

**CITY OF SOUTH PADRE ISLAND, TEXAS**

COMPREHENSIVE ANNUAL  
FINANCIAL REPORT

For the Fiscal Year Ended  
September 30, 2015

City of South Padre Island, Texas  
**COMPREHENSIVE ANNUAL FINANCIAL REPORT**  
 For The Fiscal Year Ended September 30, 2015

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March 3, 2016

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, 2015. 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, 2015, 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.



## 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. Phase III of the Gulf Boulevard improvement project has begun and has improved pedestrian safety by relocating street parking to the west side of the street and providing wider walking areas as well as bicycle pathways. The relocation of parking to the opposite side of the street has helped to remove the potential of a pedestrian or cyclist not being seen. Sidewalks have also been added to the west side of Gulf Blvd, providing more pedestrian pathways for visitors and residents to travel freely. A Tax Anticipation Note for Phase IV of the Gulf Boulevard improvement project was issued during fiscal year ending September 30, 2015. Construction for Phase IV of the project is expected to go out for bidding in spring 2016.

The first phase of the approximate \$3 million upgrade to the Convention Centre infrastructure has been completed. This included 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 second phase of the upgrade is currently underway. The second phase will be focusing on the interior space and patron amenities.

The beach re-nourishment is accomplished with beneficial use of dredge material and has provided over a mile of sand to beach areas. This sand is the same sand the Island beaches already have, but over time it has traveled with the currents and settled within the Brownsville ship channel. The City's beaches receive the sand removed from the current dredge of the channel, providing a solution for both the Island coastline and the Army Corps of Engineers.

The Transit Department has begun Phase I of the Multimodal Transportation hub. This facility answers the need to support the connection between South Padre Island and the regional metro system throughout the Rio Grande Valley. It will provide passenger services and amenities to residents and visitors in eastern Cameron County allowing better access to intercity travel. Upon completion, South Padre Island will have a dedicated bus service terminal that reflects the City's locally developed transportation plan specifically targeting transportation challenges in the multi-modal network transportation plan to meet the City's current and future transit needs. This project will allow safe, reliable and efficient movement throughout the region while providing a transfer facility with passenger amenities. The second phase of construction is expected to begin summer 2016. The multi-tenant user-friendly building should be completed by summer, 2017. The local transportation system known as Island Metro 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.

The community center project was approved and the renovation of old city hall has begun. The project is expected to be completed and it is anticipated to open within the next few months. The community center will provide the South Padre Island community a facility to use for public programs and events.

City Council implemented a Tax Increment Reinvestment Zone (TIRZ). TIRZs are special zones created by City Council to attract new investment to a specific area. TIRZs help finance the cost of redevelopment and encourage development in an area that would otherwise not attract sufficient market development in a timely manner.



## **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 7,800,000 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.

## **POLICIES AND PRACTICES**

### *Internal control*

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

### *Single Audit*

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

As part of the City's single audit, tests are made to determine the adequacy of the internal control structure, including that portion related to federal financial assistance programs, as well as to determine that the City has complied with applicable laws and regulations. The results of the City's single audit for the fiscal year ended September 30, 2015, 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, 2014. This was the twenty fifth 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.

Additionally, the City of South Padre Island was awarded the Distinguished Budget Presentation Award for the Fiscal Years beginning October 1, 2013 and October 1, 2014. To receive the award, the Finance Department had to satisfy nationally recognized guidelines for effective budget presentation. The budget is ranked on how well it serves as a policy document, a financial plan, an operations guide, and a communications device. All four categories must be rated proficient and within the four categories, fourteen mandatory criteria must as also be met.

### *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

*"A Certified Retirement Community"*



Government Finance Officers Association

Certificate of  
Achievement  
for Excellence  
in Financial  
Reporting

Presented to

**City of South Padre Island  
Texas**

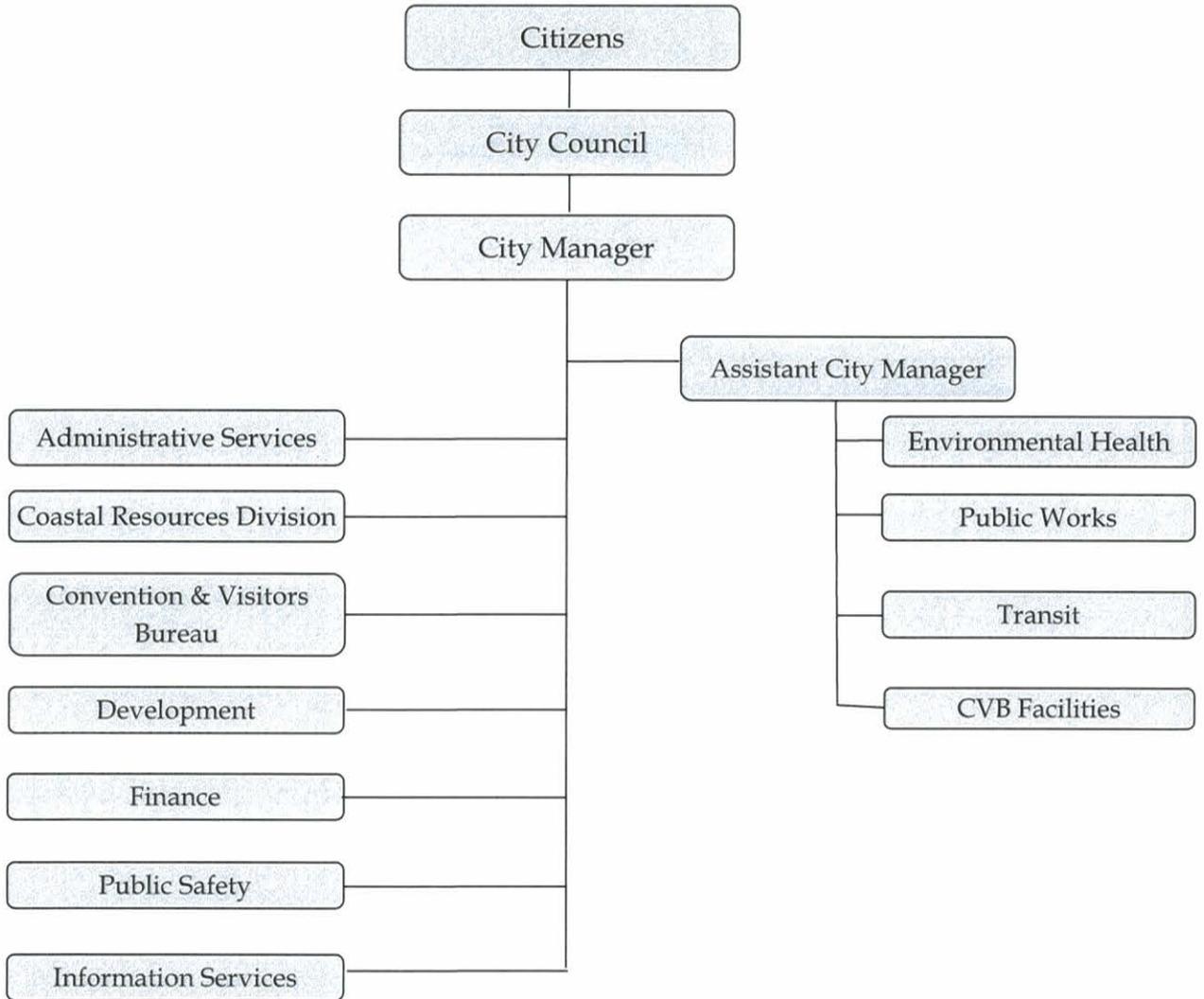
For its Comprehensive Annual  
Financial Report  
for the Fiscal Year Ended

**September 30, 2014**

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>                  |
|--------------|-------------------------------|
| BARRY PATEL  | <b>MAYOR</b> , COUNCIL MEMBER |
| ALEX AVALOS  | MAYOR PRO TEM, COUNCIL MEMBER |
| DENNIS STAHL | COUNCIL MEMBER                |
| SAM A. LISTI | COUNCIL MEMBER                |
| ALITA BAGLEY | COUNCIL MEMBER                |

**APPOINTED OFFICIALS**

| <u>NAME</u>             | <u>TITLE</u>                               |
|-------------------------|--|
| WILLIAM DILIBERO        | <b>CITY MANAGER</b>                        |
| DARLA A. JONES          | ASSISTANT CITY MANAGER                     |
| RODRIGO GIMENEZ         | FINANCE DIRECTOR                           |
| KEITH ARNOLD            | DIRECTOR OF CONVENTION AND VISITORS BUREAU |
| RANDY SMITH             | POLICE CHIEF                               |
| (VACANT)                | 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 AND PARKS ADMINISTRATOR  |
| JESSE ARRIAGA           | TRANSIT DIRECTOR                           |
| SUSAN HILL              | CITY SECRETARY                             |
| PAUL Y. CUNNINGHAM, JR. | CITY ATTORNEY                              |
| DAVID COLWELL           | MUNICIPAL COURT JUDGE                      |

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**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, 2015 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.

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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, 2015 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.

## ***Change in Accounting Principle***

As described in Note A4 to the financial statements, in 2015, the City adopted new accounting guidance, *GASB Statement No. 68, Accounting and Financial Reporting for Pensions and GASB Statement No. 71, Pension Transition for Contributions Made Subsequent to the Measurement Date*. Our opinion is not modified with respect to this matter.

## ***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 66 through 78 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 March 3, 2016, 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  
March 3, 2016

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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, 2015. 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 of the City of South Padre Island exceeded its liabilities at the close of the most recent fiscal year by \$38,205,195 (net position). Of this amount, \$7,484,310 (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 \$3,739,001 during the fiscal year. The change in net position results from \$4,116,858 from current year activities and a reduction in beginning net position of \$377,857 due to implementation of GASBS Statement No. 68 and a lease adjustment as disclosed in Note S.
- As of the close of the current fiscal year, the City of South Padre Island governmental funds reported combined ending fund balances of \$22,261,290. Approximately 31% of this amount, \$6,857,609 is available for spending at the government's discretion (unassigned fund balance).
- At the end of the current fiscal year 62%, \$13,843,005 of the governmental funds fund balance was restricted and approximately 7%, \$1,560,676 was non-spendable.
- The City of South Padre Island's total debt increased by \$2,485,000 during the current fiscal year. This increase is the result of a \$2,905,000 Tax Anticipation Note issued to construct drainage improvements along Gulf Blvd during the fiscal year, net of payments of principal on outstanding debt.

### 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 deferred inflows of resources and liabilities, including capital assets and long-term obligations. The difference between assets and deferred outflows from liabilities and deferred inflows 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.

In fiscal year 2015, the City adopted new statements of financial accounting standards issued by the Governmental Accounting Standards Board:

1. Statement No. 68, *Accounting and Financial Reporting for Pensions - an amendment of GASB Statement No. 27*
2. Statement No. 69, *Government Combinations and Disposals of Government Operations*
3. Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date – an amendment of GASB Statement No. 68.*

Statement No. 68 establishes standards of accounting and financial reporting, but not funding or budgetary standards, for defined benefit pensions and defined contribution pensions provided to the employees of state and local government employers through pension plans that are administered through trusts or equivalent arrangements. This Statement replaces the requirement of Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers*, as well as the requirements of Statement No. 50, *Pension Disclosures*, as they relate to pensions that are provided through pension plans within the scope of the Statement.

The requirements of Statement No. 68 apply to the financial statements of all state and local governmental employers whose employees are provided with pensions through pension plans that are administered through trusts or equivalent arrangements and to the financial statements of state and local governmental nonemployer contributing entities that have a legal obligation to make contributions directly to such pension plans. This Statement establishes standards for measuring and recognizing liabilities, deferred outflows of resources, and deferred inflows of resources, and expense/expenditures related to pensions. Note disclosure and RSI requirements about pensions also are addressed. For defined benefit pension plans, this Statement identifies the methods and assumptions that should be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee service.

The adoption of Statement No. 68 has no impact on the City's governmental fund financial statements, which continue to report expenditures on the contributions to the TMRS plan. The calculation of pension contributions is unaffected by the change. However, the adoption has resulted in the restatement of the City's beginning net position for the fiscal year 2014 government-wide financial statements to reflect the reporting of net pension liabilities and deferred inflows of resources and deferred outflows of resources for its qualified pension plan and the recognition of pension expense in accordance with the provisions of the Statement. Net position as of October 1, 2014 was decreased by \$364,892 to reflect the cumulative effect of adoption.

There was no impact on the City's financial statements as a result of the implementation of Statement No. 69.

Statement No. 71 amends Statement No. 68 to require that, at transition, a government recognize a beginning deferred outflow of resources for its pension contributions, if any, made subsequent to the measurement date of the beginning net pension liability. Since the measurement date of the pension plan was different than the City's fiscal year-end, the effect from the City's reported contributions to the plan subsequent to the respective measurement date of the plan is an increase in deferred outflow of resources and a decrease in net position.

**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, Transportation, Gulf Blvd. Rebuild Fund, Construction in Progress 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 Governmental Accounting Standard Board (GASB) Statement 54 – “Fund Balance Reporting and Governmental Fund Type Definitions.” This standard provides for a structured classification of fund balance. 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:

|  | <b>Total<br/>Governmental<br/>Activities<br/>2015</b> | <b>Total<br/>Governmental<br/>Activities<br/>2014</b> |
|--|---|---|
| <b><u>ASSETS</u></b>                             |   |   |
| Current and other assets                         | \$24,486,577  | \$20,440,552  |
| Capital assets                                   | 27,602,796  | 24,533,139  |
| Total assets                                     | 52,089,373  | 44,973,691  |
| <b><u>DEFERRED OUTFLOWS OF<br/>RESOURCES</u></b> |   |   |
| Deferred outflows related to pension liabilities | 913,956   | -   |
| Deferred amount on refunding                     | 233,565   | 256,922   |
| Total deferred outflows of resources             | 1,147,521   | 256,922   |
| <b><u>LIABILITIES</u></b>                        |   |   |
| Current liabilities                              | 1,934,698   | 1,237,656   |
| Non-current liabilities                          | 12,954,527  | 9,526,763   |
|  | 14,889,225  | 10,764,419  |
| <b><u>DEFERRED INFLOWS OF<br/>RESOURCES</u></b>  |   |   |
| Deferred inflows related to pension liabilities  | 142,474   | -   |
| <b><u>NET POSITION</u></b>                       |   |   |
| Net Investment in capital assets                 | 16,920,738  | 16,216,778  |
| Restricted                                       | 13,800,147  | 11,858,921  |
| Unrestricted                                     | 7,484,310   | 6,390,495   |
| Total net position                               | \$38,205,195  | \$34,466,194  |

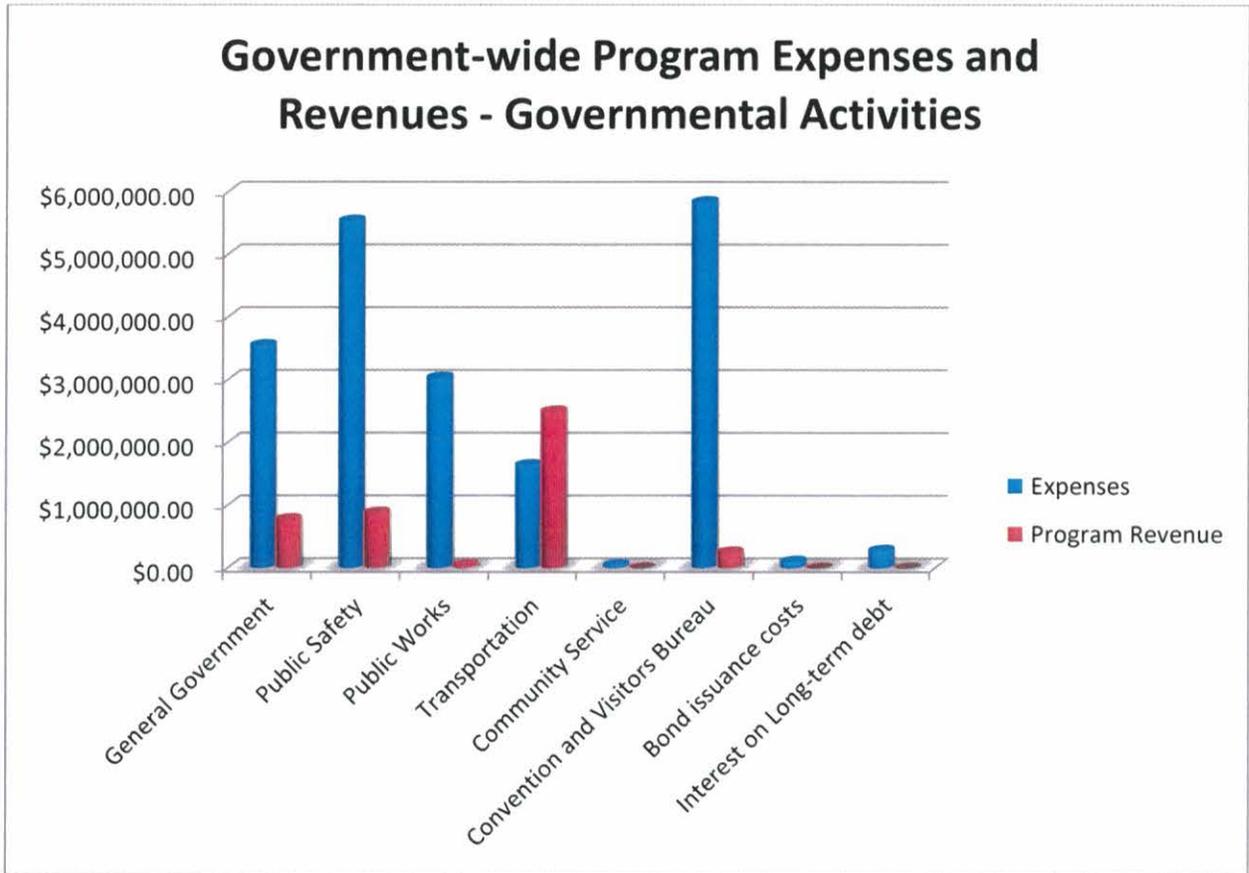
As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the City of South Padre Island, assets and deferred outflows of resources exceeded liabilities and deferred inflows by \$38,205,195 at the close of the most recent fiscal year.

A large portion of the City's net position (44%) 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.

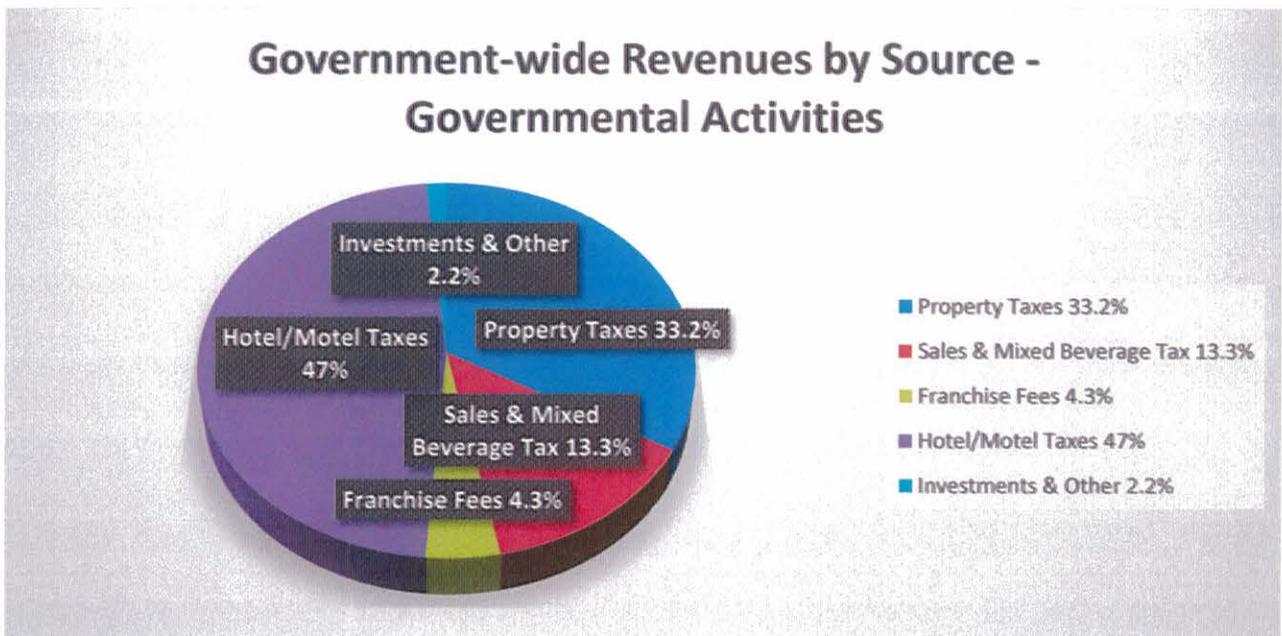
**Changes in Net Position.** Governmental activities increased the City's net position by \$3,739,001. Total revenues increased approximately \$1,239,794 mainly due to additional grant funds. Other increases in revenue of sales tax (2% or \$44,256), hotel motel tax (1% or \$76,830) and hotel motel beach maintenance tax (1% or \$27,193) contributed to the fund balance increase. 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 increased slightly by (\$100,970 or 1%). This increase was partially due to the cost to issue tax anticipation notes for Gulf Boulevard, and an increase in public works related to additional beach maintenance personnel.

|                                       | <b>Total<br/>Governmental<br/>Activities</b> | <b>Total<br/>Governmental<br/>Activities</b> |
|---------------------------------------|--|--|
|                                       | <b>2015</b>                                  | <b>2014</b>                                  |
| <b>Program Revenues:</b>              |  |  |
| Charges for Services                  | \$1,626,636                                  | \$1,652,770                                  |
| Operating Grants & Contributions      | 2,160,260                                    | 1,220,114                                    |
| Capital Grants & Contributions        | 662,306                                      | 439,114                                      |
| <b>General Revenues:</b>              |  |  |
| Property Tax                          | 6,551,645                                    | 6,520,967                                    |
| Sales Tax                             | 2,343,830                                    | 2,299,574                                    |
| Franchise Tax                         | 862,253                                      | 851,056                                      |
| Hotel Motel Tax                       | 7,160,795                                    | 7,083,965                                    |
| Hotel Motel Beach Mtn. Tax            | 2,171,319                                    | 2,144,126                                    |
| Mixed Beverage Tax                    | 319,259                                      | 305,351                                      |
| Gain (loss) on Sale of Capital Assets | 58   | 56,072                                       |
| Interest & Other                      | 279,083                                      | 324,541                                      |
| <b>Total Revenues</b>                 | <b>24,137,444</b>                            | <b>22,897,650</b>                            |
| <b>Program Expenses:</b>              |  |  |
| General Government                    | 3,549,479                                    | 3,403,281                                    |
| Public Safety                         | 5,534,493                                    | 5,635,589                                    |
| Public Works                          | 3,033,574                                    | 2,778,620                                    |
| Transportation                        | 1,639,747                                    | 1,547,923                                    |
| Community Service                     | 47,101                                       | 135,357                                      |
| Convention and Visitors Bureau        | 5,833,410                                    | 6,121,250                                    |
| Bond Issuance costs                   | 103,079                                      | -  |
| Interest on long-term debt            | 279,703                                      | 297,596                                      |
| <b>Total Expenses</b>                 | <b>20,020,586</b>                            | <b>19,919,616</b>                            |
| Increase (decrease) in net position   | 4,116,858                                    | 2,978,034                                    |
| Beginning Net Position                | 34,466,194                                   | 31,488,160                                   |
| Prior period adjustment               | (377,857)                                    | -  |
| <b>Ending Net Position</b>            | <b>\$38,205,195</b>                          | <b>\$34,466,194</b>                          |

The chart below illustrates the City's governmental expense and revenues by function: general government; public safety; public works; transportation; community service, convention and visitors bureau, bond issuance costs 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.



