215	7,083,965
Hotel motel padre Blvd. taxes	350,414	33,305	-	-	-	-	-	-	-	-
Hotel motel beach min. taxes	661,420	704,337	741,411	630,474	751,950	945,050	988,132	1,086,920	1,644,572	2,144,126
Unrestricted investment earnings	375,354	734,068	796,864	546,491	198,941	143,463	97,265	49,345	38,830	31,373
Gain (loss) on sale of capital assets	10,365	(5,767)	-	1,485,785	14,234	16,810	(17,050)	4,545	-	56,072
Insurance recoveries	-	-	-	-	4,401,118	16,510	-	-	-	-
Miscellaneous	22,847	36,701	425,776	79,056	101,551	218,133	311,078	130,510	59,156	293,168
Total general revenues	12,364,729	13,369,998	14,725,491	15,593,786	19,283,827	15,481,573	16,368,355	16,928,144	18,030,295	19,585,652
Changes in Net Position										
Total governmental activities	\$ 2,202,630	\$ 2,402,698	\$ 2,528,737	\$ (433,930)	\$ 3,256,837	\$ (968,121)	\$ (391,011)	\$ 1,794,533	\$ 1,509,222	\$ 2,978,034

Source: Statement of Activities

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

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

	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
General fund										
Pre GASB 54										
Reserved	\$ 448,862	\$ 35,721	\$ 54,073	\$ 37,321	\$ 35,092	\$ 31,623	\$ -	\$ -	\$ -	\$ -
Unreserved	4,250,065	4,329,297	5,095,575	5,768,180	6,477,049	6,144,362	-	-	-	-
Total pre GASB 54	\$ 4,698,927	\$ 4,365,018	\$ 5,149,648	\$ 5,805,501	\$ 6,512,141	\$ 6,175,985	\$ -	\$ -	\$ -	\$ -
Post GASB 54										
Nonspendable	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 45,959	\$ 21,542	\$ 55,701	\$ 57,868
Assigned	-	-	-	-	-	-	4,899,405	4,937,269	5,248,871	5,348,967
Six month operating reserve	-	-	-	-	-	-	1,344,359	1,419,824	909,253	1,499,570
Unassigned	-	-	-	-	-	-	\$ 6,289,723	\$ 6,378,635	\$ 6,213,825	\$ 6,906,405
Total post GASB 54	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 6,289,723	\$ 6,378,635	\$ 6,213,825	\$ 6,906,405
All Other Governmental Funds										
Pre GASB 54										
Reserved	\$ 427,649	\$ 577,625	\$ 568,453	\$ 766,366	\$ 729,340	\$ 696,464	\$ -	\$ -	\$ -	\$ -
Unreserved, reported in:										
Special revenue funds	6,598,953	6,133,843	5,857,458	681,831	3,040,415	2,590,794	-	-	-	-
Capital projects funds	5,700,520	7,307,966	1,609,091	4,048,185	478,262	1,691,350	-	-	-	-
Total pre GASB 54	\$ 12,727,122	\$ 14,019,434	\$ 8,035,002	\$ 5,496,382	\$ 4,248,017	\$ 4,978,608	\$ -	\$ -	\$ -	\$ -
Post GASB 54										
Nonspendable	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 114,554	\$ 148,890	\$ 54,786	\$ 42,639
Restricted:										
Debt service	-	-	-	-	-	-	429,784	273,133	309,533	346,602
Capital projects	-	-	-	-	-	-	4,914,411	1,502,659	2,636,575	700,897
Beach nourishment	-	-	-	-	-	-	-	-	-	2,435,967
Transportation	-	-	-	-	-	-	154,277	235,999	287,934	301,277
Beach maintenance	-	-	-	-	-	-	78,887	264,395	790,655	1,382,753
Municipal court	-	-	-	-	-	-	43,562	48,913	53,594	63,068
Criminal justice	-	-	-	-	-	-	3,433	3,644	3,644	3,644
Hurricane recovery	-	-	-	-	-	-	248,227	205,288	181,185	-
Parks and recreation	-	-	-	-	-	-	2,185	2,372	3,920	1,837
Hotel/motel tax	-	-	-	-	-	-	2,442,154	3,603,561	5,068,679	6,596,864
Unassigned	-	-	-	-	-	-	-	(172,892)	(7,167)	22,303
Total post GASB 54	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 8,431,474	\$ 6,115,962	\$ 9,383,338	\$ 11,897,851