## 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, unassigned 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 \$22,261,290 an increase of \$3,457,034 in comparison with the prior year. Approximately 31%, or \$6,857,609 constitutes unassigned fund balance, which is available for spending at the government's discretion. The General Fund six month reserve required by City Charter amounts to \$5,600,156 and is contained within the unassigned fund balance of the general fund. The restricted funds are 62% or \$13,843,005 of the total fund balance. 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. Approximately 7% or \$1,560,676 of the fund balance is nonspendable; in this case all of the \$1,560,676 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 \$6,835,686 while total fund balance reached \$6,892,007. 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 65% of total general fund expenditures, while total fund balance represents 66% of that same amount.

The fund balance of the City General Fund decreased by \$14,398 during the current fiscal year:

In comparison with last year, the total actual expenditures increased by \$283,643. The increase is primarily due to capital outlay associated with Old City Hall renovations and Gulf Blvd repairs. Revenues increased by \$111,493 mainly due to an increase in non-property taxes, fees and services, and license and permits.

Non-property taxes for both the Hotel Motel and Convention Centre funds, increased by 1% or \$76,830 compared to last fiscal year. The Hotel Motel fund expenditures increased by \$207,074 while the Convention Centre fund balance decreased \$1,270,348 due to a comprehensive Convention Centre exterior renovation. Costs associated with the renovation are reflected in the Construction in Progress Fund.

The Transportation fund didn't have significant variances in fund balance. A total of \$903,058 was spent in construction and engineering services for the future Transit Multimodal facility. Two new buses were purchased, at a cost of \$159,927 and added to our existing fleet.

A Tax Anticipation Note was issued to finance improvements to Gulf Blvd. This amount is reflected in the Gulf Blvd. Rebuild Fund.

The fund balance of the Beach Nourishment fund increased by 17% or \$414,602 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 22 times during fiscal year 2014-2015. A community center project was approved for \$144,362 to renovate Old City Hall to create a facility for public programs and events. A beautification initiative worth \$30,000 was approved to add post and rope fencing to vacant lots along Padre Blvd. Gulf Blvd. Phase III improvements as well as sidewalk improvements on Sunset were approved for \$428,000. This amount included \$150,000 from a Texas General Land Office (GLO) Grant.

**General Fund budget variances**

During the year, revenues were \$235,598 higher than budgeted. This change can be primarily attributed to an increase of \$123,515 in Building Permit activity and miscellaneous revenue received from a legal settlement in the amount of \$110,691.

Total expenditures were \$795,411 less than what was budgeted. All operating and capital outlay expenditures of the general fund departments were under budget. The Police Department was \$177,972 under budget due to lower than anticipated personnel expenses. The Fleet Management department had significant savings in fuel costs, due to lower gas prices, and on vehicle parts and repairs which contributed to being \$110,545 under budget.

**Capital Asset and Debt Administration**

**Capital Assets.** The City’s investment in capital assets for its governmental activities as of September 30, 2015 amounts to \$27,602,796 (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**

|                          | <b>Total<br/>Governmental<br/>Activities<br/>2015</b> | <b>Total<br/>Governmental<br/>Activities<br/>2014</b> |
|--------------------------|---|---|
| Land                     | \$ 1,497,793  | \$ 1,497,793  |
| Construction in progress | 1,279,306   | 611,836   |
| Buildings                | 17,574,140  | 15,246,285  |
| Improvements             | 2,079,892   | 1,944,406   |
| Furniture and equipment  | 1,923,727   | 2,480,371   |
| Infrastructure           | 3,247,938   | 2,752,448   |
| Total net position       | \$27,602,796  | \$24,533,139  |

**Long-term debt.** At the end of the current fiscal year, the City had total bonded debt outstanding of \$9,505,000. The table below reflects the outstanding debt at the fiscal year end. 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**

|                          | <b>Total<br/>Governmental<br/>Activities<br/>2015</b> | <b>Total<br/>Governmental<br/>Activities<br/>2014</b> |
|--------------------------|---|---|
| General Obligation Bonds | \$6,600,000   | \$7,020,000   |
| Tax Anticipation Notes   | 2,905,000   | -   |
|                          | \$9,505,000   | \$7,020,000   |

The City of South Padre Island's total bonded debt increased by \$2,485,000 during the current fiscal year. This change is the result of paying \$235,000 principal on the General Obligation 2005 series bonds, \$160,000 principal on the General Obligation 2011 series bonds, \$25,000 principal on the General Obligation Refunding 2012 series bond and the issuance of a Tax Anticipation Note 2015 of \$2,905,000.

#### **Economic Factors and Next Year's Budgets and Rates**

All of these factors were considered in preparing the City's budget for the 2015-2016 fiscal year.

Certified property tax values for the City showed a decrease in market value by approximately \$2.8 million, or 0.12% from the preceding year. The City Council adopted a tax rate of \$0.285640 cents per hundred which is split between \$0.239110 per hundred for maintenance and operations and \$0.046530 per hundred for the debt service fund and the retirement of the general obligation bonds. The adopted tax rate includes an increase of \$0.022886 cents per hundred primarily due to the additional debt service needed to pay for Gulf Boulevard improvements.

#### **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, 2015

|  | Primary<br>Government               |           | Component<br>Unit |
|--|-------------------------------------|-----------|-------------------|
|  | Total<br>Governmental<br>Activities |           | Unit              |
| <b>ASSETS</b>                                    |                                     |           |                   |
| Cash and cash equivalents                        | \$ 14,564,896                       | \$        | 1,130,455         |
| Investments                                      | 4,503,907                           |           | -                 |
| Receivables, net                                 | 1,409,837                           |           | 95,956            |
| Due from other governments                       | 2,447,261                           |           | -                 |
| Prepaid expenses                                 | 1,560,676                           |           | 321,442           |
| Loans receivable                                 | -                                   |           | 65,524            |
| Capital assets, net                              |                                     |           |                   |
| Non-depreciable assets                           | 2,777,099                           |           | 657,236           |
| Depreciable assets                               | 24,825,697                          |           | 5,899,862         |
| <b>TOTAL ASSETS</b>                              | <b>52,089,373</b>                   |           | <b>8,170,475</b>  |
| <b>DEFERRED OUTFLOWS OF RESOURCES</b>            |                                     |           |                   |
| Deferred outflows related to pension liabilities | 913,956                             |           | 7,473             |
| Deferred amount on refunding                     | 233,565                             |           | -                 |
| <b>TOTAL DEFERRED OUTFLOWS OF RESOURCES</b>      | <b>1,147,521</b>                    |           | <b>7,473</b>      |
| <b>LIABILITIES</b>                               |                                     |           |                   |
| Accounts payable                                 | 1,578,401                           |           | -                 |
| Other liabilities                                | 301,790                             |           | 1,952             |
| Unearned revenues                                | 54,507                              |           | -                 |
| Non-current liabilities                          |                                     |           |                   |
| Net pension liability                            | 1,197,469                           |           | 9,791             |
| Due within one year                              | 1,544,914                           |           | 230,000           |
| Due in more than one year                        | 10,212,144                          |           | 3,955,000         |
| <b>TOTAL LIABILITIES</b>                         | <b>14,889,225</b>                   |           | <b>4,196,743</b>  |
| <b>DEFERRED INFLOWS OF RESOURCES</b>             |                                     |           |                   |
| Deferred inflows related to pension liabilities  | 142,474                             |           | 1,165             |
| <b>NET POSITION</b>                              |                                     |           |                   |
| Net investment in capital assets                 | 16,920,738                          | 2,372,098 |                   |
| Restricted                                       |                                     |           |                   |
| Debt service                                     | 343,578                             |           | 531,809           |
| Capital projects                                 | 3,603,413                           |           | -                 |
| Beach nourishment                                | 1,416,745                           |           | -                 |
| Transportation                                   | 320,366                             |           | -                 |
| Beach maintenance                                | 2,050,584                           |           | -                 |
| Municipal court                                  | 72,385                              |           | -                 |
| Criminal justice                                 | 3,644                               |           | -                 |
| Parks and recreation                             | 3,117                               |           | -                 |
| Hotel/motel taxes                                | 5,986,315                           |           | -                 |
| Unrestricted                                     | 7,484,310                           |           | 1,076,133         |
| <b>TOTAL NET POSITION</b>                        | <b>\$ 38,205,195</b>                | <b>\$</b> | <b>3,980,040</b>  |

*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, 2015

| <u>Functions/Programs</u>       | <u>Expenses</u>   | Program Revenues                    |   |
|---------------------------------|-------------------|-------------------------------------|---|
|                                 |                   | <u>Charges<br/>for<br/>Services</u> | <u>Operating<br/>Grants and<br/>Contributions</u> |
| <b>Governmental activities:</b> |                   |                                     |   |
| General government              | \$ 3,549,479      | \$ 453,066                          | \$ 5,228  |
| Public safety                   | 5,534,493         | 878,790                             | 2,363   |
| Public works                    | 3,033,574         | 44,853                              | -   |
| Transportation                  | 1,639,747         | -                                   | 2,152,669   |
| Community service               | 47,101            | -                                   | -   |
| Convention and visitors bureau  | 5,833,410         | 249,927                             | -   |
| Bond issuance costs             | 103,079           | -                                   | -   |
| Interest on long-term debt      | <u>279,703</u>    | <u>-</u>                            | <u>-</u>  |
| Total governmental activities   | <u>20,020,586</u> | <u>1,626,636</u>                    | <u>2,160,260</u>                                  |
| <b>Component unit:</b>          |                   |                                     |   |
| Economic development            | 355,359           | -                                   | -   |
| Interest expense                | <u>187,295</u>    | <u>-</u>                            | <u>-</u>  |
| Total component unit            | <u>\$ 542,654</u> | <u>\$ -</u>                         | <u>\$ -</u>                                       |

General revenues:

- Property taxes, levied for general purposes
- Property taxes, levied for debt service
- Sales tax
- Franchise taxes
- Hotel motel taxes
- Hotel motel beach maintenance taxes
- 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

Prior period adjustment

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                                | Component Unit      |
| Capital Grants and Contributions | Total Governmental Activities                     |                     |
| \$ 319,276                       | \$ (2,771,909)                                    | \$ -                |
| -                                | (4,653,340)                                       | -                   |
| -                                | (2,988,721)                                       | -                   |
| 343,030                          | 855,952   | -                   |
| -                                | (47,101)  | -                   |
| -                                | (5,583,483)                                       | -                   |
| -                                | (103,079)   | -                   |
| -                                | (279,703)   | -                   |
| <u>662,306</u>                   | <u>(15,571,384)</u>                               | <u>-</u>            |
| -                                | -   | (355,359)           |
| -                                | -   | (187,295)           |
| <u>\$ -</u>                      | <u>\$ -</u>                                       | <u>\$ (542,654)</u> |

|                      |                     |
|----------------------|---------------------|
| 5,869,702            | -                   |
| 681,943              | -                   |
| 2,343,830            | 781,277             |
| 862,253              | -                   |
| 7,160,795            | -                   |
| 2,171,319            | -                   |
| 319,259              | -                   |
| 31,952               | 4,364               |
| 58                   | -                   |
| <u>247,131</u>       | <u>253</u>          |
| <u>19,688,242</u>    | <u>785,894</u>      |
| 4,116,858            | 243,240             |
| 34,466,194           | 3,738,628           |
| <u>(377,857)</u>     | <u>(1,828)</u>      |
| <u>\$ 38,205,195</u> | <u>\$ 3,980,040</u> |

City of South Padre Island, Texas  
**BALANCE SHEET**  
**GOVERNMENTAL FUNDS**  
September 30, 2015

|   | General<br>Fund     | Hotel<br>Motel<br>Fund | Convention<br>Centre<br>Fund | Transportation<br>Grant<br>Fund | Gulf Boulevard<br>Rebuild<br>Fund |
|---|---------------------|------------------------|------------------------------|---------------------------------|-----------------------------------|
| <b>ASSETS</b>   |                     |                        |                              |                                 |                                   |
| Cash and cash equivalents   | \$ 5,328,282        | \$2,801,867            | \$ 2,740,642                 | \$ -                            | \$ 199,559                        |
| Investments   | 1,752,174           | -                      | -                            | -                               | 2,751,733                         |
| Receivables (net of allowance for uncollectibles)                                 |                     |                        |                              |                                 |                                   |
| Property taxes  | 210,748             | -                      | -                            | -                               | -                                 |
| Accounts  | 541,340             | 313,162                | 179,866                      | -                               | 4,184                             |
| Due from other governments  | -                   | -                      | -                            | 1,382,537                       | -                                 |
| Due from other funds  | 1,157,499           | -                      | -                            | -                               | -                                 |
| Prepaid items   | 56,321              | 34,771                 | 27,846                       | 3,419                           | -                                 |
|   | <u>\$ 9,046,364</u> | <u>\$3,149,800</u>     | <u>\$ 2,948,354</u>          | <u>\$ 1,385,956</u>             | <u>\$ 2,955,476</u>               |
| <b>TOTAL ASSETS</b>   |                     |                        |                              |                                 |                                   |
| <b>LIABILITIES</b>  |                     |                        |                              |                                 |                                   |
| Accounts payable  | \$ 1,578,382        | \$ -                   | \$ 19                        | \$ -                            | \$ -                              |
| Due to other funds  | -                   | -                      | -                            | 1,062,171                       | -                                 |
| Other liabilities   | 237,224             | -                      | -                            | -                               | -                                 |
| Unearned revenues - other   | 5,304               | -                      | 49,203                       | -                               | -                                 |
|   | <u>1,820,910</u>    | <u>-</u>               | <u>49,222</u>                | <u>1,062,171</u>                | <u>-</u>                          |
| <b>Total liabilities</b>  |                     |                        |                              |                                 |                                   |
| <b>DEFERRED INFLOWS OF RESOURCES</b>  |                     |                        |                              |                                 |                                   |
| Unavailable revenue - property taxes  | 189,392             | -                      | -                            | -                               | -                                 |
| Unavailable revenue - other   | 144,055             | -                      | -                            | -                               | -                                 |
|   | <u>333,447</u>      | <u>-</u>               | <u>-</u>                     | <u>-</u>                        | <u>-</u>                          |
| <b>Total deferred inflows of resources</b>  |                     |                        |                              |                                 |                                   |
| <b>FUND BALANCE</b>   |                     |                        |                              |                                 |                                   |
| Nonspendable  | 56,321              | 34,771                 | 27,846                       | 3,419                           | -                                 |
| Restricted  | -                   | 3,115,029              | 2,871,286                    | 320,366                         | 2,955,476                         |
| Unassigned  | 6,835,686           | -                      | -                            | -                               | -                                 |
|   | <u>6,892,007</u>    | <u>3,149,800</u>       | <u>2,899,132</u>             | <u>323,785</u>                  | <u>2,955,476</u>                  |
| <b>Total fund balances</b>  |                     |                        |                              |                                 |                                   |
| <b>TOTAL LIABILITIES, DEFERRED<br/>INFLOWS OF RESOURCES, AND<br/>FUND BALANCE</b> |                     |                        |                              |                                 |                                   |
|   | <u>\$ 9,046,364</u> | <u>\$3,149,800</u>     | <u>\$ 2,948,354</u>          | <u>\$ 1,385,956</u>             | <u>\$ 2,955,476</u>               |

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

| Construction<br>In Progress<br>Fund | Beach<br>Nourishment<br>Fund | Other<br>Governmental<br>Funds | Total<br>Governmental<br>Funds |
|-------------------------------------|------------------------------|--------------------------------|--------------------------------|
| \$ -                                | \$ 1,388,768                 | \$ 2,105,778                   | \$ 14,564,896                  |
| -                                   | -                            | -                              | 4,503,907                      |
| -                                   | -                            | 24,206                         | 234,954                        |
| 95,328                              | 27,977                       | 13,026                         | 1,174,883                      |
| -                                   | -                            | 1,064,724                      | 2,447,261                      |
| -                                   | -                            | -                              | 1,157,499                      |
| -                                   | 1,433,824                    | 4,495                          | 1,560,676                      |
| <u>\$ 95,328</u>                    | <u>\$ 2,850,569</u>          | <u>\$ 3,212,229</u>            | <u>\$ 25,644,076</u>           |
| \$ -                                | \$ -                         | \$ -                           | \$ 1,578,401                   |
| 95,328                              | -                            | -                              | 1,157,499                      |
| -                                   | -                            | -                              | 237,224                        |
| -                                   | -                            | -                              | 54,507                         |
| 95,328                              | -                            | -                              | 3,027,631                      |
| -                                   | -                            | 21,708                         | 211,100                        |
| -                                   | -                            | -                              | 144,055                        |
| -                                   | -                            | 21,708                         | 355,155                        |
| -                                   | 1,433,824                    | 4,495                          | 1,560,676                      |
| -                                   | 1,416,745                    | 3,164,103                      | 13,843,005                     |
| -                                   | -                            | 21,923                         | 6,857,609                      |
| -                                   | 2,850,569                    | 3,190,521                      | 22,261,290                     |
| <u>\$ 95,328</u>                    | <u>\$ 2,850,569</u>          | <u>\$ 3,212,229</u>            | <u>\$ 25,644,076</u>           |

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City of South Padre Island, Texas  
**RECONCILIATION OF THE BALANCE SHEET OF THE GOVERNMENTAL FUNDS  
 TO THE STATEMENT OF NET POSITION**  
 September 30, 2015

Fund balances of governmental funds \$ 22,261,290

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. 27,602,796

Some liabilities, including bonds payable (\$9,505,000 and premiums of \$453,172), capital leases (\$957,451) are not due in the current period and therefore not reported in the funds. (10,915,623)

Deferred outflows of resources related to amounts deferred on refundings of long term debt and are not reported in the funds. 233,565

Liabilities for compensated absences are not due in the current period and therefore are not reported in the funds. (841,435)

Certain amounts receivable for property taxes (\$211,100) and other revenues (\$144,055) but which do not represent current financial resources are deferred in the funds. 355,155

Liabilities for accrued interest on long-term debt are not due in the current period and therefore are not reported in the funds. (64,566)

Included in the statement of net position non-current liabilities is the recognition of the City's net pension liability required by GASB 68 in the amount of (\$1,197,469), a deferred resource inflow in the amount of (\$142,474), and a deferred resource outflow in the amount of \$913,956. This resulted in a decrease in net position of \$425,987. (425,987)