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

	<u>2005</u>	<u>2006</u>	<u>2007</u>
REVENUES			
Property taxes	\$3,743,132	\$4,123,204	\$4,719,773
Nonproperty taxes	8,223,206	8,439,497	8,722,337
Fees and services	288,136	335,617	287,475
Fines and forfeitures	386,011	265,700	295,560
Licenses and permits	512,384	887,829	451,372
Intergovernmental	2,210,966	489,358	920,629
Miscellaneous and program revenues	398,202	970,769	1,203,760
	<u>15,762,037</u>	<u>15,511,974</u>	<u>16,600,906</u>
Total revenues			
EXPENDITURES			
General	2,123,657	1,967,410	2,179,937
Public safety	2,860,988	3,135,257	3,256,352
Public works	1,101,741	1,158,093	1,346,075
Transportation	295,769	382,221	430,979
Community service	1,572,109	179,277	616,566
Convention and visitors bureau	4,145,010	4,627,296	4,423,112
Debt service			
Principal retirement	655,000	845,000	1,065,000
Interest	234,820	329,844	372,160
Administrative charges	119,461	32,100	500
Capital outlay	1,065,470	3,503,133	8,110,027
Total expenditures	<u>14,174,025</u>	<u>16,159,631</u>	<u>21,800,708</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	1,588,012	(647,657)	(5,199,802)
Other financing sources (uses)			
Sale of fixed assets	10,365	6,060	-
Lease Proceeds	-	-	-
Proceeds from issuance of bonds	5,045,060	1,600,000	-
Premium on issuance of bonds	-	-	-
Uses of debt refunding	-	-	-
Bond issue costs	-	-	-
Insurance Proceeds	-	-	-
Transfers out	(1,929,200)	(3,105,238)	(2,031,131)
Transfers in	1,929,200	3,105,238	2,031,131
Total other financing sources and (uses)	<u>5,055,425</u>	<u>1,606,060</u>	<u>-</u>
Net change in fund balances	<u>\$6,643,437</u>	<u>\$958,403</u>	<u>(\$5,199,802)</u>
Debt service as a percentage of noncapital expenditures	6.79%	9.28%	10.50%

2008	2009	2010	2011	2012	2013	2014
\$5,393,449	\$6,115,209	\$6,042,754	\$6,407,899	\$6,572,035	6,666,348	\$6,554,043
7,999,068	8,478,004	8,988,221	9,585,210	10,231,694	11,333,958	12,684,073
298,189	353,545	529,702	411,771	847,528	786,089	879,384
219,209	295,990	379,684	424,124	517,776	455,300	576,361
573,866	322,645	557,605	222,292	191,105	150,583	137,367
1,077,978	1,056,767	905,542	1,679,714	2,202,888	2,231,734	1,609,228
616,757	981,229	361,596	408,344	179,856	158,989	374,541
<u>16,178,516</u>	<u>17,603,389</u>	<u>17,765,104</u>	<u>19,139,354</u>	<u>20,742,882</u>	<u>21,783,001</u>	<u>22,814,997</u>
4,084,721	3,124,195	3,801,677	3,441,451	2,912,655	3,204,508	3,022,645
3,822,108	4,101,247	4,478,384	4,313,528	4,806,764	4,954,525	5,079,755
1,484,580	2,156,348	2,158,644	2,188,234	2,424,423	2,079,739	2,115,599
1,063,572	552,966	782,525	957,492	1,078,641	1,104,987	1,336,549
326,736	832,168	40,494	820,784	119,300	418,152	131,262
5,114,147	5,532,594	4,653,373	4,972,074	4,740,409	5,313,518	5,319,014
1,110,000	1,160,000	1,205,000	932,358	982,225	634,920	696,201
329,243	285,443	275,612	261,642	400,165	301,716	297,548
500	0	0	2,736	800	(900)	4,308
3,211,465	4,816,260	906,820	2,417,098	5,628,071	1,591,360	1,676,803
<u>20,547,072</u>	<u>22,561,221</u>	<u>18,302,529</u>	<u>20,307,397</u>	<u>23,093,453</u>	<u>19,602,525</u>	<u>19,679,684</u>
(4,368,556)	(4,957,832)	(537,425)	(1,168,043)	(2,350,571)	2,180,476	3,135,313
1,485,785	14,989	85,350	25,933	4,771	22,777	71,780
-	-	-	902,220	119,200	899,313	-
1,000,000	-	830,000	3,800,000	3,165,000	-	-
-	-	-	101,462	289,990	-	-
-	-	-	-	(3,351,703)	-	-
-	-	-	(94,968)	(103,287)	-	-
-	4,401,118	16,510	-	-	-	-
(2,209,420)	(2,371,184)	(1,587,679)	(853,568)	(1,200,089)	(1,155,679)	(1,362,784)
2,209,420	2,371,184	1,587,679	853,568	1,200,089	1,155,679	1,362,784
<u>2,485,785</u>	<u>4,416,107</u>	<u>931,860</u>	<u>4,734,647</u>	<u>123,971</u>	<u>922,090</u>	<u>71,780</u>
<u>(\$1,882,771)</u>	<u>(\$541,725)</u>	<u>\$394,435</u>	<u>\$3,566,604</u>	<u>(\$2,226,600)</u>	<u>\$3,102,566</u>	<u>\$3,207,093</u>
8.30%	8.15%	8.51%	6.67%	7.92%	5.20%	5.52%

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

Schedule 5

Fiscal Year Ended September 30,	Net Taxable Assessed Value		Less: Exempt Property	Total Taxable Assessed Value	Total Direct Tax Rate
	Real Property	Personal Property			
2005	1,503,904,613	28,449,556	77,073,416	1,455,280,753	0.25811
2006	1,712,735,440	31,000,283	83,532,833	1,660,202,890	0.25311
2007	1,941,204,388	32,472,880	61,850,862	1,911,826,406	0.25311
2008	2,305,658,543	34,289,547	71,535,213	2,268,412,877	0.24561
2009	2,545,047,287	33,419,535	78,289,018	2,500,177,804	0.24561
2010	2,539,540,899	29,230,095	76,526,864	2,492,244,130	0.24561
2011	2,635,413,859	30,316,814	84,535,004	2,581,195,669	0.24561
2012	2,656,625,431	29,055,461	77,035,264	2,608,645,628	0.25040
2013	2,653,041,784	28,324,135	75,246,646	2,606,119,273	0.25270
2014	2,629,536,569	31,256,298	77,229,580	2,583,563,287	0.25438

Source: Cameron County Appraisal District

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

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

Fiscal Period	City of South Padre Island Direct Rates		Water Supply District No. 1	Point Isabel Cons. ISD	Cameron County	Texas Southmost College	South Texas ISD
	Maintenance & Operations Rate	Debt Service					
2005	0.258110	0.000000	0.123807	1.35612	0.358191	0.131400	0.0392
2006	0.230197	0.022913	0.105800	1.35612	0.358191	0.128782	0.0392
2007	0.219598	0.033512	0.080820	1.06163	0.343191	0.162772	0.0492
2008	0.216810	0.028800	0.080820	1.06163	0.353191	0.161089	0.0492
2009	0.218400	0.027210	0.080820	1.061634	0.363191	0.161089	0.0492
2010	0.220310	0.025300	0.080820	1.081634	0.364291	0.161924	0.0492
2011	0.220310	0.025300	0.080820	1.081634	0.384291	0.162423	0.0492
2012	0.224355	0.026045	0.080820	1.081634	0.384291	0.164026	0.0492
2013	0.223631	0.029070	0.080820	1.08164	0.384291	0.162935	0.0492
2014	0.227828	0.026556	0.080820	1.081634	0.384291	0.162935	0.0492

Source: Cameron County Appraisal District.