Net position of governmental activities \$ 38,205,195

*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, 2015

|  | General<br>Fund     | Hotel<br>Motel<br>Fund | Convention<br>Centre<br>Fund | Transportation<br>Fund | Gulf Boulevard<br>Rebuild<br>Fund |
|--|---------------------|------------------------|------------------------------|------------------------|-----------------------------------|
| <b>REVENUES</b>  |                     |                        |                              |                        |                                   |
| Property taxes   | \$ 5,920,039        | \$ -                   | \$ -                         | \$ -                   | \$ -                              |
| Nonproperty taxes  | 3,525,342           | 4,494,515              | 2,666,280                    | -                      | -                                 |
| Fees and services  | 720,754             | 7,710                  | 242,217                      | -                      | -                                 |
| Fines and forfeitures  | 429,905             | -                      | -                            | -                      | -                                 |
| Licenses and permits   | 257,990             | -                      | -                            | -                      | -                                 |
| Intergovernmental  | 7,591               | -                      | -                            | 2,445,699              | -                                 |
| Miscellaneous  | 191,404             | 75,096                 | 5,578                        | 50,000                 | 1,733                             |
| Total revenues   | <u>11,053,025</u>   | <u>4,577,321</u>       | <u>2,914,075</u>             | <u>2,495,699</u>       | <u>1,733</u>                      |
| <b>EXPENDITURES</b>  |                     |                        |                              |                        |                                   |
| Current  |                     |                        |                              |                        |                                   |
| General government   | 3,143,244           | -                      | -                            | -                      | -                                 |
| Public safety  | 4,842,260           | -                      | -                            | -                      | -                                 |
| Public works   | 1,806,525           | -                      | -                            | -                      | -                                 |
| Transportation   | -                   | -                      | -                            | 1,491,095              | -                                 |
| Community service  | -                   | -                      | -                            | -                      | -                                 |
| Convention and visitors bureau                                       | -                   | 3,875,087              | 1,100,763                    | -                      | -                                 |
| Capital outlay   | 284,412             | 13,760                 | 136,582                      | 1,062,986              | 50,441                            |
| Debt service   |                     |                        |                              |                        |                                   |
| Principal retirement - bonds   | -                   | -                      | -                            | -                      | -                                 |
| Principal retirement - capital lease                                 | 312,013             | -                      | 5,249                        | 7,580                  | -                                 |
| Interest   | 48,736              | -                      | 522                          | 753                    | -                                 |
| Bond issue costs   | -                   | -                      | -                            | -                      | 103,079                           |
| Administrative charges   | 2,494               | -                      | 142                          | 205                    | -                                 |
| Total expenditures   | <u>10,439,684</u>   | <u>3,888,847</u>       | <u>1,243,258</u>             | <u>2,562,619</u>       | <u>153,520</u>                    |
| <b>EXCESS (DEFICIENCY) OF REVENUES<br/>OVER (UNDER) EXPENDITURES</b> |                     |                        |                              |                        |                                   |
|  | 613,341             | 688,474                | 1,670,817                    | (66,920)               | (151,787)                         |
| <b>Other financing sources (uses)</b>                                |                     |                        |                              |                        |                                   |
| Sale of capital assets   | 1,200               | -                      | 4,978                        | -                      | -                                 |
| Issuance of debt   | -                   | -                      | -                            | -                      | 2,905,000                         |
| Premium on issuance of debt  | -                   | -                      | -                            | -                      | 202,263                           |
| Transfers in   | 96,521              | -                      | -                            | 86,630                 | -                                 |
| Transfers out  | (725,460)           | -                      | (2,946,143)                  | -                      | -                                 |
| Total other financing sources (uses)                                 | <u>(627,739)</u>    | <u>-</u>               | <u>(2,941,165)</u>           | <u>86,630</u>          | <u>3,107,263</u>                  |
| Net change in fund balances  | (14,398)            | 688,474                | (1,270,348)                  | 19,710                 | 2,955,476                         |
| Fund balance -- beginning  | <u>6,906,405</u>    | <u>2,461,326</u>       | <u>4,169,480</u>             | <u>304,075</u>         | <u>-</u>                          |
| Fund balance -- ending   | <u>\$ 6,892,007</u> | <u>\$ 3,149,800</u>    | <u>\$ 2,899,132</u>          | <u>\$ 323,785</u>      | <u>\$ 2,955,476</u>               |

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

| Construction<br>In Progress<br>Fund | Beach<br>Nourishment<br>Fund | Other<br>Governmental<br>Funds | Total<br>Governmental<br>Funds |
|-------------------------------------|------------------------------|--------------------------------|--------------------------------|
| \$ -                                | \$ -                         | \$ 686,247                     | \$ 6,606,286                   |
| -                                   | 447,550                      | 1,723,769                      | 12,857,456                     |
| -                                   | -                            | -                              | 970,681                        |
| -                                   | -                            | 17,761                         | 447,666                        |
| -                                   | -                            | -                              | 257,990                        |
| -                                   | -                            | 319,275                        | 2,772,565                      |
| -                                   | 2,922                        | 2,355                          | 329,088                        |
| -                                   | 450,472                      | 2,749,407                      | 24,241,732                     |
| -                                   | -                            | 41,348                         | 3,184,592                      |
| -                                   | -                            | 200,166                        | 5,042,426                      |
| -                                   | -                            | 554,352                        | 2,360,877                      |
| -                                   | -                            | -                              | 1,491,095                      |
| -                                   | 35,870                       | 14,940                         | 50,810                         |
| -                                   | -                            | -                              | 4,975,850                      |
| 2,946,143                           | -                            | 1,196,447                      | 5,690,771                      |
| -                                   | -                            | 420,000                        | 420,000                        |
| -                                   | -                            | 5,701                          | 330,543                        |
| -                                   | -                            | 225,730                        | 275,741                        |
| -                                   | -                            | -                              | 103,079                        |
| -                                   | -                            | 1,404                          | 4,245                          |
| <u>2,946,143</u>                    | <u>35,870</u>                | <u>2,660,088</u>               | <u>23,930,029</u>              |
| (2,946,143)                         | 414,602                      | 89,319                         | 311,703                        |
| -                                   | -                            | 31,890                         | 38,068                         |
| -                                   | -                            | -                              | 2,905,000                      |
| -                                   | -                            | -                              | 202,263                        |
| 2,946,143                           | -                            | 945,872                        | 4,075,166                      |
| -                                   | -                            | (403,563)                      | (4,075,166)                    |
| <u>2,946,143</u>                    | <u>-</u>                     | <u>574,199</u>                 | <u>3,145,331</u>               |
| -                                   | 414,602                      | 663,518                        | 3,457,034                      |
| -                                   | 2,435,967                    | 2,527,003                      | 18,804,256                     |
| <u>\$ -</u>                         | <u>\$ 2,850,569</u>          | <u>\$ 3,190,521</u>            | <u>\$ 22,261,290</u>           |

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, 2015

Net change in fund balances --total governmental funds \$ 3,457,034

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 (\$5,690,771) and including depreciation (\$2,583,104), in the current period is to increase net position. 3,107,667

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. (38,010)

Governmental funds report the issuance of debt as an other financing source, but in governmental activities the issuance of debt is recorded as a long term liability. The effect of removing the bond proceeds of \$2,905,000 and bond premium of \$202,263 from the statement of activities change in net position is to decrease the overall change in net position. (3,107,263)

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. 750,543

The increase in compensated absences payable of (\$24,250) 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 \$27,345 reduces interest expense in the statement of activities, and amortization of debt refunding related deferred outflows of resources of (\$23,357) is an expenditure 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. (20,262)

The implementation of GASB 68 required that certain expenditures be de-expended and recorded as deferred resource outflows. These contributions made after the measurement date of 12/31/14 caused the change in the ending net position to increase in the amount of \$674,152. Contributions made before the measurement date but after the previous measurement date were reversed from deferred resource outflows and recorded as a current year expense. This caused a decrease in the change in net position totaling (\$667,653). The City's reported TMRS net pension expense had to be recorded. The pension expense increased the change in net position by \$68,701. The result of these changes is to increase net position. 75,200

Some revenues 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. The change in the balance of deferred inflows related to property taxes and other receivables was (\$104,346) and interest expense increased by (\$3,705) in 2015. Recognition of these amounts in the statement of activities results in a decrease in the change in net position. (108,051)

Change in net position of governmental activities \$ 4,116,858

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

City of South Padre Island, Texas  
**NOTES TO FINANCIAL STATEMENTS**  
September 30, 2015

**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.

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, 2015

**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 and the statement of activities. 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*. 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, 2015

**NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued**

3. *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.

***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.

***Other major funds are:***

**Capital Project Fund: *Gulf Boulevard Rebuild Fund*** is used to account for bond proceeds received and expenditures associated with rebuilding and expansion of Gulf Boulevard.

**Capital Project Fund: *Construction in Progress Fund*** is used to account for the expenditures associated with the construction of the rehabilitation and improvement of the Convention Centre.

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, 2015

**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. New Accounting Standards Adopted*

In June 2012, the GASB issued Statement No. 68, “Accounting and Financial Reporting for Pensions”. This statement will improve financial reporting of public employee pensions by state and local governments. The requirements of this statement are effective for financial statements for periods beginning after June 15, 2014. The City has implemented GASB No. 68 in this annual report. Pension information is disclosed in Note O and the impact on beginning net position recognized as a prior period adjustment is disclosed in Note S.

In January 2013, the GASB issued Statement No. 69, “Government Combinations and Disposals of Government Operations”. This statement establishes accounting and financial reporting standards related to government combinations and disposals of government operations. The requirements of this statement are effective for financial statements for periods beginning after December 15, 2013. The City has implemented GASB No. 69 in this annual report, however, it does not have any current impact on the City.

In November 2013, the GASB issued Statement No. 71, “Pension Transition for Contributions Made Subsequent to the Measurement Date”. This statement will eliminate the source of a potential significant understatement of restated beginning net position and expense in the first year of implementation of Statement 68 in the accrual-basis financial statements of employers and nonemployer contributing entities. The requirements of this statement are effective for financial statements for periods beginning after June 15, 2014. The City has implemented GASB No. 71 in this annual report. Pension information related to this Statement is disclosed in Note O.

City of South Padre Island, Texas  
**NOTES TO FINANCIAL STATEMENTS – CONTINUED**  
September 30, 2015

**NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued**

5. *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, 2015 are recorded as prepaid items, in both government-wide and fund financial statements. The cost of prepaid items is recorded as expenditures/expenses when consumed rather than when purchased.

**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.

City of South Padre Island, Texas  
**NOTES TO FINANCIAL STATEMENTS – CONTINUED**  
September 30, 2015

**NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued**

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

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.

**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 are deferred and amortized over the life of the bonds. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as 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.

City of South Padre Island, Texas  
**NOTES TO FINANCIAL STATEMENTS – CONTINUED**  
September 30, 2015

**NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued**

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

**h. Pensions**

For purposes of measuring the net pension liability, pension related deferred outflows and inflows of resources, and pension expense, City specific information about its Fiduciary Net Position in the Texas Municipal Retirement System (TMRS) and additions to/deductions from the City's Fiduciary Net Position have been determined on the same basis as they are reported by TMRS. For this purpose, plan contributions are recognized in the period that compensation is reported for the employee, which is when contributions are legally due. Benefit payments and refunds are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value. Information regarding the City's Total Pension Liability is obtained from TMRS through a report prepared for the City by TMRS consulting actuary, Gabriel Roeder Smith & Company, in compliance with Governmental Accounting Standards Board (GASB) Statement No. 68, Accounting and Financial Reporting for Pensions.

**i. Bond Discounts/Issue Costs**

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

**j. Comparative Data**

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

**k. 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.

**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, 2015

**NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued**

5. *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, as authorized by City Council. City policy delegates this authority for the sole purpose of reporting these amounts in the annual financial statements.
- Unassigned: fund balance of the general fund that is not constrained for any particular purpose.

The City charter requires establishment of an operating reserve in the General Fund of no less than six months of operating expenditures, to be used for emergency appropriations. The estimated required fund balance to meet this at September 30, 2015 is \$5,600,156. Since the City's unassigned fund balance exceeds this amount at September 30, 2015, no additional appropriation is needed at this time in order to comply with this policy.

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 "net investment in capital assets."

City of South Padre Island, Texas  
**NOTES TO FINANCIAL STATEMENTS - CONTINUED**  
September 30, 2015

**NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued**

*o. Deferred Outflows and Inflows of Resources*

Deferred outflows of resources represent the consumption of the City's net position that is applicable to a future reporting period. Deferred inflows of resources represent the City's acquisition of net position applicable to a future reporting period.

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.

**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 2015 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, Transportation, Gulf Boulevard Rebuild, Construction in Progress and Beach Nourishment), that have adopted a budget.

City of South Padre Island, Texas  
**NOTES TO FINANCIAL STATEMENTS - CONTINUED**  
September 30, 2015

**NOTE B - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY - Continued**

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

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

Expenditures may not legally exceed budgeted appropriations at the department 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, 2015 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, 2015 are as follows:

|                           | <u>Investment Maturities (in years)</u> |                     | <u>Greater than 1 year</u> |
|---------------------------|---|---------------------|----------------------------|
|                           | <u>Fair Value</u>                       | <u>1 or less</u>    |                            |
| <b>Primary Government</b> |   |                     |                            |
| Cash and cash equivalents | \$14,443,392                            | \$14,443,392        | \$ -                       |
| TexPool                   | 7,421                                   | 7,421               | -                          |
| Texas Term                | <u>114,083</u>                          | <u>114,083</u>      | -                          |
|                           | 14,564,896                              | 14,564,896          | -                          |
| Investments               |   |                     |                            |
| Certificates of deposit   | <u>4,503,907</u>                        | <u>3,502,660</u>    | <u>1,001,247</u>           |
|                           | <u>\$19,068,803</u>                     | <u>\$18,067,556</u> | <u>\$1,001,247</u>         |
| <b>Component Unit</b>     |   |                     |                            |
| Cash and cash equivalents | \$ 1,108,197                            | \$ 1,108,197        | \$ -                       |
| Tex Pool                  | <u>22,258</u>                           | <u>22,258</u>       | -                          |
|                           | <u>\$ 1,130,455</u>                     | <u>\$ 1,130,455</u> | <u>\$ -</u>                |

City of South Padre Island, Texas  
**NOTES TO FINANCIAL STATEMENTS - CONTINUED**  
September 30, 2015

**NOTE C - DEPOSITS AND INVESTMENTS – Continued**

A reconciliation of cash and investments follows:

|                         | <u>Primary<br/>Governmental<br/>Activities</u> | <u>Component<br/>Units</u> | <u>Total</u>        |
|-------------------------|--|----------------------------|---------------------|
| Cash                    | \$14,443,392                                   | \$1,108,197                | \$15,551,589        |
| Cash equivalents        |  |                            |                     |
| Texas Term              | 114,083  | 22,258                     | 136,341             |
| TexPool                 | <u>7,421</u>                                   | <u>-</u>                   | <u>7,421</u>        |
|                         | 121,504  | 22,258                     | 143,762             |
| Investments             |  |                            |                     |
| Certificates of deposit | <u>4,503,907</u>                               | <u>-</u>                   | <u>4,503,907</u>    |
|                         | <u>\$19,068,803</u>                            | <u>\$1,130,455</u>         | <u>\$20,199,258</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 | 0.57%       | \$ 504,525         | February 10, 2016 |
| Certificate of deposit | 1.00%       | 246,403            | March 4, 2016     |
| Certificate of deposit | 0.46%       | 2,751,733          | February 12, 2016 |
| Certificate of deposit | 0.91%       | <u>1,001,246</u>   | February 1, 2017  |
|                        |             | <u>\$4,503,907</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, 2015 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.

City of South Padre Island, Texas  
**NOTES TO FINANCIAL STATEMENTS - CONTINUED**  
September 30, 2015

**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 AAA 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+ 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, 2014 upon which the 2014 levy was based, was \$2,516,386,826. 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, 2015

**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, 2015 was \$.262754 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, 2015 were 98.24 percent of the tax levy.

**NOTE E - RECEIVABLES**

Receivables at September 30, 2015, consist of the following:

|                                   | Primary Government |                  |                        |                         |                               |                        |                          |                          | Component Unit   |
|-----------------------------------|--------------------|------------------|------------------------|-------------------------|-------------------------------|------------------------|--------------------------|--------------------------|------------------|
|                                   | General            | Hotel/Motel Fund | Convention Centre Fund | Gulf Blvd. Rebuild Fund | Construction in Progress Fund | Beach Nourishment Fund | Other Governmental Funds | Total Governmental Funds |                  |
| Receivables                       |                    |                  |                        |                         |                               |                        |                          |                          |                  |
| Taxes                             | \$221,840          | \$ -             | \$ -                   | \$ -                    | \$ -                          | \$ -                   | \$ 25,480                | \$ 247,320               | \$ -             |
| Accounts                          | <u>541,340</u>     | <u>313,162</u>   | <u>179,866</u>         | <u>4,184</u>            | <u>95,328</u>                 | <u>27,977</u>          | <u>13,026</u>            | <u>1,174,883</u>         | <u>95,956</u>    |
| Gross receivables                 | 763,180            | 313,162          | 179,866                | 4,184                   | 95,328                        | 27,977                 | 38,506                   | 1,422,203                | 95,956           |
| Less allowance for uncollectibles | <u>(11,092)</u>    | <u>-</u>         | <u>-</u>               | <u>-</u>                | <u>-</u>                      | <u>-</u>               | <u>(1,274)</u>           | <u>(12,366)</u>          | <u>-</u>         |
| Total receivables, net            | <u>\$752,088</u>   | <u>\$313,162</u> | <u>\$179,866</u>       | <u>\$ 4,184</u>         | <u>\$ 95,328</u>              | <u>\$ 27,977</u>       | <u>\$ 37,232</u>         | <u>\$1,409,837</u>       | <u>\$ 95,956</u> |

**NOTE F - DUE FROM OTHER GOVERNMENTS**

Due from other governments at September 30, 2015 consist of the following:

|   | Primary Government  |                          | Total              |
|---|---------------------|--------------------------|--------------------|
|   | Transportation Fund | Other Governmental Funds |                    |
| Texas State Comptroller – occupancy taxes     | \$ -                | \$1,064,724              | \$1,064,724        |
| State of Texas – Department of Transportation | <u>1,382,537</u>    | <u>-</u>                 | <u>1,382,537</u>   |
| Net total receivables                         | <u>\$1,382,537</u>  | <u>\$1,064,724</u>       | <u>\$2,447,261</u> |

As of September 30, 2015 the component unit had a loan receivable of \$65,524. The Revolving Loan Fund was granted to the EDC in 2011 at an amount of \$105,150 at a rate of 4% for 10 years.

City of South Padre Island, Texas  
**NOTES TO FINANCIAL STATEMENTS - CONTINUED**  
September 30, 2015

**NOTE G - CAPITAL ASSETS**

Capital asset activity for the year ended September 30, 2015 is as follows:

**Governmental Activities**

|   | Beginning<br>Balance<br><u>October 1, 2014</u> | <u>Additions</u>   | <u>Transfers</u>   | <u>Retirements</u> | Ending<br>Balance<br><u>September 30, 2015</u> |
|---|--|--------------------|--------------------|--------------------|--|
| <b>Capital assets, not being depreciated:</b> |  |                    |                    |                    |  |
| Land  | \$ 1,497,793                                   | \$ -               | \$ -               | \$ -               | \$ 1,497,793                                   |
| Construction in progress                      | <u>611,836</u>                                 | <u>3,917,511</u>   | <u>(3,250,041)</u> | <u>-</u>           | <u>1,279,306</u>                               |
|   | 2,109,629                                      | 3,917,511          | (3,250,041)        | -                  | 2,777,099                                      |
| <b>Capital assets, being depreciated:</b>     |  |                    |                    |                    |  |
| Buildings                                     | 29,385,203                                     | 317,744            | 3,234,816          | (238,450)          | 32,699,313                                     |
| Improvements                                  | 4,549,318                                      | 348,105            | 15,225             | (1,893)            | 4,910,755                                      |
| Furniture and equipment                       | 7,606,055                                      | 277,212            | -                  | (403,995)          | 7,479,272                                      |
| Infrastructure                                | <u>8,504,231</u>                               | <u>830,199</u>     | <u>-</u>           | <u>-</u>           | <u>9,334,430</u>                               |
|   | 50,044,807                                     | 1,773,260          | 3,250,041          | (644,338)          | 54,423,770                                     |
| Less accumulated depreciation for:            |  |                    |                    |                    |  |
| Buildings                                     | (14,138,918)                                   | (1,198,447)        | -                  | 212,192            | (15,125,173)                                   |
| Improvements                                  | (2,604,912)                                    | (227,844)          | -                  | 1,893              | (2,830,863)                                    |
| Furniture and equipment                       | (5,125,684)                                    | (822,104)          | -                  | 392,243            | (5,555,545)                                    |
| Infrastructure                                | <u>(5,751,783)</u>                             | <u>(334,709)</u>   | <u>-</u>           | <u>-</u>           | <u>(6,086,492)</u>                             |
| Total accumulated depreciation                | <u>(27,621,297)</u>                            | <u>(2,583,104)</u> | <u>-</u>           | <u>606,328</u>     | <u>(29,598,073)</u>                            |
| Total capital assets, being depreciated, net  | <u>22,423,510</u>                              | <u>(809,844)</u>   | <u>3,250,041</u>   | <u>(38,010)</u>    | <u>24,825,697</u>                              |
| Governmental activities, capital assets, net  | <u>\$24,533,139</u>                            | <u>\$3,107,667</u> | <u>\$ -</u>        | <u>\$ (38,010)</u> | <u>\$27,602,796</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                           | \$ 352,847         |
| Public safety                                | 527,514            |
| Public works                                 | 684,141            |
| Community service                            | 5,600              |
| Convention and visitors bureau               | 857,560            |
| Transportation                               | <u>155,442</u>     |
| Total depreciation - governmental activities | <u>\$2,583,104</u> |

City of South Padre Island, Texas  
**NOTES TO FINANCIAL STATEMENTS - CONTINUED**  
September 30, 2015

**NOTE G - CAPITAL ASSETS - Continued**

**Component Unit:**

Activity for Economic Development Corporation is as follows:

|  | Beginning<br>Balance<br><u>October 1, 2014</u> | <u>Additions</u>   | <u>Transfers</u> | <u>Retirements</u> | Ending<br>Balance<br><u>September 30, 2015</u> |
|--|--|--------------------|------------------|--------------------|--|
| Capital assets, not being depreciated        |  |                    |                  |                    |  |
| Land   | \$ 657,236                                     | \$ -               | \$ -             | \$ -               | \$ 657,236                                     |
| Construction in progress                     | <u>-</u>                                       | <u>-</u>           | <u>-</u>         | <u>-</u>           | <u>-</u>                                       |
|  | 657,236  | -                  | -                | -                  | 657,236  |
| Capital assets, being depreciated            |  |                    |                  |                    |  |
| Buildings                                    | 6,569,015                                      | -                  | -                | -                  | 6,569,015                                      |
| Improvements                                 | 375,000  | -                  | -                | -                  | 375,000  |
| Furniture and equipment                      | <u>21,604</u>                                  | <u>-</u>           | <u>-</u>         | <u>-</u>           | <u>21,604</u>                                  |
|  | 6,965,619                                      | -                  | -                | -                  | 6,965,619                                      |
| Less accumulated depreciation                |  |                    |                  |                    |  |
| Buildings                                    | (862,186)                                      | (136,147)          | -                | -                  | (998,333)                                      |
| Improvements                                 | (20,335)                                       | (25,485)           | -                | -                  | (45,820)                                       |
| Furniture and equipment                      | <u>(21,604)</u>                                | <u>-</u>           | <u>-</u>         | <u>-</u>           | <u>(21,604)</u>                                |
| Total accumulated depreciation               | (904,125)                                      | (161,632)          | -                | -                  | (1,065,757)                                    |
| Total capital assets being depreciated, net  | <u>6,061,494</u>                               | <u>(161,632)</u>   | <u>-</u>         | <u>-</u>           | <u>5,899,862</u>                               |
| Governmental activities, capital assets, net | <u>\$6,718,730</u>                             | <u>\$(161,632)</u> | <u>\$ -</u>      | <u>\$ -</u>        | <u>\$6,557,098</u>                             |

**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                       | \$211,100          |
| Grants and other   | <u>144,055</u>     |
| Total deferred/inflows of resources for governmental funds | <u>\$355,155</u>   |

In governmental activities, deferred outflows of resources consist of \$233,565 of deferred charges on refundings of long-term debt and \$913,956 of deferred charges related to pension liabilities. Deferred inflows related to pensions are \$142,474 at September 30, 2015.

**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, 2015, \$54,507 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, 2015

**NOTE J - LONG-TERM DEBT**

**Primary Government**

*General Obligation Bonds*

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

General obligation bonds and tax anticipation notes 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. Tax anticipation notes pledge the ad valorem taxes collected by the City for the repayment of the obligation. General obligation bonds and tax anticipation notes currently outstanding are as follows:

*1. Bonds*

|   | Beginning<br>Balance<br><u>10-1-14</u> | <u>Additions</u>   | <u>Reductions</u>  | Ending<br>Balance<br><u>9-30-15</u> | Due In<br><u>One Year</u> |
|---|--|--------------------|--------------------|-------------------------------------|---------------------------|
| <i>General Government:</i>                      |  |                    |                    |                                     |                           |
| 2005 Series, General Obligation Bonds           | \$ 235,000                             | \$ -               | \$(235,000)        | \$ -                                | \$ -                      |
| 2011 Series, General Obligation Bonds           | 3,645,000                              | -                  | (160,000)          | 3,485,000                           | 165,000                   |
| 2012 Series, General Obligation Refunding Bonds | 3,140,000                              | -                  | (25,000)           | 3,115,000                           | 270,000                   |
| Series 2015 Tax Anticipation Notes              | -                                      | <u>2,905,000</u>   | -                  | <u>2,905,000</u>                    | <u>350,000</u>            |
| Total bonds                                     | <u>\$7,020,000</u>                     | <u>\$2,905,000</u> | <u>\$(420,000)</u> | <u>\$9,505,000</u>                  | <u>\$785,000</u>          |

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

| Year Ending<br><u>September 30,</u> | General Obligation Bonds |                    | Tax Anticipation Notes |                  | Total              |                    | Principal<br>and Interest |
|-------------------------------------|--------------------------|--------------------|------------------------|------------------|--------------------|--------------------|---------------------------|
|                                     | <u>Principal</u>         | <u>Interest</u>    | <u>Principal</u>       | <u>Interest</u>  | <u>Principal</u>   | <u>Interest</u>    |                           |
| 2016                                | \$ 435,000               | \$ 210,700         | \$ 350,000             | \$ 95,545        | \$ 785,000         | \$ 306,245         | \$ 1,091,245              |
| 2017                                | 450,000                  | 197,425            | 395,000                | 79,825           | 845,000            | 277,250            | 1,122,250                 |
| 2018                                | 460,000                  | 183,775            | 405,000                | 67,825           | 865,000            | 251,600            | 1,116,600                 |
| 2019                                | 480,000                  | 168,775            | 415,000                | 55,525           | 895,000            | 224,300            | 1,119,300                 |
| 2020                                | 500,000                  | 152,225            | 430,000                | 42,850           | 930,000            | 195,075            | 1,125,075                 |
| 2021-2025                           | 2,715,000                | 512,688            | 910,000                | 36,800           | 3,625,000          | 549,488            | 4,174,488                 |
| 2026-2030                           | 1,275,000                | 188,500            | -                      | -                | 1,275,000          | 188,500            | 1,463,500                 |
| 2031-2034                           | <u>285,000</u>           | <u>5,700</u>       | -                      | -                | <u>285,000</u>     | <u>5,700</u>       | <u>290,700</u>            |
|                                     | <u>\$6,600,000</u>       | <u>\$1,619,788</u> | <u>\$2,905,000</u>     | <u>\$378,370</u> | <u>\$9,505,000</u> | <u>\$1,998,158</u> | <u>\$11,503,158</u>       |

**Component Unit**

*1. Revenue Bond*

|                             | Beginning<br>Balance<br>October 1,<br><u>2014</u> | <u>Additions</u> | <u>Reductions</u>   | Ending<br>Balance<br>September 30,<br><u>2015</u> | Amount<br>Due In<br><u>One Year</u> |
|-----------------------------|---|------------------|---------------------|---|-------------------------------------|
| 2007 Series, Sales Tax Bond | \$4,395,000                                       | \$ -             | \$ (210,000)        | \$4,185,000                                       | \$230,000                           |
| Total Revenue Bond          | <u>\$4,395,000</u>                                | <u>\$ -</u>      | <u>\$ (210,000)</u> | <u>\$4,185,000</u>                                | <u>\$230,000</u>                    |

City of South Padre Island, Texas  
**NOTES TO FINANCIAL STATEMENTS - CONTINUED**  
September 30, 2015

**NOTE J - LONG-TERM DEBT - Continued**

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

| Year Ending<br><u>September 30,</u> | <u>Principal</u>   | <u>Interest</u>    | <u>Total</u>       |
|-------------------------------------|--------------------|--------------------|--------------------|
| 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                                | 290,000            | 131,756            | 421,756            |
| 2021-2025                           | 1,670,000          | 451,421            | 2,121,421          |
| 2026-2030                           | <u>1,200,000</u>   | <u>80,408</u>      | <u>1,280,408</u>   |
|                                     | <u>\$4,185,000</u> | <u>\$1,309,143</u> | <u>\$5,494,143</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 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.

*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.

City of South Padre Island, Texas  
**NOTES TO FINANCIAL STATEMENTS - CONTINUED**  
September 30, 2015

**NOTE J - LONG-TERM DEBT – Continued**

*Advance Refunding - Continued*

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, 2015, the defeased portion of the 2005 Series General Obligation bonds had a balance of \$2,985,000.

In July 2015, the City issued Series 2015 Tax Anticipation Notes in the amount of \$2,905,000 to provide resources for the rebuilding and improvement of Gulf Boulevard. The bonds were issued at a premium of \$202,263 and the cost of issuance was \$103,079. Principal payments are due annually starting in March of 2016. Interest is due in March and September annually until maturity on March 1, 2022.

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

**Capital Lease Obligations**

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 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, 2015

**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, 2015:

| Year ending September 30,                   | Fire<br>Ladder<br>Truck | Ambulance        | Ambulance        | Police<br>Radio<br>Equipment | Vehicles<br>Merchant | Total             |
|---|-------------------------|------------------|------------------|------------------------------|----------------------|-------------------|
| 2016  | \$106,439               | \$ 25,700        | \$ 29,987        | \$ 63,062                    | \$ 77,130            | \$ 302,318        |
| 2017  | 349,228                 | -                | 29,987           | 63,062                       | 55,326               | 254,814           |
| 2018  | -                       | -                | 20,132           | 63,062                       | 36,346               | 362,328           |
| 2019  | -                       | -                | -                | 63,062                       | -                    | 63,062            |
| 2020  | -                       | -                | -                | 63,062                       | -                    | 63,062            |
| Total minimum lease payments                | 455,666                 | 25,700           | 80,106           | 315,310                      | 168,802              | 1,045,584         |
| Less the amount representing interest       | (37,174)                | (839)            | (7,772)          | (28,718)                     | (13,630)             | (88,133)          |
| Present value of net minimum lease payments | <u>\$418,492</u>        | <u>\$ 24,861</u> | <u>\$ 72,334</u> | <u>\$286,592</u>             | <u>\$155,172</u>     | <u>\$ 957,451</u> |

*Changes in Long-term Liabilities for Governmental Activities*

During the year ended September 30, 2015, the following changes occurred in liabilities reported as non-current liabilities.

|                           | October 1,<br>2014  | Additions          | Reductions           | September 30,<br>2015 | Amount<br>Due<br>Within<br>One Year |
|---------------------------|---------------------|--------------------|----------------------|-----------------------|-------------------------------------|
| Compensated absences*     | \$ 817,185          | \$ 626,725         | \$ (602,475)         | \$ 841,435            | \$ 448,373                          |
| Bonds payable             | 7,020,000           | 2,905,000          | (420,000)            | 9,505,000             | 785,000                             |
| Premium on bond issuances | 278,254             | 202,263            | (27,345)             | 453,172               | 51,424                              |
| Capital leases            | 1,287,994           | -                  | (330,543)            | 957,451               | 260,117                             |
| Net pension obligation    | 136,295             | -                  | (136,295)            | -                     | -                                   |
| General long-term debt    | 9,539,728           | 3,733,988          | (1,516,658)          | 11,757,058            | 1,544,914                           |
| Net pension liability     | 1,168,840           | 28,629             | -                    | 1,197,469             | -                                   |
| Total long-term debt      | <u>\$10,708,568</u> | <u>\$3,762,617</u> | <u>\$(1,516,658)</u> | <u>\$12,954,527</u>   | <u>\$1,544,914</u>                  |

Compensated absences are generally liquidated by the General Fund.

**Component Unit**

During July 2007, the Economic Development Corporation (“EDC”) issued Sales Tax Revenue Bond Series 2007 for the purpose of paying the costs of the acquisition and construction of land, buildings, equipment, facilities and improvements relating to a birding and nature center as a public facility, funding a debt service reserve fund and paying the costs of issuance. The bonds are collateralized 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, 2015

**NOTE J- LONG-TERM DEBT – Continued**

*Changes in Long-term Liabilities for Component Units*

|                             | <u>October 1,</u><br><u>2014</u> | <u>Additions</u> | <u>Reductions</u>  | <u>September 30,</u><br><u>2015</u> | <u>Amount Due Within One Year</u> |
|-----------------------------|----------------------------------|------------------|--------------------|-------------------------------------|-----------------------------------|
| 2007 Series, Sales Tax Bond | \$4,395,000                      | \$ -             | \$(210,000)        | \$4,185,000                         | \$230,000                         |
| Net pension obligation      | <u>2,270</u>                     | <u>-</u>         | <u>(2,270)</u>     | <u>-</u>                            | <u>-</u>                          |
| General long-term debt      | 4,397,270                        | -                | (212,270)          | 4,185,000                           | 230,000                           |
| Net pension liability       | <u>9,557</u>                     | <u>234</u>       | <u>-</u>           | <u>9,791</u>                        | <u>-</u>                          |
| Total long-term debt        | <u>\$4,406,827</u>               | <u>\$ 234</u>    | <u>\$(212,270)</u> | <u>\$4,194,791</u>                  | <u>\$230,000</u>                  |

**NOTE K - INTERFUND ASSETS/LIABILITIES**

*Due to/from other funds:*

| <u>Payable Fund</u>           | <u>Receivable Fund</u> |
|-------------------------------|------------------------|
|                               | <u>General</u>         |
| Transportation Grant          | \$1,062,171            |
| Construction in progress fund | <u>95,328</u>          |
|                               | <u>\$1,157,499</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 Out Funds</u> | <u>General</u>   | <u>Parks and Beautification Fund</u> | <u>Transportation Grant</u> | <u>Street Improvement</u> | <u>Bay Access</u> | <u>Beach Access</u> | <u>Construction in Progress Fund</u> | <u>Total</u>       |
|---------------------------|------------------|--------------------------------------|-----------------------------|---------------------------|-------------------|---------------------|--------------------------------------|--------------------|
| General                   | \$ -             | \$ 15,000                            | \$ 86,630                   | \$600,250                 | \$ 23,580         | \$ -                | \$ -                                 | \$ 725,460         |
| Convention Center Fund    | -                | -                                    | -                           | -                         | -                 | -                   | 2,946,143                            | 2,946,143          |
| Beach maintenance         | <u>96,521</u>    | <u>-</u>                             | <u>-</u>                    | <u>-</u>                  | <u>-</u>          | <u>307,042</u>      | <u>-</u>                             | <u>403,563</u>     |
| Total transfers           | <u>\$ 96,521</u> | <u>\$ 15,000</u>                     | <u>\$ 86,630</u>            | <u>\$600,250</u>          | <u>\$ 23,580</u>  | <u>\$307,042</u>    | <u>\$2,946,143</u>                   | <u>\$4,075,166</u> |

Transfer between funds within the Component Units

| <u>Transfer Out Funds</u>                     | <u>Transfer in Funds</u> |
|---|--------------------------|
|   | <u>EDC</u>               |
|   | <u>Debt Service Fund</u> |
| Economic Development Corporation General Fund | <u>\$412,895</u>         |

City of South Padre Island, Texas  
**NOTES TO FINANCIAL STATEMENTS - CONTINUED**  
September 30, 2015

**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. The amount, if any, of expenditures which may be disallowed by the grantor agencies cannot be determined at this time, although the City expects such amounts, if any, to be immaterial.

**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 \$392,000,000 (as of September 30, 2015, 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 – DEFINED BENEFIT PENSION PLANS**

*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](http://www.TMRS.com).

City of South Padre Island, Texas  
**NOTES TO FINANCIAL STATEMENTS - CONTINUED**  
September 30, 2015

**NOTE O – DEFINED BENEFIT PENSION PLANS – Continued**

**A. Plan Description**

The City of South Padre Island participates as one of 860 plans in the nontraditional, joint contributory, hybrid defined benefit pension plan administered by the Texas Municipal Retirement System (TMRS). TMRS is an agency created by the State of Texas and administered in accordance with TMRS act, Subtitle G, Title 8, Texas Government Code (the TMRS Act) as an agent multiple-employer retirement system for municipal employees in the State of Texas. The TMRS Act places the general administration and management of the System with a six-member Board of Trustees. Although the Governor, with the advice and consent of the Senate, appoints the Board, TMRS is not fiscally dependent on the State of Texas. TMRS’s defined benefit pension plan is a tax-qualified plan under Section 401(a) of the Internal Revenue Code. TMRS issues a publicly available comprehensive annual financial report (CAFR) that can be obtained at [www.tmr.com](http://www.tmr.com).

All eligible employees of the City and the EDC (component unit) as required to participate in TMRS.

**B. Benefits Provided**

TMRS provides retirement, disability, and death benefits. Benefit provisions are adopted by the governing body of the City, within the options available in the state statutes governing TMRS.

At retirement, the benefits are calculated as if the sum of the employee’s contributions, with interest, and the city-financing monetary credits with interest were used to purchase an annuity. Members may choose to receive their retirement benefit in one of seven payments options. Members may also choose to receive a portion of their benefit as a Partial Lump Sum Distribution in an amount equal to 12, 24, or 36 monthly payments, which cannot exceed 75% of the member’s deposits and interest.

***Employees covered by benefit terms***

At the December 31, 2014 valuation and measurement date, the following employees were covered by the benefit terms:

|  |            |
|--|------------|
| Inactive employees or beneficiaries currently receiving benefits | 28         |
| Inactive employees entitled to but not yet receiving benefits    | 67         |
| Active employees   | <u>157</u> |
|  | 252        |

**C. Contributions**

The contribution rates for employees in TMRS are either 5%, 6%, or 7% of employee gross earnings, and the city matching percentages are either 100%, 150%, or 200%, both as adopted by the governing body of the city. Under the state law governing TMRS, the contribution rate for each city is determined annually by the actuary, using the Entry Age Normal (EAN) actuarial cost method. The actuarially determined rate is the estimated amount necessary to finance the cost of benefits earned by employees during the year, with an additional amount to the finance any unfunded any unfunded accrued liability.

City of South Padre Island, Texas  
**NOTES TO FINANCIAL STATEMENTS - CONTINUED**  
September 30, 2015

**NOTE O – DEFINED BENEFIT PENSION PLANS – Continued**

**C. Contributions - Continued**

Employees for the City of South Padre Island were required to contribute 7% of their annual gross earnings during the fiscal year. The contribution rates for the City of South Padre Island were 12.47% and 12.64% in calendar year 2014 and 2015, respectively. The city's contributions to TMRS for the year ended September 30, 2015 were \$926,892, and were equal to the required contributions.

**D. Net Pension Liability**

The city's Net Pension Liability (NPL) was measured as of December 31, 2014, and the Total Pension Liability (TPL) used to calculate the Net Pension Liability was determined by an actuarial valuation as of that date.

*Actuarial assumptions:*

The Total Pension Liability in the December 31, 2014 actuarial valuation was determined using the following actuarial assumptions:

|                           |   |
|---------------------------|---|
| Inflation                 | 3.0% per year   |
| Overall payroll growth    | 3.0% per year   |
| Investment Rate of Return | 7.0%, net of pension plan investment expense, including inflation |

Salary increases were based on a service-related table. Mortality rates for active members, retirees, and beneficiaries were based on the gender-distinct RP2000 Combined Healthy Mortality Table, with male rates multiplied by 109% and female rates multiplied by 103%. The rates are projected on a fully generational basis by scale BB to account for future mortality improvements. For disabled annuitants, the gender-distinct RP2000 Disabled Retiree Mortality Table is used, with slight adjustments.

Actuarial assumptions used in the December 31, 2014, valuation were based on the results of actuarial experience studies. The experience study in TMRS was for the period January 1, 2006 through December 31, 2009 first used in the December 31, 2010 valuation. Healthy post-retirement mortality rates and annuity purchase rates were updated based on a Mortality Experience Investigation Study covering 2009 through 2011, and dated December 31, 2013. These assumptions were first used in the December 31, 2013 valuation, along with a change to the Entry Age Normal (EAN) actuarial cost method. Assumptions are reviewed annually. No additional changes were made for the 2014 valuation.

The long-term expected rate of return on pension plan investments is 7.0%. The pension plan's policy in regard to the allocation of invested assets is established and may be amended by the TMRS Board of Trustees. Plan assets are managed on a total return basis with an emphasis on both capital appreciation as well as the production of income, in order to satisfy the short-term and long-term funding needs of TMRS.