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

Schedule 7

Taxpayer	2014			2005		
	Taxable Assessed Valuation	Rank	Percentage of Total Assessed Valuation	Taxable Assessed Valuation	Rank	Percentage of Total Assessed Valuation
Bahia Mar Tower LLC	\$ 14,680,795	1	0.57%			
Sapphire SP Holdings LLC (ID 601157)	12,429,983	2	0.48%			
SPI Beach Water Resort Waterpark LLC	10,882,174	3	0.42%			
Agora USA LP	10,738,595	4	0.42%			
Sapphire VP LP (ID 526932)	9,000,000	5	0.35%			
Peninsula Island Resort & Spa LLC	8,239,765	6	0.32%			
ICS Management Company	8,173,204	7	0.32%	7,258,708	3	0.60%
Shores Development Inc.	7,416,107	8	0.29%			
First National Bank	7,047,206	9	0.27%			
SPI Management Co.	6,683,290	10	0.26%			
SPI La Copa Ltd.				5,422,993	7	0.45%
Padre Central Limited Partnership				12,594,939	1	1.05%
SSPIBR, Ltd				8,402,143	2	0.70%
HISPI, Ltd				6,230,164	4	0.52%
Alma Investments Inc.				5,993,161	5	0.50%
AEP Texas Central Co.				5,434,280	6	0.45%
Saida Royale Corporation				5,336,786	8	0.44%
Legendary SPI Ltd.				5,292,540	9	0.44%
Oleander Hospitality Inc.				5,083,492	10	0.42%
Total	\$ 95,291,119		3.13%	\$67,049,206		5.57%

Source: Cameron County Appraisal District

2014	2,583,563,287
2005	1,205,195,798

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

Fiscal Year	Tax Roll Year	Taxes Levied for the Fiscal Year	Collected within the Fiscal Year of the Levy			Collections in Subsequent Years	Amount	Percentage of Levy
			Amount	Percentage of Levy	Amount			
2005	2004	\$ 3,737,909	\$ 3,646,511	97.55%	\$ 89,135	\$ 3,735,646	99.94%	
2006	2005	4,196,142	4,033,570	96.13%	158,895	4,192,465	99.91%	
2007	2006	4,772,418	4,564,448	95.64%	200,149	4,764,597	99.84%	
2008	2007	5,479,052	5,215,751	95.19%	246,680	5,462,431	99.70%	
2009	2008	6,072,211	5,804,355	95.59%	253,569	6,057,924	99.76%	
2010	2009	6,073,653	5,804,071	95.56%	249,620	6,053,691	99.67%	
2011	2010	6,310,281	6,123,665	97.04%	155,360	6,279,025	99.50%	
2012	2011	6,396,519	6,179,171	96.60%	176,813	6,355,984	99.37%	
2013	2012	6,521,119	6,384,778	97.91%	95,343	6,480,121	99.37%	
2014	2013	6,512,667	6,374,024	97.87%	0	6,374,024	97.87%	

Source: Cameron County Tax Office

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 & Mixed Beverage Tax</u>	<u>Franchise Tax</u>	<u>Hotel/Motel Tax</u>	<u>Total</u>
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
2009	6,089,968	2,295,465	792,501	4,766,668	13,944,602
2010	6,098,437	2,001,606	802,819	5,564,657	14,467,519
2011	6,407,899	2,116,728	821,796	6,012,126	15,358,549
2012	6,572,035	2,171,134	806,646	7,253,914	16,803,729
2013	6,666,348	2,335,306	819,865	8,178,787	18,000,306
2014	6,554,043	2,604,925	851,056	9,228,091	19,238,115

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

Fiscal Year	Governmental Activities							Total Primary Government	Percentage of Personal Income	Per Capita ¹
	General Obligation Bonds, Net	Combination Tax & Revenue Refunding Bonds	Tax Anticipation Notes	Capital Leases						
2005	\$ 4,950,000	\$ 3,645,000	\$ -	\$ -	-	-	\$ 8,595,000	4.08%	1,507	
2006	4,785,000	2,965,000	1,600,000	-	-	-	9,350,000	4.14%	1,639	
2007	4,615,000	2,265,000	1,405,000	-	-	-	8,285,000	3.77%	1,452	
2008	4,440,000	1,540,000	1,195,000	-	-	-	7,175,000	3.49%	1,258	
2009	4,255,000	785,000	975,000	-	-	-	6,015,000	2.77%	1,019	
2010	4,065,000	830,000	745,000	-	-	-	5,640,000	2.57%	956	
2011	7,766,462	420,000	505,000	819,862	-	-	9,511,324	4.29%	1,612	
2012	7,963,312	-	260,000	826,837	-	-	9,050,149	4.08%	1,534	
2013	7,725,783	-	-	1,566,230	-	-	9,292,013	4.19%	1,575	
2014	7,298,254	-	-	1,275,029	-	-	8,573,283	3.29%	1,453	

Note: Details regarding the City's outstanding debt can be found in the notes to the financial statements.
¹ See Schedule 14 for personal income and population data.