City of South Padre Island, Texas  
**NOTES TO FINANCIAL STATEMENTS - CONTINUED**  
September 30, 2015

**NOTE O – DEFINED BENEFIT PENSION PLANS – Continued**

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

| <u>Asset Class</u>    | <u>Target Allocation</u> | <u>Long-term<br/>Expected Real<br/>Rate of Return<br/>(Arithmetic)</u> |
|-----------------------|--------------------------|--|
| Domestic Equity       | 17.5%                    | 4.80%  |
| International Equity  | 17.5%                    | 6.05%  |
| Core Fixed Income     | 30.0%                    | 1.50%  |
| Non-Core Fixed Income | 10.0%                    | 3.50%  |
| Real Return           | 5.0%                     | 1.75%  |
| Real Estate           | 10.0%                    | 5.25%  |
| Absolute Return       | 5.0%                     | 4.25%  |
| Private Equity        | <u>5.0%</u>              | 8.50%  |
| Total                 | <u>100.0%</u>            |  |

***Discount Rate***

The discount rate used to measure the Total Pension Liability was 7.0%. The projection of cash flows used to determine the discount rate assumed that employee and employer contributions will be made at the rates specified in statute. Based on that assumption, the pension plan's Fiduciary Net Pension was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the Total Pension Liability.

City of South Padre Island, Texas  
**NOTES TO FINANCIAL STATEMENTS - CONTINUED**  
September 30, 2015

**NOTE O – DEFINED BENEFIT PENSION PLANS – Continued**

*Net Pension Liability*

|  | Increase (Decrease)               |                                      |                                       |
|--|-----------------------------------|--------------------------------------|---------------------------------------|
|  | (a)<br>Total Pension<br>Liability | (b)<br>Plan Fiduciary<br>Net Pension | (a) – (b)<br>Net Pension<br>Liability |
| Balance at December 31, 2013                                     | \$24,822,353                      | \$23,643,956                         | \$1,178,397                           |
| Changes for the year   |                                   |                                      |                                       |
| Service cost   | 1,221,450                         | -                                    | 1,221,450                             |
| Interest   | 1,754,638                         | -                                    | 1,754,638                             |
| Change in benefit terms  | -                                 | -                                    | -                                     |
| Difference between expected/actual experience                    | (172,667)                         | -                                    | (172,667)                             |
| Changes of assumptions   | -                                 | -                                    | -                                     |
| Contributions – employer   | -                                 | 920,340                              | (920,340)                             |
| Contributions – employee   | -                                 | 516,630                              | (516,630)                             |
| Net investment income  | -                                 | 1,352,871                            | (1,352,871)                           |
| Benefit payments, including refunds of<br>employee contributions | (733,635)                         | (733,635)                            | -                                     |
| Administrative expenses  | -                                 | (14,122)                             | 14,122                                |
| Other charges  | -                                 | (1,161)                              | 1,161                                 |
| Net changes  | <u>2,069,786</u>                  | <u>2,040,923</u>                     | <u>28,863</u>                         |
| Balance at December 31, 2014                                     | \$26,892,139                      | \$25,684,879                         | \$1,207,260                           |

Net pension liability amounts are allocated between the primary government and component unit on the statement of net position. The City's portion of the liability is \$1,197,469 and the EDC's is \$9,791.

***Sensitivity of the Net Pension Liability to Changes in the Discount Rate***

The following presents the net pension liability of the City, calculated using the discount rate of 7.0%, as well as what the City's net pension liability would have been if it were calculated using a discount rate that is 1 percentage point lower (6.0%) or 1 percentage point higher (8.0%) than the current rate.

|                              | 1% Decrease in<br>Discount Rate<br>(6.0%) | Discount Rate<br>(7.0%) | 1% Increase in<br>Discount Rate<br>(8.0%) |
|------------------------------|---|-------------------------|---|
| City's net pension liability | \$5,745,779                               | \$1,207,260             | \$(2,449,432)                             |

City of South Padre Island, Texas  
**NOTES TO FINANCIAL STATEMENTS - CONTINUED**  
September 30, 2015

**NOTE O – DEFINED BENEFIT PENSION PLANS – Continued**

*Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions*

For the year ended September 30, 2015 the City and the EDC recognized combined pension expense in the amount of \$851,077. At September 30, 2015 the City and the EDC reported combined deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

|  | <u>Deferred<br/>Outflows of<br/>Resources</u> | <u>Deferred<br/>Inflows of<br/>Resources</u> |
|--|---|--|
| Differences between expected and actual economic experience<br>(net of current year amortization)  | \$ -  | \$143,639                                    |
| Changes in actuarial assumptions   | -   | -  |
| Differences between projected and actual investment earnings<br>(net of current year amortization) | 241,765                                       | -  |
| Contributions subsequent to the measurement date   | <u>679,664</u>                                | <u>-</u>                                     |
| Total  | <u>\$921,429</u>                              | <u>\$143,639</u>                             |

\$679,664 reported as deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability for the year ending September 30, 2015. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

|                         |          |
|-------------------------|----------|
| Year ended December 31, |          |
| 2015                    | \$31,413 |
| 2016                    | 31,413   |
| 2017                    | 31,413   |
| 2018                    | 31,413   |
| 2019                    | (27,527) |
| Thereafter              | -        |

**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.

City of South Padre Island, Texas  
**NOTES TO FINANCIAL STATEMENTS - CONTINUED**  
September 30, 2015

**NOTE P - OTHER POST EMPLOYMENT BENEFITS – Continued**

**Contributions**

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

The City's contributions to the TMRS SDBF for the years ended 2013, 2014 and 2015 were \$1,382, \$1,395 and \$1,448, respectively, which equaled the required contributions each year.

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

| Plan/<br>Calendar<br>Year | Annual<br>Required<br>Contribution<br>(Rate) | Actual<br>Contribution<br>Made<br>(Rate) | Percentage<br>of ARC<br>Contributed |
|---------------------------|--|--|-------------------------------------|
| 2013                      | 0.02%  | 0.02%                                    | 100.0%                              |
| 2014                      | 0.02%  | 0.02%                                    | 100.0%                              |
| 2015                      | 0.02%  | 0.02%                                    | 100.0%                              |

**NOTE Q – GASB STATEMENT NO. 54 FUND BALANCE REPORTING**

**Nonspendable** – These funds were used for prepaid items.

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

**Unassigned** – The unassigned fund balance has no constraints.

|                        | General<br>Fund    | Hotel/Motel<br>Fund | Convention<br>Centre<br>Fund | Transportation<br>Grant<br>Fund | Gulf Blvd.<br>Rebuild<br>Fund | Beach<br>Nourishment<br>Fund | Other<br>Governmental<br>Funds | Total<br>Governmental<br>Funds |
|------------------------|--------------------|---------------------|------------------------------|---------------------------------|-------------------------------|------------------------------|--------------------------------|--------------------------------|
| Fund balance (deficit) |                    |                     |                              |                                 |                               |                              |                                |                                |
| Non-spendable          |                    |                     |                              |                                 |                               |                              |                                |                                |
| Prepaid                | \$ 56,321          | \$ 34,771           | \$ 27,846                    | \$ 3,419                        | \$ -                          | \$1,433,824                  | \$ 4,495                       | \$ 1,560,676                   |
| Restricted             |                    |                     |                              |                                 |                               |                              |                                |                                |
| Debt service           | -                  | -                   | -                            | -                               | -                             | -                            | 386,436                        | 386,436                        |
| Capital projects       | -                  | -                   | -                            | -                               | 2,955,476                     | -                            | 647,937                        | 3,603,413                      |
| Beach nourishment      | -                  | -                   | -                            | -                               | -                             | 1,416,745                    | -                              | 1,416,745                      |
| Transportation         | -                  | -                   | -                            | 320,366                         | -                             | -                            | -                              | 320,366                        |
| Beach maintenance      | -                  | -                   | -                            | -                               | -                             | -                            | 2,050,584                      | 2,050,584                      |
| Municipal court        | -                  | -                   | -                            | -                               | -                             | -                            | 72,385                         | 72,385                         |
| Criminal justice       | -                  | -                   | -                            | -                               | -                             | -                            | 3,644                          | 3,644                          |
| Parks and recreation   | -                  | -                   | -                            | -                               | -                             | -                            | 3,117                          | 3,117                          |
| Hotel/motel tax        | -                  | 3,115,029           | 2,871,286                    | -                               | -                             | -                            | -                              | 5,986,315                      |
| Unassigned             | <u>6,835,686</u>   | <u>-</u>            | <u>-</u>                     | <u>-</u>                        | <u>-</u>                      | <u>-</u>                     | <u>21,923</u>                  | <u>6,857,609</u>               |
|                        | <u>\$6,892,007</u> | <u>\$3,149,800</u>  | <u>\$2,899,132</u>           | <u>\$323,785</u>                | <u>\$2,955,476</u>            | <u>\$2,850,569</u>           | <u>\$3,190,521</u>             | <u>\$22,261,290</u>            |

City of South Padre Island, Texas  
**NOTES TO FINANCIAL STATEMENTS - CONTINUED**  
September 30, 2015

**NOTE R – NET POSITION**

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

|  | <u>Governmental<br/>Activities</u> | <u>Component<br/>Units</u> |
|--|------------------------------------|----------------------------|
| Net investment in capital assets:                                    |                                    |                            |
| Capital assets, net of accumulated depreciation                      | \$27,602,796                       | \$6,557,098                |
| Deferred outflows of resources – deferred amount on refunding        | 233,565                            | -                          |
| Less related liabilities (bonds, net of premium, and capital leases) | <u>(10,915,623)</u>                | <u>(4,185,000)</u>         |
| Net investment in capital assets – total                             | 16,920,738                         | 2,372,098                  |
| Restricted net position consist of the following:                    |                                    |                            |
| Restricted for debt service  | 343,578                            | 531,809                    |
| Restricted for capital projects                                      | 3,603,413                          | -                          |
| Restricted for beach nourishment                                     | 1,416,745                          | -                          |
| Transportation   | 320,366                            | -                          |
| Restricted for beach maintenance                                     | 2,050,584                          | -                          |
| Restricted for municipal court                                       | 72,385                             | -                          |
| Restricted for criminal justice                                      | 3,644                              | -                          |
| Restricted for parks and recreation                                  | 3,117                              | -                          |
| Restricted for hotel/motel taxes                                     | <u>5,986,315</u>                   | <u>-</u>                   |
| Restricted net position – total                                      | 13,800,147                         | 531,809                    |
| Unrestricted net position  | <u>7,484,310</u>                   | <u>1,076,133</u>           |
| Total net position   | <u>\$38,205,195</u>                | <u>\$3,980,040</u>         |

**NOTE S – PRIOR PERIOD ADJUSTMENT**

*Change in Accounting Principle*

During fiscal year 2015, the City adopted GASB Statement No. 68 for Accounting and Reporting for Pensions. With GASB 68, the City must assume the Net Pension Liability of the City’s defined benefit retirement plan through the Texas Municipal Retirement System (TMRS). Adoption of GASB 68 required a prior period adjustment to report the effect of GASB 68 retroactively. The amount of the prior adjustment is \$(364,892) and \$(1,828) in the City and EDC, respectively.

*Correction of an Error*

During 2015, an error in the valuation of capital lease amounting to \$12,965 was discovered. This difference is recorded as a decrease in the beginning net position and an increase in beginning balance of outstanding capital leases.

The combined effect of the above adjustments is \$(377,857) and \$(1,828) in the City and EDC, respectively.

**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, 2015

|   | Budget            |                   | Actual            | Variance                               |
|---|-------------------|-------------------|-------------------|--|
|   | Original          | Final             |                   | Final Budget<br>Positive<br>(Negative) |
| <b>REVENUES</b>                                 |                   |                   |                   |  |
| Property taxes - including penalty and interest | \$ 6,003,858      | \$ 6,003,858      | \$ 5,920,039      | \$ (83,819)                            |
| Nonproperty taxes                               | 3,455,318         | 3,455,318         | 3,525,342         | 70,024                                 |
| Fees and services                               | 707,478           | 707,478           | 720,754           | 13,276                                 |
| Fines and forfeitures                           | 410,000           | 410,000           | 429,905           | 19,905                                 |
| Licenses and permits                            | 134,475           | 134,475           | 257,990           | 123,515                                |
| Intergovernmental                               | 23,000            | 25,585            | 7,591             | (17,994)                               |
| Miscellaneous and program revenues              | 53,000            | 80,713            | 191,404           | 110,691                                |
| Total revenues                                  | <u>10,787,129</u> | <u>10,817,427</u> | <u>11,053,025</u> | <u>235,598</u>                         |
| <b>EXPENDITURES</b>                             |                   |                   |                   |  |
| <b>Current</b>                                  |                   |                   |                   |  |
| <b>General government</b>                       |                   |                   |                   |  |
| City council                                    | 20,000            | 20,000            | 11,406            | 8,594                                  |
| City administration                             | 675,862           | 679,648           | 649,802           | 29,846                                 |
| Finance   | 337,913           | 337,913           | 332,608           | 5,305                                  |
| Planning  | 166,445           | 166,445           | 162,177           | 4,268                                  |
| Information services                            | 462,158           | 468,865           | 430,025           | 38,840                                 |
| Environmental health services                   | 408,005           | 413,505           | 401,425           | 12,080                                 |
| General services                                | 855,541           | 851,755           | 793,800           | 57,955                                 |
| Special projects                                | 232,940           | 500,079           | 362,001           | 138,078                                |
| Total general government                        | <u>3,158,864</u>  | <u>3,438,210</u>  | <u>3,143,244</u>  | <u>294,966</u>                         |
| <b>Public safety</b>                            |                   |                   |                   |  |
| Municipal court                                 | 190,318           | 190,318           | 185,795           | 4,523                                  |
| Police  | 2,751,092         | 2,751,092         | 2,573,120         | 177,972                                |
| Fire  | 2,149,875         | 2,152,460         | 2,073,259         | 79,201                                 |
| Emergency management                            | 14,380            | 14,380            | 10,086            | 4,294                                  |
| Total public safety                             | <u>5,105,665</u>  | <u>5,108,250</u>  | <u>4,842,260</u>  | <u>265,990</u>                         |
| <b>Public works</b>                             |                   |                   |                   |  |
| Building maintenance                            | 192,262           | 201,918           | 190,169           | 11,749                                 |
| Inspections                                     | 189,942           | 189,942           | 189,741           | 201                                    |
| Fleet Management                                | 494,829           | 493,400           | 382,855           | 110,545                                |
| Public works                                    | 1,091,211         | 1,141,422         | 1,043,760         | 97,662                                 |
| Total public works                              | <u>1,968,244</u>  | <u>2,026,682</u>  | <u>1,806,525</u>  | <u>220,157</u>                         |
| Capital outlay                                  | 24,000            | 329,241           | 284,412           | 44,829                                 |
| <b>Debt service</b>                             |                   |                   |                   |  |
| Principal retirement - capital lease            | 303,225           | 312,013           | 312,013           | -                                      |
| Interest and fees                               | 50,022            | 51,230            | 51,230            | -                                      |
| Total debt service                              | <u>353,247</u>    | <u>363,243</u>    | <u>363,243</u>    | <u>-</u>                               |
| Total expenditures                              | <u>10,610,020</u> | <u>11,265,626</u> | <u>10,439,684</u> | <u>825,942</u>                         |
| <b>EXCESS OF REVENUES OVER EXPENDITURES</b>     | 177,109           | (448,199)         | 613,341           | 1,061,540                              |

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, 2015

|                                      | Original             | Budget<br>Final           | Actual                  | Variance<br>Final Budget<br>Positive<br>(Negative) |
|--------------------------------------|----------------------|---------------------------|-------------------------|--|
| OTHER FINANCING SOURCES (USES)       |                      |                           |                         |  |
| Sale of fixed asset                  | -                    | \$ -                      | \$ 1,200                | \$ 1,200   |
| Transfers in                         | 230,000              | 230,000                   | 96,521                  | (133,479)  |
| Transfers out                        | <u>(344,264)</u>     | <u>(803,514)</u>          | <u>(725,460)</u>        | <u>78,054</u>                                      |
| Total other financing sources (uses) | <u>(114,264)</u>     | <u>(573,514)</u>          | <u>(627,739)</u>        | <u>(54,225)</u>                                    |
| <br>NET CHANGE IN FUND BALANCE       | <br><u>\$ 62,845</u> | <br><u>\$ (1,021,713)</u> | <br>(14,398)            | <br><u>\$ 1,007,315</u>                            |
| <br>Fund balance -- beginning        |                      |                           | <br><u>6,906,405</u>    |  |
| <br>Fund balance -- ending           |                      |                           | <br><u>\$ 6,892,007</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, 2015

|  | Budget           |                    | Actual              | Variance                               |
|--|------------------|--------------------|---------------------|--|
|  | Original         | Final              |                     | Final Budget<br>Positive<br>(Negative) |
| <b>REVENUES</b>  |                  |                    |                     |  |
| Nonproperty taxes  | \$ 4,220,111     | \$ 4,220,111       | \$ 4,494,515        | \$ 274,404                             |
| Fees and services  | 7,000            | 7,000              | 7,710               | 710                                    |
| Miscellaneous and program revenues                       | <u>50,700</u>    | <u>50,700</u>      | <u>75,096</u>       | <u>24,396</u>                          |
| Total revenues   | 4,277,811        | 4,277,811          | 4,577,321           | 299,510                                |
| <b>EXPENDITURES</b>                                      |                  |                    |                     |  |
| <b>Current</b>   |                  |                    |                     |  |
| Convention and visitors bureau                           |                  |                    |                     |  |
| Visitors bureau  | 225,906          | 225,906            | 196,645             | 29,261                                 |
| Sales and marketing                                      | 1,029,285        | 1,094,785          | 1,004,337           | 90,448                                 |
| Events marketing   | 522,620          | 522,620            | 470,176             | 52,444                                 |
| Marketing  | <u>2,500,000</u> | <u>2,500,000</u>   | <u>2,203,929</u>    | <u>296,071</u>                         |
| Total community service                                  | 4,277,811        | 4,343,311          | 3,875,087           | 468,224                                |
| Capital outlay   | <u>-</u>         | <u>16,000</u>      | <u>13,760</u>       | <u>2,240</u>                           |
| Total expenditures                                       | <u>4,277,811</u> | <u>4,359,311</u>   | <u>3,888,847</u>    | <u>470,464</u>                         |
| <b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b> |                  |                    |                     |  |
|  | -                | (81,500)           | 688,474             | 769,974                                |
| <b>NET CHANGE IN FUND BALANCE</b>                        | <u>\$ -</u>      | <u>\$ (81,500)</u> | 688,474             | <u>\$ 769,974</u>                      |
| Fund balance -- beginning                                |                  |                    | <u>2,461,326</u>    |  |
| Fund balance -- ending                                   |                  |                    | <u>\$ 3,149,800</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, 2015

|  | Budget              |                       | Actual              | Variance                               |
|--|---------------------|-----------------------|---------------------|--|
|  | Original            | Final                 |                     | Final Budget<br>Positive<br>(Negative) |
| <b>REVENUES</b>  |                     |                       |                     |  |
| Nonproperty taxes  | 2,503,496           | 2,503,496             | \$ 2,666,280        | \$ 162,784                             |
| Convention centre revenue                                    | 202,500             | 202,500               | 242,217             | 39,717                                 |
| Miscellaneous and program revenues                           | 2,500               | 2,500                 | 5,578               | 3,078                                  |
| Total revenues   | <u>2,708,496</u>    | <u>2,708,496</u>      | 2,914,075           | 205,579                                |
| <b>EXPENDITURES</b>  |                     |                       |                     |  |
| Current  |                     |                       |                     |  |
| Convention and visitors bureau                               |                     |                       |                     |  |
| Convention centre  | 1,406,482           | 1,296,631             | 1,100,763           | 195,868                                |
| Total community service                                      | 1,406,482           | 1,296,631             | 1,100,763           | 195,868                                |
| Debt service   |                     |                       |                     |  |
| Principal retirement - capital lease                         | 5,249               | 5,249                 | 5,249               | -                                      |
| Interest and fees  | 664                 | 664                   | 664                 | -                                      |
| Capital outlay   | 43,000              | 152,852               | 136,582             | 16,270                                 |
| Total expenditures   | <u>1,455,395</u>    | <u>1,455,396</u>      | <u>1,243,258</u>    | <u>212,138</u>                         |
| <b>EXCESS (DEFICIENCY) OF REVENUES<br/>OVER EXPENDITURES</b> |                     |                       |                     |  |
|  | 1,253,101           | 1,253,100             | 1,670,817           | 417,717                                |
| <b>OTHER FINANCING SOURCES (USES)</b>                        |                     |                       |                     |  |
| Sale of capital assets                                       | -                   | -                     | 4,978               | 4,978                                  |
| Transfers out  | -                   | (4,869,506)           | (2,946,143)         | 1,923,363                              |
| Total other financing sources (uses)                         | <u>-</u>            | <u>(4,869,506)</u>    | <u>(2,941,165)</u>  | <u>1,928,341</u>                       |
| <b>NET CHANGE IN FUND BALANCE</b>                            | <u>\$ 1,253,101</u> | <u>\$ (3,616,406)</u> | (1,270,348)         | <u>\$ 2,341,080</u>                    |
| Fund balance -- beginning                                    |                     |                       | <u>4,169,480</u>    |  |
| Fund balance -- ending                                       |                     |                       | <u>\$ 2,899,132</u> |  |

City of South Padre Island, Texas  
**TRANSPORTATION GRANT**  
**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES**  
**IN FUND BALANCE - BUDGET AND ACTUAL**  
For the Year Ended September 30, 2015

|  | Budget           |                     | Actual            | Variance<br>Final Budget<br>Positive<br>(Negative) |
|--|------------------|---------------------|-------------------|--|
|  | Original         | Final               |                   |  |
| <b>REVENUES</b>  |                  |                     |                   |  |
| Intergovernmental  | \$ 3,284,159     | \$ 3,443,515        | \$ 2,445,699      | \$ (997,816)                                       |
| Miscellaneous and program revenues                           | <u>50,000</u>    | <u>\$ 50,000</u>    | <u>50,000</u>     | <u>-</u>   |
| Total revenues   | 3,334,159        | 3,493,515           | 2,495,699         | (997,816)  |
| <b>EXPENDITURES</b>  |                  |                     |                   |  |
| Current  |                  |                     |                   |  |
| Transportation   |                  |                     |                   |  |
| Transportation   | <u>1,689,544</u> | <u>1,732,010</u>    | <u>1,491,095</u>  | <u>240,915</u>                                     |
| Total transportation   | 1,689,544        | 1,732,010           | 1,491,095         | 240,915  |
| Capital outlay   | 1,800,000        | 2,046,891           | 1,062,986         | 983,905  |
| Debt service   |                  |                     |                   |  |
| Principal retirement - capital lease                         | 7,580            | 7,580               | 7,580             | -  |
| Interest and fees  | <u>958</u>       | <u>958</u>          | <u>958</u>        | <u>-</u>   |
| Total debt service   | <u>8,538</u>     | <u>8,538</u>        | <u>8,538</u>      | <u>-</u>   |
| Total expenditures   | <u>3,498,082</u> | <u>3,787,439</u>    | <u>2,562,619</u>  | <u>1,224,820</u>                                   |
| <b>EXCESS (DEFICIENCY) OF REVENUES<br/>OVER EXPENDITURES</b> | (163,923)        | (293,924)           | (66,920)          | (2,222,636)  |
| <b>OTHER FINANCING SOURCES (USES)</b>                        |                  |                     |                   |  |
| Transfers in   | <u>164,684</u>   | <u>164,684</u>      | <u>86,630</u>     | <u>(78,054)</u>                                    |
| Total other financing sources (uses)                         | <u>164,684</u>   | <u>164,684</u>      | <u>86,630</u>     | <u>(78,054)</u>                                    |
| <b>NET CHANGE IN FUND BALANCE</b>                            | <u>\$ 761</u>    | <u>\$ (129,240)</u> | 19,710            | <u>\$ (2,300,690)</u>                              |
| Fund balance -- beginning                                    |                  |                     | <u>304,075</u>    |  |
| Fund balance -- ending                                       |                  |                     | <u>\$ 323,785</u> |  |

City of South Padre Island, Texas  
**GULF BOULEVARD REBUILD FUND**  
**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES**  
**IN FUND BALANCE - BUDGET AND ACTUAL**  
For the Year Ended September 30, 2015

|  | Budget   |       | Actual              | Variance                               |
|--|----------|-------|---------------------|--|
|  | Original | Final |                     | Final Budget<br>Positive<br>(Negative) |
| <b>REVENUES</b>  |          |       |                     |  |
| Miscellaneous and program revenues                       | \$ -     | \$ -  | \$ 1,733            | \$ 1,733                               |
| Total revenues   | -        | -     | 1,733               | 1,733                                  |
| <b>EXPENDITURES</b>                                      |          |       |                     |  |
| Capital outlay   | -        | -     | 50,441              | (50,441)                               |
| <b>Debt Service</b>                                      |          |       |                     |  |
| Bond issue costs   | -        | -     | 103,079             |  |
| Total expenditures                                       | -        | -     | 153,520             | (50,441)                               |
| <b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b> |          |       |                     |  |
|  | -        | -     | (151,787)           | (48,708)                               |
| <b>OTHER FINANCING SOURCES (USES)</b>                    |          |       |                     |  |
| Issuance of debt   | -        | -     | 2,905,000           | 2,905,000                              |
| Premium on issuance of debt                              | -        | -     | 202,263             | 202,263                                |
| Total other financing sources (uses)                     | -        | -     | 3,107,263           | 3,107,263                              |
| <b>NET CHANGE IN FUND BALANCE</b>                        |          |       |                     |  |
|  | -        | -     | 2,955,476           | 3,058,555                              |
| Fund balance -- beginning                                |          |       | -                   |  |
| Fund balance -- ending                                   |          |       | <u>\$ 2,955,476</u> |  |

City of South Padre Island, Texas  
**CONSTRUCTION IN PROGRESS FUND**  
**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES**  
**IN FUND BALANCE - BUDGET AND ACTUAL**  
For the Year Ended September 30, 2015

|   | Budget      |             | Actual      | Variance                               |
|---|-------------|-------------|-------------|--|
|   | Original    | Final       |             | Final Budget<br>Positive<br>(Negative) |
| REVENUES  |             |             |             |  |
| Total revenues                                    | \$ -        | \$ -        | \$ -        | \$ -                                   |
| EXPENDITURES                                      |             |             |             |  |
| Capital outlay                                    | -           | 4,869,506   | 2,946,143   | 1,923,363                              |
| Total expenditures                                | -           | 4,869,506   | 2,946,143   | 1,923,363                              |
| EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES | -           | (4,869,506) | (2,946,143) | 1,923,363                              |
| OTHER FINANCING SOURCES (USES)                    |             |             |             |  |
| Transfers in                                      | -           | 4,869,506   | 2,946,143   | (1,923,363)                            |
| Total other financing sources (uses)              | -           | 4,869,506   | 2,946,143   | (1,923,363)                            |
| NET CHANGE IN FUND BALANCE                        | <u>\$ -</u> | <u>\$ -</u> | \$ -        | <u>\$ -</u>                            |
| Fund balance -- beginning                         |             |             | -           |  |
| Fund balance -- ending                            |             |             | <u>\$ -</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, 2015

|  | Budget       |              | Actual       | Variance                               |
|--|--------------|--------------|--------------|--|
|  | Original     | Final        |              | Final Budget<br>Positive<br>(Negative) |
| REVENUES   |              |              |              |  |
| Nonproperty taxes                                    | \$ 415,635   | \$ 415,635   | \$ 447,550   | \$ 31,915                              |
| Miscellaneous and program revenues                   | -            | -            | 2,922        | 2,922                                  |
| Total revenues                                       | 415,635      | 415,635      | 450,472      | 34,837                                 |
| EXPENDITURES   |              |              |              |  |
| Current  |              |              |              |  |
| Community service                                    | 720,000      | 720,000      | 35,870       | 684,130                                |
| Total expenditures                                   | 720,000      | 720,000      | 35,870       | 684,130                                |
| EXCESS (DEFICIENCY) OF REVENUES<br>OVER EXPENDITURES | (304,365)    | (304,365)    | 414,602      | 718,967                                |
| NET CHANGE IN FUND BALANCE                           | \$ (304,365) | \$ (304,365) | 414,602      | \$ 718,967                             |
| Fund balance -- beginning                            |              |              | 2,435,967    |  |
| Fund balance -- ending                               |              |              | \$ 2,850,569 |  |

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City of South Padre Island, Texas  
**SCHEDULE OF CHANGES IN NET PENSION LIABILITY AND RELATED RATIOS**  
**FOR AGENT MULTIPLE EMPLOYER PENSION PLAN –**  
**TEXAS MUNICIPAL RETIREMENT SYSTEM**  
For the Year Ended September 30, 2015

|  |                     |
|--|---------------------|
| <b>Total Pension Liability</b>   |                     |
| Service cost   | \$ 1,221,450        |
| Interest (on the total pension liability)                              | 1,754,638           |
| Changes of benefit terms   | -                   |
| Difference between expected and actual experience                      | (172,667)           |
| Changes of assumptions   | -                   |
| Benefit payments, including refunds of employee contributions          | <u>(733,635)</u>    |
| Net change in total pension liability                                  | 2,069,786           |
| Total pension liability – beginning                                    | <u>24,822,353</u>   |
| Total pension liability – ending (a)                                   | <u>\$26,892,139</u> |
| <b>Plan Fiduciary Net Position</b>                                     |                     |
| Contributions – employer   | \$ 920,340          |
| Contributions – employee   | 516,630             |
| Net investment income  | 1,352,871           |
| Benefit payments, including refunds of employee contributions          | (733,635)           |
| Administrative expense   | (14,122)            |
| Other  | <u>(1,161)</u>      |
| Net change in plan fiduciary net position                              | 2,040,923           |
| Plan fiduciary net position – beginning                                | <u>23,643,956</u>   |
| Plan fiduciary net position – ending (b)                               | <u>\$25,684,879</u> |
| Net pension liability – ending (a) – (b)                               | <u>\$ 1,207,260</u> |
| Plan fiduciary net position as a percentage of total pension liability | 95.51%              |
| Covered employee payroll   | \$7,380,428         |
| Net pension liability as a percentage of covered employee payroll      | 16.36%              |

*GASB 68 requires 10 fiscal years of data to be provided in this schedule. However, until a full 10-year trend is compiled, this schedule provides the information of those years for which information is available.*

City of South Padre Island, Texas  
**SCHEDULE OF CONTRIBUTIONS**  
**FOR AGENT MULTIPLE EMPLOYER PENSION PLAN –**  
**TEXAS MUNICIPAL RETIREMENT SYSTEM**  
For the Year Ended September 30, 2015

|  |                        |
|--|------------------------|
| Actuarially determined contribution                              | \$ 926,892             |
| Contributions in relation to actuarially determined contribution | <u>(926,892)</u>       |
| Contribution deficiency (excess)                                 | \$ <u>          </u> - |
| Covered employee payroll   | \$7,359,671            |
| Contributions as a percentage of covered employee payroll        | 12.59%                 |

City of South Padre Island, Texas  
**NOTES TO SCHEDULE OF CONTRIBUTIONS**  
**FOR AGENT MULTIPLE EMPLOYER PENSION PLAN –**  
**TEXAS MUNICIPAL RETIREMENT SYSTEM**  
For the Year Ended September 30, 2015

**Valuation Date:** Actuarially determined contribution rates are calculated as of December 31 and become effective in January 13 months later.

**Methods and Assumptions Used to Determine Contribution Rates:**

|                               |   |
|-------------------------------|---|
| Actuarial Cost Method         | Entry Age Normal  |
| Amortization Method           | Level Percentage of Payroll, Closed   |
| Remaining Amortization Period | 29 Years  |
| Asset Valuation Method        | 10 Year Smoothed Market; 15% Soft Corridor  |
| Inflation                     | 3.0%  |
| Salary Increases              | 3.50% to 12.00% including inflation   |
| Investment Rate of Return     | 7.00%   |
| Retirement Age                | Experience – based table based on rates that are specific to the City’s plan of benefits. Last updated for the 2010 valuation pursuant to an experience study of the period 2005 – 2009.      |
| Mortality                     | RP2000 Combined Mortality Table with Blue Collar Adjustment with male rates multiplied by 109% and female rates multiplied by 103% and projected on a fully generational basis with scale BB. |

**Other Information:** There were no benefit changes during the year.

*GASB 68 requires 10 fiscal years of data to be provided in this schedule. However, until a full 10-year trend is compiled, this schedule provides the information of those years for which information is available.*

City of South Padre Island, Texas  
**NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION**  
Year Ended September 30, 2015

**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.

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

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

*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.

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

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

*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, 2015

|   | Special Revenue Funds                    |  |                              |                                 |                              |                               |
|---|--|--|------------------------------|---------------------------------|------------------------------|-------------------------------|
|   | Municipal<br>Court<br>Technology<br>Fund | Municipal<br>Court<br>Security<br>Fund | Criminal<br>Justice<br>Grant | Parks and<br>Recreation<br>Fund | Beach<br>Maintenance<br>Fund | Street<br>Improvement<br>Fund |
| <b>ASSETS</b>   |  |  |                              |                                 |                              |                               |
| Cash and cash equivalents   | \$ 15,416                                | \$ 56,969                              | \$ 3,644                     | \$ 3,117                        | \$ 985,860                   | \$ 502,170                    |
| Receivables (net of allowance)  |  |  |                              |                                 |                              |                               |
| Taxes   | -  | -                                      | -                            | -                               | -                            | -                             |
| Accounts  | -  | -                                      | -                            | -                               | -                            | -                             |
| Due from other governments  | -  | -                                      | -                            | -                               | 1,064,724                    | -                             |
| Prepaid items   | -  | -                                      | -                            | -                               | 4,495                        | -                             |
| <b>TOTAL ASSETS</b>   | <u>\$ 15,416</u>                         | <u>\$ 56,969</u>                       | <u>\$ 3,644</u>              | <u>\$ 3,117</u>                 | <u>\$ 2,055,079</u>          | <u>\$ 502,170</u>             |
| <br><b>LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCE</b>        |  |  |                              |                                 |                              |                               |
| TOTAL LIABILITIES   | -  | -                                      | -                            | -                               | -                            | -                             |
| <br><b>DEFERRED INFLOWS OF RESOURCES</b>                                      |  |  |                              |                                 |                              |                               |
| Unavailable revenue - property taxes  | -  | -                                      | -                            | -                               | -                            | -                             |
| <b>TOTAL DEFERRED INFLOWS OF RESOURCES</b>                                    | -  | -                                      | -                            | -                               | -                            | -                             |
| <br><b>FUND BALANCE</b>   |  |  |                              |                                 |                              |                               |
| Nonspendable  | -  | -                                      | -                            | -                               | 4,495                        | -                             |
| Restricted  | 15,416                                   | 56,969                                 | 3,644                        | 3,117                           | 2,050,584                    | 502,170                       |
| Unassigned  | -  | -                                      | -                            | -                               | -                            | -                             |
| <b>TOTAL FUND BALANCE</b>   | <u>15,416</u>                            | <u>56,969</u>                          | <u>3,644</u>                 | <u>3,117</u>                    | <u>2,055,079</u>             | <u>502,170</u>                |
| <br><b>TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCE</b> |  |  |                              |                                 |                              |                               |
|   | <u>\$ 15,416</u>                         | <u>\$ 56,969</u>                       | <u>\$ 3,644</u>              | <u>\$ 3,117</u>                 | <u>\$ 2,055,079</u>          | <u>\$ 502,170</u>             |

| Capital Projects Funds   |                   |                  |                     |                   |                                    |
|--------------------------|-------------------|------------------|---------------------|-------------------|------------------------------------|
| Capital Replacement Fund | Beach Access Fund | Bay Access Fund  | Total               | Debt Service      | Total Non Major Governmental Funds |
| \$ 20,038                | \$ 113,877        | \$ 21,923        | \$ 1,723,014        | \$ 382,764        | \$2,105,778                        |
| -                        | -                 | -                | -                   | 24,206            | 24,206                             |
| 11,852                   | -                 | -                | 11,852              | 1,174             | 13,026                             |
| -                        | -                 | -                | 1,064,724           | -                 | 1,064,724                          |
| -                        | -                 | -                | 4,495               | -                 | 4,495                              |
| <u>\$ 31,890</u>         | <u>\$ 113,877</u> | <u>\$ 21,923</u> | <u>\$ 2,804,085</u> | <u>\$ 408,144</u> | <u>\$3,212,229</u>                 |
| -                        | -                 | -                | -                   | -                 | -                                  |
| -                        | -                 | -                | -                   | 21,708            | 21,708                             |
| -                        | -                 | -                | -                   | 21,708            | 21,708                             |
| -                        | -                 | -                | 4,495               | -                 | 4,495                              |
| 31,890                   | 113,877           | -                | 2,777,667           | 386,436           | 3,164,103                          |
| -                        | -                 | 21,923           | 21,923              | -                 | 21,923                             |
| <u>31,890</u>            | <u>113,877</u>    | <u>21,923</u>    | <u>2,804,085</u>    | <u>386,436</u>    | <u>3,190,521</u>                   |
| <u>\$ 31,890</u>         | <u>\$ 113,877</u> | <u>\$ 21,923</u> | <u>\$ 2,804,085</u> | <u>\$ 408,144</u> | <u>\$3,212,229</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, 2015

|   | Special Revenue Funds                    |  |                              |                                 |                              |                               |
|---|--|--|------------------------------|---------------------------------|------------------------------|-------------------------------|
|   | Municipal<br>Court<br>Technology<br>Fund | Municipal<br>Court<br>Security<br>Fund | Criminal<br>Justice<br>Grant | Parks and<br>Recreation<br>Fund | Beach<br>Maintenance<br>Fund | Street<br>Improvement<br>Fund |
| Revenues  |  |  |                              |                                 |                              |                               |
| Property taxes  | \$ -                                     | \$ -                                   | \$ -                         | \$ -                            | \$ -                         | \$ -                          |
| Nonproperty taxes   | -  | -                                      | -                            | -                               | 1,723,769                    | -                             |
| Fines and forfeitures                                     | 10,149                                   | 7,612                                  | -                            | -                               | -                            | -                             |
| Intergovernmental   | -  | -                                      | -                            | -                               | 196,447                      | 122,828                       |
| Miscellaneous   | -  | -                                      | -                            | 1,220                           | 1,135                        | -                             |
| Total revenues  | <u>10,149</u>                            | <u>7,612</u>                           | <u>-</u>                     | <u>1,220</u>                    | <u>1,921,351</u>             | <u>122,828</u>                |
| Expenditures  |  |  |                              |                                 |                              |                               |
| Current   |  |  |                              |                                 |                              |                               |
| General government  | -  | -                                      | -                            | -                               | 41,348                       | -                             |
| Public safety   | 6,944                                    | 1,500                                  | -                            | -                               | 191,722                      | -                             |
| Public works  | -  | -                                      | -                            | -                               | 539,772                      | -                             |
| Community service   | -  | -                                      | -                            | 14,940                          | -                            | -                             |
| Capital outlay  | -  | -                                      | -                            | -                               | 92,135                       | 762,497                       |
| Debt service  |  |  |                              |                                 |                              |                               |
| Principal - bonds   | -  | -                                      | -                            | -                               | -                            | -                             |
| Principal - capital lease                                 | -  | -                                      | -                            | -                               | 5,701                        | -                             |
| Interest  | -  | -                                      | -                            | -                               | 567                          | -                             |
| Administrative charges                                    | -  | -                                      | -                            | -                               | 154                          | -                             |
| Total expenditures  | <u>6,944</u>                             | <u>1,500</u>                           | <u>-</u>                     | <u>14,940</u>                   | <u>871,399</u>               | <u>762,497</u>                |
| EXCESS (DEFICIENCY) REVENUES<br>OVER (UNDER) EXPENDITURES | 3,205                                    | 6,112                                  | -                            | (13,720)                        | 1,049,952                    | (639,669)                     |
| Other financing sources (uses)                            |  |  |                              |                                 |                              |                               |
| Sale of capital assets                                    | -  | -                                      | -                            | -                               | 20,038                       | -                             |
| Transfers in  | -  | -                                      | -                            | 15,000                          | -                            | 600,250                       |
| Transfers (out)   | -  | -                                      | -                            | -                               | (403,563)                    | -                             |
| Total other financing sources (uses)                      | <u>-</u>                                 | <u>-</u>                               | <u>-</u>                     | <u>15,000</u>                   | <u>(383,525)</u>             | <u>600,250</u>                |
| NET CHANGE IN FUND BALANCES                               | 3,205                                    | 6,112                                  | -                            | 1,280                           | 666,427                      | (39,419)                      |
| Fund balance, beginning of year                           | <u>12,211</u>                            | <u>50,857</u>                          | <u>3,644</u>                 | <u>1,837</u>                    | <u>1,388,652</u>             | <u>541,589</u>                |
| Fund balance, end of year                                 | <u>\$ 15,416</u>                         | <u>\$ 56,969</u>                       | <u>\$ 3,644</u>              | <u>\$ 3,117</u>                 | <u>\$ 2,055,079</u>          | <u>\$ 502,170</u>             |

| Capital Projects Funds   |                   |                 |              |              |                                    |
|--------------------------|-------------------|-----------------|--------------|--------------|------------------------------------|
| Capital Replacement Fund | Beach Access Fund | Bay Access Fund | Total        | Debt Service | Total Non Major Governmental Funds |
| \$ -                     | \$ -              | \$ -            | \$ -         | \$ 686,247   | \$ 686,247                         |
| -                        | -                 | -               | 1,723,769    | -            | 1,723,769                          |
| -                        | -                 | -               | 17,761       | -            | 17,761                             |
| -                        | -                 | -               | 319,275      | -            | 319,275                            |
| -                        | -                 | -               | 2,355        | -            | 2,355                              |
| -                        | -                 | -               | 2,063,160    | 686,247      | 2,749,407                          |
| -                        | -                 | -               | 41,348       | -            | 41,348                             |
| -                        | -                 | -               | 200,166      | -            | 200,166                            |
| -                        | -                 | 14,580          | 554,352      | -            | 554,352                            |
| -                        | -                 | -               | 14,940       | -            | 14,940                             |
| -                        | 332,435           | 9,380           | 1,196,447    | -            | 1,196,447                          |
| -                        | -                 | -               | -            | 420,000      | 420,000                            |
| -                        | -                 | -               | 5,701        | -            | 5,701                              |
| -                        | -                 | -               | 567          | 225,163      | 225,730                            |
| -                        | -                 | -               | 154          | 1,250        | 1,404                              |
| -                        | 332,435           | 23,960          | 2,013,675    | 646,413      | 2,660,088                          |
| -                        | (332,435)         | (23,960)        | 49,485       | 39,834       | 89,319                             |
| 11,852                   | -                 | -               | 31,890       | -            | 31,890                             |
| -                        | 307,042           | 23,580          | 945,872      | -            | 945,872                            |
| -                        | -                 | -               | (403,563)    | -            | (403,563)                          |
| 11,852                   | 307,042           | 23,580          | 574,199      | -            | 574,199                            |
| 11,852                   | (25,393)          | (380)           | 623,684      | 39,834       | 663,518                            |
| 20,038                   | 139,270           | 22,303          | 2,180,401    | 346,602      | 2,527,003                          |
| \$ 31,890                | \$ 113,877        | \$ 21,923       | \$ 2,804,085 | \$ 386,436   | \$ 3,190,521                       |