RATIO OF GENERAL BONDED DEBT OUTSTANDING
Last Ten Fiscal Years

<u>Fiscal Year</u>	<u>General Obligation Bonds, Net</u>	<u>Debt Service Restricted Net Assets</u>	<u>Net Bonded Debt</u>	<u>Percentage of Actual Taxable Value of Property (1)</u>	<u>Per Capita (2)</u>
2005	\$ 4,950,000	\$ 312,326	\$ 4,637,674	0.32%	868
2006	4,785,000	330,344	4,454,656	0.27%	839
2007	4,615,000	330,961	4,284,039	0.22%	809
2008	4,440,000	364,509	4,075,491	0.18%	778
2009	4,255,000	372,222	3,882,778	0.16%	721
2010	4,065,000	413,918	3,651,082	0.15%	689
2011	7,766,462	430,535	7,335,927	0.28%	1,316
2012	7,963,312	266,563	7,696,749	0.30%	1,350
2013	7,725,783	339,434	7,386,349	0.28%	1,309
2014	7,298,254	346,603	6,951,651	0.27%	1,237

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

1 See Schedule 5 for property value data

2 See Schedule 14 for population data

City of South Padre Island, Texas
DIRECT AND OVERLAPPING GOVERNMENTAL ACTIVITIES DEBT
 As of September 30, 2014

Schedule 12

<u>Governmental Unit</u>	<u>Debt Outstanding</u>	<u>Estimated Percentage Applicable</u>	<u>Estimated Share of Overlapping Debt</u>
Debt repaid with property taxes			
Cameron County	\$ 132,460,000	16.54%	\$ 21,908,884
Point Isabel Independent School District	22,732,795	70.99%	16,138,011
Laguna Madre Water District #1	16,481,000	74.27%	12,240,439
Texas Southmost College	64,085,000	24.12%	<u>15,457,302</u>
Subtotal, overlapping debt			65,744,636
City direct debt, net	8,573,283	100.00%	<u>8,573,283</u>
Total direct and overlapping debt			<u>\$ 74,317,919</u>

Source: The Municipal Advisory of Texas

City 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
				Principal	Interest	Total	
2005	2,059,075	837,927	1,221,148	655,000	150,213	805,213	1.52
2006	1,877,855	868,660	1,009,195	680,000	128,488	808,488	1.25
2007	2,172,451	899,167	1,273,284	700,000	105,650	805,650	1.58
2008	1,881,284	1,045,290	835,994	725,000	82,025	807,025	1.04
2009	1,867,690	1,099,504	768,186	755,000	52,822	807,822	0.95
2010	1,191,421	1,212,721	(21,300)	830,000	41,122	871,122	(0.02)
2011	2,077,689	1,332,802	744,887	420,000	6,069	426,069	1.75
2012	2,284,146	1,320,451	963,695	-	-	-	-
2013	2,551,906	1,860,510	691,396	-	-	-	-
2014	3,208,757	1,939,326	1,269,431	-	-	-	-

(1) Convention Center Fund revenues, including interest and sale of capital assets.

(2) Convention Center Fund operating expenditures, exclusive of capital outlay (except for professional services).