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, 2015

|  | Budget     |            | Actual     | Variance<br>Final Budget<br>Positive<br>(Negative) |
|--|------------|------------|------------|--|
|  | Original   | Final      |            |  |
| REVENUES   |            |            |            |  |
| Property taxes                                       | \$ 645,913 | \$ 645,913 | \$ 686,247 | \$ 40,334  |
| Total revenues                                       | 645,913    | 645,913    | 686,247    | 40,334   |
| EXPENDITURES   |            |            |            |  |
| Debt service   |            |            |            |  |
| Principal retirement                                 | 420,000    | 420,000    | 420,000    | -  |
| Interest   | 225,163    | 225,163    | 225,163    | -  |
| Administrative charges                               | 750        | 750        | 1,250      | (500)  |
| Total expenditures                                   | 645,913    | 645,913    | 646,413    | (500)  |
| EXCESS (DEFICIENCY) OF REVENUES<br>OVER EXPENDITURES | -          | -          | 39,834     | 39,834   |
| NET CHANGE IN FUND BALANCE                           | \$ -       | \$ -       | 39,834     | \$ 39,834  |
| Fund balance -- beginning                            |            |            | 346,602    |  |
| Fund balance -- ending                               |            |            | \$ 386,436 |  |

## **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, 2015

|   | Economic<br>Development<br>Corporation<br><u>General Fund</u> | EDC<br>Debt Service<br>Reserve<br><u>Fund</u> | EDC<br>Debt<br>Service<br><u>Fund</u> | Total<br>Component<br>Unit  |
|---|---|---|---------------------------------------|-----------------------------|
| <b>ASSETS</b>   |   |   |                                       |                             |
| Cash and cash equivalents   | \$ 664,170  | \$ 439,758                                    | \$ 26,527                             | \$ 1,130,455                |
| Receivables   | 95,956  | -   | -                                     | 95,956                      |
| Prepaid items   | -   | -   | 321,442                               | 321,442                     |
| Loans receivable  | <u>65,524</u>   | <u>-</u>                                      | <u>-</u>                              | <u>65,524</u>               |
| <br>TOTAL ASSETS  | <br><u>\$ 825,650</u>   | <br><u>\$ 439,758</u>                         | <br><u>\$ 347,969</u>                 | <br><u>\$ 1,613,377</u>     |
| <br><b>LIABILITIES</b>  |   |   |                                       |                             |
| Other liabilities   | <u>\$ 1,952</u>   | <u>\$ -</u>                                   | <u>\$ -</u>                           | <u>\$ 1,952</u>             |
| <br>TOTAL LIABILITIES   | <br>1,952   | <br>-   | <br>-                                 | <br>1,952                   |
| <br><b>DEFERRED INFLOWS OF RESOURCES</b>  |   |   |                                       |                             |
| Unavailable revenue - noncurrent receivables  | <u>65,524</u>   | <u>-</u>                                      | <u>-</u>                              | <u>65,524</u>               |
| <br>TOTAL DEFERRED INFLOWS OF RESOURCES   | <br>65,524  | <br>-   | <br>-                                 | <br>65,524                  |
| <br><b>FUND BALANCE</b>   |   |   |                                       |                             |
| Nonspendable  | -   | -   | 321,442                               | 321,442                     |
| Restricted  | -   | 439,758                                       | 26,527                                | 466,285                     |
| Unassigned  | <u>758,174</u>  | <u>-</u>                                      | <u>-</u>                              | <u>758,174</u>              |
| <br>TOTAL FUND BALANCES   | <br><u>758,174</u>  | <br><u>439,758</u>                            | <br><u>347,969</u>                    | <br><u>1,545,901</u>        |
| <br><b>TOTAL LIABILITIES, DEFERRED<br/>INFLOWS OF RESOURCES, AND<br/>FUND BALANCE</b> | <br><br><u>\$ 825,650</u>                                     | <br><br><u>\$ 439,758</u>                     | <br><br><u>\$ 347,969</u>             | <br><br><u>\$ 1,613,377</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, 2015

|   |              |
|---|--------------|
| Fund balances of the component unit funds | \$ 1,545,901 |
|---|--------------|

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   | 6,557,098      |
| Other long-term assets are not available to pay for current period expenditures and therefore are deferred in the funds.  | 65,524         |
| Long term liabilities, including bonds payable, are not due in the current period and therefore not reported in the funds.  | (4,185,000)    |
| Included in the statement of net position non-current liabilities is the recognition of the EDC's portion of net pension liability required by GASB 68 in the amount of (\$9,791), a deferred resource inflow in the amount of (\$1,165), and a deferred resource outflow in the amount of \$7,473. This resulted in a decrease in net position of \$3,483. | <u>(3,483)</u> |

|  |                     |
|--|---------------------|
| Net position of governmental type activities | \$ <u>3,980,040</u> |
|--|---------------------|

City of South Padre Island, Texas  
**SOUTH PADRE ISLAND ECONOMIC DEVELOPMENT CORPORATION**  
**DISCRETELY PRESENTED COMPONENT UNIT**  
**COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE**  
For the Year Ended September 30, 2015

|  | Economic<br>Development<br>Corporation<br>General Fund | EDC<br>Debt Service<br>Reserve<br>Fund | EDC<br>Debt<br>Service<br>Fund | Total<br>Component<br>Unit |
|--|--|--|--------------------------------|----------------------------|
| <b>REVENUES</b>  |  |  |                                |                            |
| Sales taxes  | \$ 781,277   | \$ -                                   | \$ -                           | \$ 781,277                 |
| Intergovernmental revenues                                       | -  | -                                      | -                              | -                          |
| Loan revenue   | 11,556   | -                                      | -                              | 11,556                     |
| Miscellaneous and program revenues                               | <u>4,170</u>   | <u>436</u>                             | <u>11</u>                      | <u>4,617</u>               |
| <br>Total revenues   | <br>797,003  | <br>436                                | <br>11                         | <br>797,450                |
| <b>EXPENDITURES</b>  |  |  |                                |                            |
| Current  |  |  |                                |                            |
| Community service  | 194,342  | -                                      | -                              | 194,342                    |
| Debt service   |  |  |                                |                            |
| Principal retirement   | -  | -                                      | 210,000                        | 210,000                    |
| Interest expense   | -  | -                                      | 187,295                        | 187,295                    |
| Capital outlay   | <u>-</u>   | <u>-</u>                               | <u>-</u>                       | <u>-</u>                   |
| Total expenditures   | <u>194,342</u>   | <u>-</u>                               | <u>397,295</u>                 | <u>591,637</u>             |
| <br>EXCESS (DEFICIENCY) OF REVENUES<br>OVER (UNDER) EXPENDITURES | <br>602,661  | <br>436                                | <br>(397,284)                  | <br>205,813                |
| <br>Other financing sources (uses)                               |  |  |                                |                            |
| Transfers out  | (412,885)  | -                                      | -                              | (412,885)                  |
| Transfers in   | <u>-</u>   | <u>-</u>                               | <u>412,885</u>                 | <u>412,885</u>             |
| Total other financing sources (uses)                             | <u>(412,885)</u>                                       | <u>-</u>                               | <u>412,885</u>                 | <u>-</u>                   |
| <br>Net change in fund balances                                  | <br>189,776  | <br>436                                | <br>15,601                     | <br>205,813                |
| <br>Fund balance -- beginning                                    | <br><u>568,398</u>                                     | <br><u>439,322</u>                     | <br><u>332,368</u>             | <br><u>1,340,088</u>       |
| <br>Fund balance -- ending                                       | <br><u>\$ 758,174</u>                                  | <br><u>\$ 439,758</u>                  | <br><u>\$ 347,969</u>          | <br><u>\$1,545,901</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, 2015

Net change in fund balances --total component unit funds \$ 205,813

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 (\$161,632) exceeded capital outlay of \$-0-. (161,632)

The implementation of GASB 68 required that certain expenditures be de-expended and recorded as deferred resource outflows. These contributions made after the measurement date of 12/31/14 caused the change in the ending net position to increase in the amount of \$5,512. Contributions made before the measurement date but after the previous measurement date were reversed from deferred resource outflows and recorded as a current year expense. This caused a decrease in the change in net position totaling (\$5,459). The EDC's reported portion of TMRS net pension expense had to be recorded. The pension expense increased the change in net position by \$562. The result of these changes is to increase net position.

615

Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position. 210,000

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. (11,556)

Change in net position of governmental activities \$ 243,240

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## STATISTICAL SECTION

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

### CONTENTS

***Financial Trends***

***Schedules 1-4***

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

***Revenue Capacity***

***Schedules 5-9***

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

***Debt Capacity***

***Schedules 10-13***

*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)

Schedule 1

|  | Fiscal Year          |                      |                      |                      |                      |                      |                      |                      |                      |                      |
|--|----------------------|----------------------|----------------------|----------------------|----------------------|----------------------|----------------------|----------------------|----------------------|----------------------|
|  | 2006                 | 2007                 | 2008                 | 2009                 | 2010                 | 2011                 | 2012                 | 2013*                | 2014**               | 2015                 |
| Governmental activities                    |                      |                      |                      |                      |                      |                      |                      |                      |                      |                      |
| Net investment in capital assets           | \$ 11,150,821        | \$ 13,855,905        | \$ 15,236,797        | \$ 19,257,279        | \$ 17,882,812        | \$ 17,420,780        | \$ 18,312,199        | \$ 15,534,981        | \$ 16,203,813        | \$ 16,920,738        |
| 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           | 13,800,147           |
| Unrestricted                               | <u>11,831,195</u>    | <u>11,440,132</u>    | <u>10,159,970</u>    | <u>10,088,864</u>    | <u>5,768,869</u>     | <u>6,174,054</u>     | <u>5,697,496</u>     | <u>6,588,837</u>     | <u>6,025,603</u>     | <u>7,484,310</u>     |
| Total governmental activities net position | <u>\$ 24,302,630</u> | <u>\$ 26,831,366</u> | <u>\$ 26,397,436</u> | <u>\$ 29,654,273</u> | <u>\$ 28,686,152</u> | <u>\$ 28,295,141</u> | <u>\$ 30,089,674</u> | <u>\$ 31,488,160</u> | <u>\$ 34,088,337</u> | <u>\$ 38,205,195</u> |

\* 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 those standards.

\*\*The City of South Padre Island implemented GASB Statement No. 68 in 2015, resulting in adjustment to beginning net position for fiscal year ended September 30, 2015; the effect of this prior period adjustment is reflected in the 2014 balance of net position in this schedule, but no other prior years have been adjusted to reflect implementation of this standard. A prior period adjustment made in 2015 affecting the 2014 balance of net investment in capital assets is also reflected in the 2014 amount.

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

Schedule 2

|   | Fiscal Year       |                   |                   |                   |                   |                   |                   |                   |                   |                   |
|---|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|
|   | 2006              | 2007              | 2008              | 2009              | 2010              | 2011              | 2012              | 2013              | 2014              | 2015              |
| <b>Expenses</b>                                       |                   |                   |                   |                   |                   |                   |                   |                   |                   |                   |
| Governmental activities:                              |                   |                   |                   |                   |                   |                   |                   |                   |                   |                   |
| General government                                    | \$ 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      | \$ 3,549,479      |
| Public safety   | 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         | 5,534,493         |
| Public works  | 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         | 3,033,574         |
| Transportation  | 438,652           | 474,087           | 1,129,802         | 647,664           | 899,298           | 1,103,616         | 1,275,542         | 1,898,136         | 1,547,923         | 1,639,747         |
| Community service                                     | -                 | 365,753           | 528,546           | 832,168           | 40,494            | 820,784           | 119,300           | 621,036           | 135,357           | 47,101            |
| Convention and visitors bureau                        | 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         | 5,833,410         |
| Interest on long-term debt and debt issue costs       | 336,307           | 383,137           | 340,220           | 295,920           | 310,207           | 327,532           | 559,912           | 306,808           | 297,596           | 382,782           |
| <b>Total primary governmental activities expenses</b> | <b>13,145,804</b> | <b>14,132,913</b> | <b>18,188,168</b> | <b>18,736,663</b> | <b>18,822,228</b> | <b>19,497,268</b> | <b>19,032,764</b> | <b>20,139,025</b> | <b>19,919,616</b> | <b>20,020,586</b> |
| <b>Program Revenues</b>                               |                   |                   |                   |                   |                   |                   |                   |                   |                   |                   |
| Governmental activities:                              |                   |                   |                   |                   |                   |                   |                   |                   |                   |                   |
| Charges for services:                                 |                   |                   |                   |                   |                   |                   |                   |                   |                   |                   |
| General government                                    | 39,589            | 35,585            | 30,642            | 28,222            | 27,973            | 222,573           | 218,276           | 156,108           | 277,881           | 453,066           |
| Public safety   | 265,699           | 295,561           | 219,209           | 410,295           | 424,681           | 497,934           | 990,410           | 881,900           | 1,108,781         | 878,790           |
| Public works  | 838,069           | 399,519           | 529,974           | 280,498           | 639,148           | 36,843            | 22,646            | 31,246            | 39,717            | 44,853            |
| Transportation  | 28,945            | 32,050            | 27,302            | 30,000            | 74,500            | 30,000            | 52,250            | 30,000            | -                 | -                 |
| Convention and visitors bureau                        | 316,844           | 271,693           | 275,347           | 337,470           | 300,690           | 270,838           | 244,750           | 286,963           | 226,391           | 249,927           |
| Operating grants and contributions                    | 618,358           | 777,984           | 843,668           | 1,373,380         | 714,938           | 996,779           | 1,074,032         | 954,301           | 1,220,114         | 2,160,260         |
| Capital grants and contributions                      | 71,000            | 123,767           | 234,310           | 249,808           | 190,604           | 682,935           | 1,296,789         | 1,277,434         | 439,114           | 662,306           |
| <b>Total governmental activities program revenues</b> | <b>2,178,504</b>  | <b>1,936,159</b>  | <b>2,160,452</b>  | <b>2,709,673</b>  | <b>2,372,534</b>  | <b>2,737,902</b>  | <b>3,899,153</b>  | <b>3,617,952</b>  | <b>3,311,998</b>  | <b>4,449,202</b>  |
| <b>Net (Expense)/Revenue</b>                          |                   |                   |                   |                   |                   |                   |                   |                   |                   |                   |
| Total primary government net expense                  | (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)      | (15,571,384)      |
| <b>General revenues</b>                               |                   |                   |                   |                   |                   |                   |                   |                   |                   |                   |
| Property taxes  | 4,165,498         | 4,780,512         | 5,483,386         | 6,089,968         | 6,098,437         | 6,391,852         | 6,512,050         | 6,598,351         | 6,520,967         | 6,551,645         |
| Sales & Mixed Beverage taxes                          | 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         | 2,663,089         |
| Franchise taxes                                       | 644,126           | 748,363           | 792,992           | 792,501           | 802,819           | 821,796           | 806,646           | 819,865           | 851,056           | 862,253           |
| Hotel motel taxes                                     | 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         | 7,160,795         |
| Hotel motel padre blvd. taxes                         | 33,305            | -                 | -                 | -                 | -                 | -                 | -                 | -                 | -                 | -                 |
| Hotel motel beach mtn. taxes                          | 704,337           | 741,411           | 630,474           | 751,950           | 945,050           | 988,132           | 1,086,920         | 1,644,572         | 2,144,126         | 2,171,319         |
| Unrestricted investment earnings                      | 734,068           | 796,864           | 546,491           | 198,941           | 143,463           | 97,265            | 49,345            | 38,830            | 31,373            | 31,952            |
| Gain (loss) on sale of capital assets                 | (5,767)           | -                 | 1,485,785         | 14,234            | 16,810            | (17,050)          | 4,545             | -                 | 56,072            | 58                |
| Insurance recoveries                                  | -                 | -                 | -                 | 4,401,118         | 16,510            | -                 | -                 | -                 | -                 | -                 |
| Miscellaneous   | 36,701            | 425,776           | 79,056            | 101,551           | 218,133           | 311,078           | 130,510           | 59,156            | 293,168           | 247,131           |
| <b>Total general revenues</b>                         | <b>13,369,998</b> | <b>14,725,491</b> | <b>15,593,786</b> | <b>19,283,827</b> | <b>15,481,573</b> | <b>16,368,355</b> | <b>16,928,144</b> | <b>18,030,295</b> | <b>19,585,652</b> | <b>19,688,242</b> |
| <b>Changes in Net Position</b>                        |                   |                   |                   |                   |                   |                   |                   |                   |                   |                   |
| Total governmental activities                         | \$ 2,402,698      | \$ 2,528,737      | \$ (433,930)      | \$ 3,256,837      | \$ (968,121)      | \$ (391,011)      | \$ 1,794,533      | \$ 1,509,222      | \$ 2,978,034      | \$ 4,116,858      |

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)

|                              | 2006                 | 2007                | 2008                | 2009                | 2010                | 2011                | 2012                | 2013                | 2014                 | 2015                 |
|------------------------------|----------------------|---------------------|---------------------|---------------------|---------------------|---------------------|---------------------|---------------------|----------------------|----------------------|
| General fund                 |                      |                     |                     |                     |                     |                     |                     |                     |                      |                      |
| Pre GASB 54                  |                      |                     |                     |                     |                     |                     |                     |                     |                      |                      |
| Reserved                     | \$ 35,721            | \$ 54,073           | \$ 37,321           | \$ 35,092           | \$ 31,623           | \$ -                | \$ -                | \$ -                | \$ -                 | \$ -                 |
| Unreserved                   | 4,329,297            | 5,095,575           | 5,768,180           | 6,477,049           | 6,144,362           | -                   | -                   | -                   | -                    | -                    |
| Total pre GASB 54            | <u>\$ 4,365,018</u>  | <u>\$ 5,149,648</u> | <u>\$ 5,805,501</u> | <u>\$ 6,512,141</u> | <u>\$ 6,175,985</u> | <u>\$ -</u>         | <u>\$ -</u>         | <u>\$ -</u>         | <u>\$ -</u>          | <u>\$ -</u>          |
| Post GASB 54                 |                      |                     |                     |                     |                     |                     |                     |                     |                      |                      |
| Nonspendable                 | \$ -                 | \$ -                | \$ -                | \$ -                | \$ -                | \$ 45,959           | \$ 21,542           | \$ 55,701           | \$ 57,868            | \$ 56,321            |
| Unassigned                   | -                    | -                   | -                   | -                   | -                   | 6,243,764           | 6,357,093           | 6,158,124           | 6,848,537            | 6,835,686            |
| Total post GASB 54           | <u>\$ -</u>          | <u>\$ -</u>         | <u>\$ -</u>         | <u>\$ -</u>         | <u>\$ -</u>         | <u>\$ 6,289,723</u> | <u>\$ 6,378,635</u> | <u>\$ 6,213,825</u> | <u>\$ 6,906,405</u>  | <u>\$ 6,892,007</u>  |
| All Other Governmental Funds |                      |                     |                     |                     |                     |                     |                     |                     |                      |                      |
| Pre GASB 54                  |                      |                     |                     |                     |                     |                     |                     |                     |                      |                      |
| Reserved                     | \$ 577,625           | \$ 568,453          | \$ 766,366          | \$ 729,340          | \$ 696,464          | \$ -                | \$ -                | \$ -                | \$ -                 | \$ -                 |
| Unreserved, reported in:     |                      |                     |                     |                     |                     |                     |                     |                     |                      |                      |
| Special revenue funds        | 6,133,843            | 5,857,458           | 681,831             | 3,040,415           | 2,590,794           | -                   | -                   | -                   | -                    | -                    |
| Capital projects funds       | 7,307,966            | 1,609,091           | 4,048,185           | 478,262             | 1,691,350           | -                   | -                   | -                   | -                    | -                    |
| Total pre GASB 54            | <u>\$ 14,019,434</u> | <u>\$ 8,035,002</u> | <u>\$ 5,496,382</u> | <u>\$ 4,248,017</u> | <u>\$ 4,978,608</u> | <u>\$ -</u>         | <u>\$ -</u>         | <u>\$ -</u>         | <u>\$ -</u>          | <u>\$ -</u>          |
| Post GASB 54                 |                      |                     |                     |                     |                     |                     |                     |                     |                      |                      |
| Nonspendable                 | \$ -                 | \$ -                | \$ -                | \$ -                | \$ -                | \$ 114,554          | \$ 148,890          | \$ 54,786           | \$ 42,639            | \$ 1,504,355         |
| Restricted:                  |                      |                     |                     |                     |                     |                     |                     |                     |                      |                      |
| Debt service                 | -                    | -                   | -                   | -                   | -                   | 429,784             | 273,133             | 309,533             | 346,602              | 386,436              |
| Capital projects             | -                    | -                   | -                   | -                   | -                   | 4,914,411           | 1,502,659           | 2,636,575           | 700,897              | 3,603,413            |
| Beach nourishment            | -                    | -                   | -                   | -                   | -                   | -                   | -                   | -                   | 2,435,967            | 1,416,745            |
| Transportation               | -                    | -                   | -                   | -                   | -                   | 154,277             | 235,999             | 287,934             | 301,277              | 320,366              |
| Beach maintenance            | -                    | -                   | -                   | -                   | -                   | 78,887              | 264,395             | 790,655             | 1,382,753            | 2,050,584            |
| Municipal court              | -                    | -                   | -                   | -                   | -                   | 43,562              | 48,913              | 53,594              | 63,068               | 72,385               |
| Criminal justice             | -                    | -                   | -                   | -                   | -                   | 3,433               | 3,644               | 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                | 3,117                |
| Hotel/motel tax              | -                    | -                   | -                   | -                   | -                   | 2,442,154           | 3,603,561           | 5,068,679           | 6,596,864            | 5,986,315            |
| Unassigned                   | -                    | -                   | -                   | -                   | -                   | -                   | (172,892)           | (7,167)             | 22,303               | 21,923               |
| Total post GASB 54           | <u>\$ -</u>          | <u>\$ -</u>         | <u>\$ -</u>         | <u>\$ -</u>         | <u>\$ -</u>         | <u>\$ 8,431,474</u> | <u>\$ 6,115,962</u> | <u>\$ 9,383,338</u> | <u>\$ 11,897,851</u> | <u>\$ 15,369,283</u> |