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

Schedule 14

Year	Estimated Population ¹	Personal Income ²	Per Capita Personal Income ^{2*}	Median Age ²	School Enrollment ³	Unemployment Rate ⁴
2005	5,705	\$ 210,828,275	\$ 36,955	51.8	2,487	7.6%
2006	5,705	225,957,935	39,607	51.9	2,585	6.6%
2007	5,705	219,693,845	38,509	52.3	2,593	6.0%
2008	5,705	205,665,250	36,050	57.2	2,418	8.2%
2009	5,900	217,090,500	36,795	57.7	2,520	8.3%
2010	5,900	219,780,900	37,251	58	2,507	10.9%
2011	5,900	221,592,200	37,558	58.1	2,544	12.4%
2012	5,900	221,592,200	37,558	58.3	2,574	10.2%
2013	5,900	221,592,200	37,558	58.7	2,588	10.1%
2014	5,900	260,809,500	44,205	59.2	2,480	8.0%

Source:

1 George Wm. Berry, Ph. D. Analysis 2008

2 U.S. Census Bureau

3 Point Isabel Independent School District

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

* 2012 and 2013 Personal Income is not available

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

Employer	2014			2005*		
	Number of Employees (Peak)	Rank	Percent of Total City Employment	Number of Employees	Rank	Percent of Total City Employment
Schlitterbahn Beach Water Park	1016	1	21.54%	-	-	-
City of South Padre Island	250	2	5.30%	-	-	-
Isla Grand Resort	230	3	4.88%	-	-	-
The Pearl Beach Resort	199	4	4.22%	-	-	-
Sea Ranch Enterprises	154	5	3.26%	-	-	-
Hilton Garden Inn	150	6	3.18%	-	-	-
Blackbeard's Restaurant	138	7	2.93%	-	-	-
Origins Recovery Center	135	8	2.86%	-	-	-
Louie's Backyard	130	9	2.76%	-	-	-
La Quinta Inn & Suites	120	10	2.54%	-	-	-
Total	<u>2,522</u>		<u>53.47%</u>			

Source: South Padre Island Economic Development Corporation

*Information for 2005 not available

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

Function	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
General Fund										
City Administration	5	5	5	5	6	6	4	4	4	4.4
Finance	4	4	5	5	4	5	5	5	5	5
Planning	2	2	2	2	2	2	1.75	1.75	2	2
Technology	1	2	2	2	2	2	3	3	3.25	3
Human Resources	0	0	0	0	1	2	3	3	3	3
Municipal Court	2	2	2	2	2	3	2	2	2	2
Police	33	34	34	34	39	39	39	38	38	38
Fire	18	18	18	18	21	21	21	27	27	27
Code Enforcement	2	3	4	4	6	6	5	5	6	6
Fleet Management	0	0	0	0	2	2	2	2	2	2
Building Maintenance	0	0	0	0	3	3	3	3	3	3
Inspections	3	4	4	4	4	4	3	3	3	3
Public Works	21	22	22	22	18	18	19	19	18	19
Hotel Motel Fund										
Visitor's Center	2	2	2	2	2	2	2	2	2	3
Hotel Motel	11	12	13.5	13	13	9.5	9.5	9.5	8.75	9.5
Events Marketing	1	1	2	2	2	1	1	1	2	1
Convention Centre										
Convention Centre	10	11	13.5	13	13	13.5	11.5	10.5	12	10
Transportation										
Transportation	5	6	7	7	7	9	9.25	15.25	15	16.1
Beach Maintenance										
Beach Maintenance	0	0	0	0	0	4	4	4	4	4
Total Operating Budget FTE's	120	128	136	135	147	152	148	158	160	161

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

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

Function	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Police										
Physical arrests	1,212	973	896	727	952	1,002	1,199	1,454	1,258	1,246
Parking violations	552	1,227	306	514	1,643	2,123	1,897	1,138	724	1,435
Traffic violations	2,803	2,215	3,100	942	995	1,204	1,038	748	481	658
Number of commissioned police officers	25	25	25	26	29	28	28	28	29	28
Number of employees - police officers & civilians	33	34	35	36	40	39	38	38	39	38
Fire										
Number of calls answered	821	928	1,194	1,420	1,667	1,783	1,858	1,964	2,107	2,243
EMS calls	443	536	712	838	816	1,082	1,172	1,415	1,377	1,486
Inspections	307	331	355	219	475	369	490	327	288	150
Number of firefighters	17	17	17	18	18	18	20	26	26	26
Number of employees - firefighters & civilians	18	18	18	21	21	21	21	27	27	27
Streets										
Street resurfacing (square yards)	10,811	-	7,040	16,837	6,956	8,611	9,032	7,867	12,050	-
Sidewalk construction (square yards)	-	1,160	647	220	693	-	73	2,069	440	368

Source: City Departments

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

Function/Program	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
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)	47.09	47.09	47.09	47.09	47.09	47.39	47.39	47.39	47.39	47.39
City area (acres)	1562	1562	1589	1640	1640	1640	1640	1527	1901	1901
Parks and recreation										
Playground	1	1	1	1	1	2	2	2	2	2
Parks	1	2	2	2	2	2	3	3	3	3
Municipal Beach (miles)	4.5	4.5	4.5	4.5	4.5	4.5	4.5	4.5	4.5	4.5
Beach accesses (developed)	17	18	18	18	18	18	19	19	19	19
Beach accesses (undeveloped)	7	6	6	6	6	6	5	5	5	5
Transportation										
Transit - minibuses	6	5	6	8	12	10	9	10	11	10

Note: In 2012, the city acquired mapping technology to more accurately calculate its square acreage.

Source: City Departments

City of South Padre Island, Texas
MISCELLANEOUS STATISTICAL DATA

Schedule 19

Date of incorporation 1973

Fiscal year begins October 1st

Number of budgeted City employees 161

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

Temperature: 68.2 degrees average low temperature
80.4 degrees average high temperature

Source: City Staff
Source: www.weatherbase.com

**CITY OF
SOUTH PADRE
ISLAND, TEXAS**

COMPLIANCE

COMPLIANCE SECTION

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

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

We have audited, in accordance with the 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, the financial statements of the governmental activities, the aggregate discretely presented component unit, each major fund, and the aggregate remaining fund information of City of South Padre Island, Texas, as of and for the year ended September 30, 2014, and the related notes to the financial statements, which collectively comprise City of South Padre Island's basic financial statements, and have issued our report thereon dated February 27, 2015.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered City of South Padre Island, Texas' internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of City of South Padre Island, Texas' internal control. Accordingly, we do not express an opinion on the effectiveness of City of South Padre Island, Texas' internal control.

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

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



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Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



LONG CHILTON, LLP
Certified Public Accountants

Harlingen, Texas
February 27, 2015

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**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE
FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL
OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133**

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

Report on Compliance for Each Major Federal Program

We have audited City of South Padre Island, Texas' compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of City of South Padre Island, Texas' major federal programs for the year ended September 30, 2014. City of South Padre Island, Texas' major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of City of South Padre Island, Texas' major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about City of South Padre Island, Texas' compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of City of South Padre Island, Texas' compliance.

Opinion on Each Major Federal Program

In our opinion, City of South Padre Island, Texas, complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended September 30, 2014.

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Report on Internal Control Over Compliance

Management of City of South Padre Island, Texas, is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered City of South Padre Island, Texas' internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of City of South Padre Island, Texas' internal control over compliance.

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.



LONG CHILTON, LLP
Certified Public Accountants

Harlingen, Texas
February 27, 2015



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City of South Padre Island, Texas
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
 For the Year Ended September 30, 2014

Section I - Summary of Auditors' Results

Financial Statements

Type of auditors' report issued:	Unmodified	
Internal control over financial reporting:		
* Material weakness(es) identified?	_____ yes	<u> X </u> no
* Significant deficiencies identified that are not considered to be material weakness(es)?	_____ yes	<u> X </u> none reported
Noncompliance material to financial statements noted?	_____ yes	<u> X </u> no

Federal Awards

Internal control over major programs:		
* Material weakness(es) identified?	_____ yes	<u> X </u> no
* Significant deficiencies identified that are not considered to be material weakness(es)?	_____ yes	<u> X </u> none reported
Type of auditors' report issued on compliance for major programs:	Unmodified	
Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of Circular A-133?	_____ yes	<u> X </u> no

Identification of major programs:

<i>CFDA Number(s)</i>	<i>Name of Federal Program or Cluster</i>
20.509	Formula Grants for Rural Areas

Dollar threshold used to distinguish between Type A and Type B programs:	\$300,000
Auditee qualified as low-risk auditee?	<u> X </u> yes _____ no

City of South Padre Island, Texas
SCHEDULE OF FINDINGS AND QUESTIONED COSTS - CONTINUED
For the Year Ended September 30, 2014

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

A. Significant Deficiencies in Internal Control

None reported.

B. Compliance Findings

None reported.

Section III – Federal Award Findings and Questioned Costs

None reported.

City of South Padre Island, Texas
SCHEDULE OF FINDINGS AND QUESTIONED COSTS - CONTINUED
SCHEDULE OF STATUS OF PRIOR AUDIT FINDINGS
For the Year Ended September 30, 2014

PROGRAM DESCRIPTION

Not applicable

DESCRIPTION

There were no findings reported in the prior year.

City of South Padre Island, Texas
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended September 30, 2014

<u>Federal Grantor/Pass-Through Grantor/Program or Cluster Title</u>	<u>Federal CFDA Number</u>	<u>Pass-Through Entity Identifying Number</u>	<u>Expenditures</u>
Federal Awards			
U.S. Department of Transportation			
Transit Services Programs Cluster-Cluster			
Passed-through Texas Department of Transportation			
Enhanced Mobility of Seniors and Individuals with Disabilities	20.513	ED 1403	\$ 68,263
Enhanced Mobility of Seniors and Individuals with Disabilities	20.513	ED 1502	9,231
Job Access And Reverse Commute Program	20.516	JAC 1301 (21) 76	<u>18,821</u>
Total Transit Services Programs Cluster-Cluster			96,315
Formula Grants for Rural Areas - WAVE Grant	20.509	RPT 1403 RPT 1307 RPT 1304 TX-18-X036	181,673 403,242 182,829 <u>121,305</u> 889,049
Total Passed-through Texas Department of Transportation			<u>985,364</u>
Total U.S. Department of Transportation			985,364
U.S. Department of Homeland Security			
Passed-through Texas Department of Public Safety			
Homeland Security Grant Program	97.067	2012-SS-00018S-01	<u>27,924</u>
Total Passed-through Texas Department of Public Safety			27,924
Department of Homeland Security Direct Programs			
Disaster Grants - Public Assistance (Presidentially Declared Disasters)	97.036	1780-DR	<u>29,458</u>
Total U.S. Department of Homeland Security			57,382
U.S. Department of Commerce			
Passed through Texas General Land Office			
Coastal Zone Management Administration Awards	11.419	NA12NOS4190021	39,908
Coastal Zone Management Administration Awards	11.419	NA13NOS4190113	<u>27,172</u>
Total passed through Texas General Land Office			<u>67,080</u>
Total Department of Commerce			67,080
U.S. Department of the Interior			
Passed-through Cameron County			
Coastal Impact Assistance Program	15.668	F12AF01164	<u>126,544</u>
Total Passed-through Cameron County			<u>126,544</u>
Total Department of the Interior			126,544
U.S. General Services Administration			
Federal Surplus Property Program	39.003		<u>7,091</u>
Total General Services Administration			<u>7,091</u>
Total Expenditures of Federal Awards			<u>\$ 1,243,461</u>

City of South Padre Island, Texas
NOTES ON ACCOUNTING POLICIES FOR FEDERAL AWARDS
For the Year Ended September 30, 2014

1. General

The accompanying Schedule of Expenditures of Federal Awards presents the activity of all federal award programs of City of South Padre Island, Texas, for the year ended September 30, 2014. The reporting entity consists of the primary government, organizations for which the primary government is financially accountable, and other organizations for which the primary government is not accountable, but for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete.

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

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

2. Measurement Focus and Basis of Accounting

The federal grant funds were accounted for in the Special Revenue Funds and a component of the Governmental Fund type. The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. The Governmental Fund types are accounted for using a current financial resources measurement focus. With the Governmental Fund type measurement focus, only current assets and current liabilities generally are included on the balance sheet. Operating statements of these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in net current assets.

The modified accrual basis of accounting is used for the Governmental Fund types. This basis of accounting recognizes revenues in the accounting period in which they become susceptible to accrual, i.e., both measurable and available, and expenditures in the accounting period in which the fund liability is incurred, if measurable, except for certain compensated absences and claims and judgments, which are recognized when the obligations are expected to be liquidated with expendable available financial resources.

City of South Padre Island, Texas
EXIT CONFERENCE
For the Year Ended September 30, 2014

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

Rodrigo Gimenez, Finance Director
William Dilibero, City Manager

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