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

|  | <u>2006</u>       | <u>2007</u>          | <u>2008</u>          |
|--|-------------------|----------------------|----------------------|
| <b>REVENUES</b>  |                   |                      |                      |
| Property taxes   | \$4,123,204       | \$4,719,773          | \$5,393,449          |
| Nonproperty taxes  | 8,439,497         | 8,722,337            | 7,999,068            |
| Fees and services  | 335,617           | 287,475              | 298,189              |
| Fines and forfeitures  | 265,700           | 295,560              | 219,209              |
| Licenses and permits   | 887,829           | 451,372              | 573,866              |
| Intergovernmental  | 489,358           | 920,629              | 1,077,978            |
| Miscellaneous and program revenues                                   | <u>970,769</u>    | <u>1,203,760</u>     | <u>616,757</u>       |
| Total revenues   | <u>15,511,974</u> | <u>16,600,906</u>    | <u>16,178,516</u>    |
| <b>EXPENDITURES</b>  |                   |                      |                      |
| General  | 1,967,410         | 2,179,937            | 4,084,721            |
| Public safety  | 3,135,257         | 3,256,352            | 3,822,108            |
| Public works   | 1,158,093         | 1,346,075            | 1,484,580            |
| Transportation   | 382,221           | 430,979              | 1,063,572            |
| Community service  | 179,277           | 616,566              | 326,736              |
| Convention and visitors bureau                                       | 4,627,296         | 4,423,112            | 5,114,147            |
| Debt service   |                   |                      |                      |
| Principal retirement   | 845,000           | 1,065,000            | 1,110,000            |
| Interest   | 329,844           | 372,160              | 329,243              |
| Administrative charges   | 32,100            | 500                  | 500                  |
| Bond issue costs   | -                 | -                    | -                    |
| Capital outlay   | <u>3,503,133</u>  | <u>8,110,027</u>     | <u>3,211,465</u>     |
| Total expenditures   | <u>16,159,631</u> | <u>21,800,708</u>    | <u>20,547,072</u>    |
| <b>EXCESS (DEFICIENCY) OF REVENUES<br/>OVER (UNDER) EXPENDITURES</b> | <b>(647,657)</b>  | <b>(5,199,802)</b>   | <b>(4,368,556)</b>   |
| <b>Other financing sources (uses)</b>                                |                   |                      |                      |
| Sale of fixed assets   | 6,060             | -                    | 1,485,785            |
| Lease Proceeds   | -                 | -                    | -                    |
| Proceeds from issuance of bonds                                      | 1,600,000         | -                    | 1,000,000            |
| Premium on issuance of bonds   | -                 | -                    | -                    |
| Uses of debt refunding   | -                 | -                    | -                    |
| Insurance Proceeds   | -                 | -                    | -                    |
| Transfers out  | (3,105,238)       | (2,031,131)          | (2,209,420)          |
| Transfers in   | <u>3,105,238</u>  | <u>2,031,131</u>     | <u>2,209,420</u>     |
| Total other financing sources and (uses)                             | <u>1,606,060</u>  | <u>-</u>             | <u>2,485,785</u>     |
| Net change in fund balances  | <u>\$958,403</u>  | <u>(\$5,199,802)</u> | <u>(\$1,882,771)</u> |
| Debt service as a percentage<br>of noncapital expenditures           | 9.28%             | 10.50%               | 8.30%                |

| 2009               | 2010              | 2011               | 2012                 | 2013               | 2014               | 2015               |
|--------------------|-------------------|--------------------|----------------------|--------------------|--------------------|--------------------|
| \$6,115,209        | \$6,042,754       | \$6,407,899        | \$6,572,035          | 6,666,348          | 6554043            | \$6,606,286        |
| 8,478,004          | 8,988,221         | 9,585,210          | 10,231,694           | 11,333,958         | 12684073           | 12,857,456         |
| 353,545            | 529,702           | 411,771            | 847,528              | 786,089            | 879384             | 970,681            |
| 295,990            | 379,684           | 424,124            | 517,776              | 455,300            | 576361             | 447,666            |
| 322,645            | 557,605           | 222,292            | 191,105              | 150,583            | 137367             | 257,990            |
| 1,056,767          | 905,542           | 1,679,714          | 2,202,888            | 2,231,734          | 1609228            | 2,772,565          |
| 981,229            | 361,596           | 408,344            | 179,856              | 158,989            | 374541             | 329,088            |
| <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>  | <u>24,241,732</u>  |
| 3,124,195          | 3,801,677         | 3,441,451          | 2,912,655            | 3,204,508          | 3022645            | 3,184,592          |
| 4,101,247          | 4,478,384         | 4,313,528          | 4,806,764            | 4,954,525          | 5079755            | 5,042,426          |
| 2,156,348          | 2,158,644         | 2,188,234          | 2,424,423            | 2,079,739          | 2115599            | 2,360,877          |
| 552,966            | 782,525           | 957,492            | 1,078,641            | 1,104,987          | 1336549            | 1,491,095          |
| 832,168            | 40,494            | 820,784            | 119,300              | 418,152            | 131262             | 50,810             |
| 5,532,594          | 4,653,373         | 4,972,074          | 4,740,409            | 5,313,518          | 5319014            | 4,975,850          |
| 1,160,000          | 1,205,000         | 932,358            | 982,225              | 634,920            | 696201             | 750,543            |
| 285,443            | 275,612           | 261,642            | 400,165              | 301,716            | 297548             | 275,741            |
| -                  | -                 | 2,736              | 800                  | (900)              | 4,308              | 4,245              |
| -                  | -                 | 94,968             | 103,287              | -                  | -                  | 103,079            |
| 4,816,260          | 906,820           | 2,417,098          | 5,628,071            | 1,591,360          | 1676803            | 5,690,771          |
| <u>22,561,221</u>  | <u>18,302,529</u> | <u>20,402,365</u>  | <u>23,196,740</u>    | <u>19,602,525</u>  | <u>19,679,684</u>  | <u>23,930,029</u>  |
| (4,957,832)        | (537,425)         | (1,263,011)        | (2,350,571)          | 2,180,476          | 3,135,313          | 311,703            |
| 14,989             | 85,350            | 25,933             | 4,771                | 22,777             | 71,780             | 38,068             |
| -                  | -                 | 902,220            | 119,200              | 899,313            | -                  | -                  |
| -                  | 830,000           | 3,800,000          | 3,165,000            | -                  | -                  | 2,905,000          |
| -                  | -                 | 101,462            | 289,990              | -                  | -                  | 202,263            |
| -                  | -                 | -                  | (3,351,703)          | -                  | -                  | -                  |
| 4,401,118          | 16,510            | -                  | -                    | -                  | -                  | -                  |
| (2,371,184)        | (1,587,679)       | (853,568)          | (1,200,089)          | (1,155,679)        | (1,362,784)        | (4,075,166)        |
| 2,371,184          | 1,587,679         | 853,568            | 1,200,089            | 1,155,679          | 1,362,784          | 4,075,166          |
| <u>4,416,107</u>   | <u>931,860</u>    | <u>4,829,615</u>   | <u>123,971</u>       | <u>922,090</u>     | <u>71,780</u>      | <u>3,145,331</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> | <u>\$3,457,034</u> |
| 8.15%              | 8.51%             | 6.67%              | 7.92%                | 5.20%              | 5.54%              | 5.68%              |

**ASSESSED VALUE AND ACTUAL VALUE OF TAXABLE PROPERTY**  
Last Ten Fiscal Years

| Fiscal<br>Year<br>Ended<br>September 30, | Net Taxable Assessed Value |                      | Less:<br>Exempt<br>Property | Total Taxable<br>Assessed<br>Value | Total<br>Direct<br>Tax<br>Rate |
|--|----------------------------|----------------------|-----------------------------|------------------------------------|--------------------------------|
|  | Real<br>Property           | Personal<br>Property |                             |                                    |                                |
| 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                        |
| 2015                                     | 2,574,041,045              | 32,621,783           | 90,276,002                  | 2,516,386,826                      | 0.26275                        |

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 | Total Direct |                             |                        |                |                         |                 |
| 2006          | 0.230197                                | 0.022913     | 0.253110     | 0.105800                    | 1.356120               | 0.358191       | 0.128782                | 0.039200        |
| 2007          | 0.219598                                | 0.033512     | 0.253110     | 0.080820                    | 1.300185               | 0.343191       | 0.162772                | 0.049200        |
| 2008          | 0.216810                                | 0.028800     | 0.245610     | 0.080820                    | 1.061634               | 0.353191       | 0.161089                | 0.049200        |
| 2009          | 0.218400                                | 0.027210     | 0.245610     | 0.080820                    | 1.061634               | 0.363191       | 0.161089                | 0.049200        |
| 2010          | 0.220310                                | 0.025300     | 0.245610     | 0.080820                    | 1.081634               | 0.364291       | 0.161924                | 0.049200        |
| 2011          | 0.220310                                | 0.025300     | 0.245610     | 0.080820                    | 1.081634               | 0.384291       | 0.162423                | 0.049200        |
| 2012          | 0.224355                                | 0.026045     | 0.250400     | 0.080820                    | 1.081634               | 0.384291       | 0.164026                | 0.049200        |
| 2013          | 0.223631                                | 0.029070     | 0.252701     | 0.080820                    | 1.081634               | 0.384291       | 0.162935                | 0.049200        |
| 2014          | 0.227828                                | 0.026556     | 0.254384     | 0.080820                    | 1.081634               | 0.384291       | 0.162935                | 0.049200        |
| 2015          | 0.235468                                | 0.027286     | 0.262754     | 0.039260                    | 1.081634               | 0.399291       | 0.164094                | 0.049200        |

Source: Cameron County Appraisal District.

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

Schedule 7

| Taxpayer                             | 2015                       |      |  | 2006                       |      |  |
|--------------------------------------|----------------------------|------|--|----------------------------|------|--|
|                                      | Taxable Assessed Valuation | Rank | Percentage of Total Assessed Valuation | Taxable Assessed Valuation | Rank | Percentage of Total Assessed Valuation |
| SPI Beach Water Resort Waterpark LLC | \$ 10,882,174              | 1    | 0.42%                                  |                            |      |  |
| Agora USA LP                         | 10,738,595                 | 2    | 0.42%                                  |                            |      |  |
| Bahia Mar Tower LLC                  | 9,591,971                  | 3    | 0.37%                                  |                            |      |  |
| Sapphire VP LP (ID 526932)           | 9,000,000                  | 4    | 0.35%                                  |                            |      |  |
| Peninsula Island Resort & Spa LLC    | 8,224,739                  | 5    | 0.32%                                  |                            |      |  |
| ICS Management Company               | 8,093,443                  | 6    | 0.31%                                  | 7,457,511                  | 4    | 0.39%                                  |
| Los Corales Inc.                     | 7,332,010                  | 7    | 0.28%                                  |                            |      |  |
| Shores Development Inc.              | 7,079,339                  | 8    | 0.27%                                  |                            |      |  |
| First National Bank                  | 7,047,737                  | 9    | 0.27%                                  |                            |      |  |
| Affiliated Hospitality LLC           | 6,689,867                  | 10   | 0.26%                                  |                            |      |  |
| Playa Bonita Properties Ltd          |                            |      |  | 9,335,026                  | 1    | 0.49%                                  |
| Laguna Trust                         |                            |      |  | 8,087,723                  | 2    | 0.43%                                  |
| SSPIBR, Ltd                          |                            |      |  | 7,836,061                  | 3    | 0.41%                                  |
| AEP Texas Central Co.                |                            |      |  | 6,752,110                  | 5    | 0.36%                                  |
| Saida Royale Corporation             |                            |      |  | 6,531,728                  | 6    | 0.35%                                  |
| AEP Texas Central Co.                |                            |      |  | 6,384,998                  | 7    | 0.34%                                  |
| SPI La Copa Ltd.                     |                            |      |  | 6,383,709                  | 8    | 0.34%                                  |
| Alma Investments Inc.                |                            |      |  | 6,305,053                  | 9    | 0.33%                                  |
| Oleander Hospitality Inc.            |                            |      |  | 6,146,928                  | 10   | 0.33%                                  |
| <b>Total</b>                         | <b>\$ 84,679,875</b>       |      | <b>3.27%</b>                           | <b>\$71,220,847</b>        |      | <b>3.77%</b>                           |

Source: Cameron County Appraisal District

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 | Percentage of Levy |                    |
|-------------|---------------|----------------------------------|--|--------------------|---------------------------------|--------------------|--------------------|
|             |               |                                  | Amount                                       | Percentage of Levy |                                 | Amount             | Percentage of Levy |
| 2006        | 2005          | 4,196,142                        | 4,033,570                                    | 96.13%             | 158,998                         | 4,192,568          | 99.91%             |
| 2007        | 2006          | 4,772,418                        | 4,564,448                                    | 95.64%             | 200,276                         | 4,764,724          | 99.84%             |
| 2008        | 2007          | 5,479,052                        | 5,215,751                                    | 95.19%             | 247,227                         | 5,462,978          | 99.71%             |
| 2009        | 2008          | 6,072,211                        | 5,804,355                                    | 95.59%             | 256,087                         | 6,060,442          | 99.81%             |
| 2010        | 2009          | 6,073,653                        | 5,804,071                                    | 95.56%             | 258,930                         | 6,063,001          | 99.82%             |
| 2011        | 2010          | 6,310,281                        | 6,123,665                                    | 97.04%             | 170,460                         | 6,294,125          | 99.74%             |
| 2012        | 2011          | 6,396,519                        | 6,179,171                                    | 96.60%             | 197,800                         | 6,376,971          | 99.69%             |
| 2013        | 2012          | 6,521,119                        | 6,384,778                                    | 97.91%             | 119,124                         | 6,503,902          | 99.74%             |
| 2014        | 2013          | 6,512,667                        | 6,374,024                                    | 97.87%             | 100,166                         | 6,474,190          | 99.41%             |
| 2015        | 2014          | 6,565,849                        | 6,450,296                                    | 98.24%             | -                               | 6,450,296          | 98.24%             |

Source: Cameron County Tax Office

**TAX REVENUES BY SOURCE - GOVERNMENTAL FUNDS**

Last Ten Fiscal Years

(modified accrual basis of accounting)

| <u>Fiscal<br/>Year</u> | <u>Property<br/>Taxes</u> | <u>Sales &amp; Mixed<br/>Beverage Tax</u> | <u>Franchise<br/>Tax</u> | <u>Hotel/Motel<br/>Tax</u> | <u>Total</u> |
|------------------------|---------------------------|---|--------------------------|----------------------------|--------------|
| 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   |
| 2015                   | 6,606,286                 | 2,663,089                                 | 862,253                  | 9,332,114                  | 19,463,742   |

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 <sup>1</sup> |
|-------------|--------------------------|---|------------------------|----------------|--------------------------|-------------------------------|-------------------------|
|             | General Obligation Bonds | Combination Tax & Revenue Refunding Bonds | Tax Anticipation Notes | Capital Leases |                          |                               |                         |
| 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                   |
| 2015        | 6,855,725                | -   | 3,102,447              | 957,451        | 10,915,623               | 4.20%                         | 1,850                   |

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

<sup>1</sup> See Schedule 14 for personal income and population data.

**RATIO OF GENERAL BONDED DEBT OUTSTANDING**  
Last Ten Fiscal Years

| Fiscal<br>Year | General<br>Obligation<br>Bonds | Debt Service<br>Restricted<br>Net Assets | Net<br>Bonded<br>Debt | Percentage of<br>Actual Taxable<br>Value of<br>Property (1) | Per<br>Capita (2) |
|----------------|--------------------------------|--|-----------------------|---|-------------------|
| 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             |
| 2015           | 6,855,725                      | 386,438                                  | 6,469,287             | 0.26%   | 1,162             |

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

**DIRECT AND OVERLAPPING GOVERNMENTAL ACTIVITIES DEBT**

As of September 30, 2014

| Governmental Unit                        | Debt Outstanding | Estimated<br>Percentage<br>Applicable | Estimated<br>Share of<br>Overlapping<br>Debt |
|--|------------------|---------------------------------------|--|
| Debt repaid with property taxes          |                  |                                       |  |
| Cameron County                           | \$ 130,820,000   | 13.92%                                | \$18,210,144                                 |
| Point Isabel Independent School District | 20,776,580       | 67.95%                                | 14,117,686                                   |
| Laguna Madre Water District #1           | 14,810,000       | 73.90%                                | 10,944,590                                   |
| Texas Southmost College                  | 56,250,000       | 21.03%                                | <u>11,829,375</u>                            |
| Subtotal, overlapping debt               |                  |                                       | 55,101,795                                   |
| City direct debt                         | 9,505,000        | 100.00%                               | <u>9,505,000</u>                             |
| Total direct and overlapping debt        |                  |                                       | <u>\$64,606,795</u>                          |

**Methodology for Deriving Overlapping Percentages:**

- 1) Determine the estimated shared assessed valuation of taxable property within both the Overlapping Taxing Body(s) and your municipality;
- 2) Divide that shared value by the total assessed value of taxable property within the overlapping taxing body.

Source: The Municipal Advisory of Texas

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

| Fiscal Year | Gross Revenue<br>(1) | Operating Expenditures<br>(2) | Net Revenue Available For Debt Service | Debt Service Requirements |          |         | Coverage |
|-------------|----------------------|-------------------------------|--|---------------------------|----------|---------|----------|
|             |                      |                               |  | Principal                 | Interest | Total   |          |
| 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                              | -                         | -        | -       | -        |
| 2015        | 2,919,053            | 1,106,674                     | 1,812,379                              | -                         | -        | -       | -        |

(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

| <u>Year</u> | <u>Estimated<br/>Population</u> <sup>1</sup> | <u>Personal<br/>Income</u> | <u>Per Capita<br/>Personal<br/>Income</u> <sup>2</sup> | <u>Median<br/>Age</u> <sup>2</sup> | <u>School<br/>Enrollment</u> <sup>3</sup> | <u>Unemployment<br/>Rate</u> <sup>4</sup> |
|-------------|--|----------------------------|--|------------------------------------|---|---|
| 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%                                      |
| 2015        | 5900   | 260,048,400                | 44,076   | 60                                 | 2518                                      | 6.6%                                      |

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

Schedule 15

| Employer                       | 2015                       |      |                                  | 2006                |      |                                  |
|--------------------------------|----------------------------|------|----------------------------------|---------------------|------|----------------------------------|
|                                | Number of Employees (Peak) | Rank | Percent of Total City Employment | Number of Employees | Rank | Percent of Total City Employment |
| Schlitterbahn Beach Water Park | 1,022                      | 1    | 22.99%                           | 350                 | 1    | 5.81%                            |
| City of South Padre Island     | 288                        | 2    | 6.48%                            | 226                 | 2    | 3.75%                            |
| The Pearl Beach Resort         | 208                        | 3    | 4.68%                            |                     |      |                                  |
| Isla Grand Resort              | 181                        | 4    | 4.07%                            |                     |      |                                  |
| Louie's Backyard               | 180                        | 5    | 4.05%                            | 130                 | 7    | 2.16%                            |
| Sea Ranch Enterprises *        | 168                        | 6    | 3.78%                            | 90                  | 9    | 1.49%                            |
| Blackbeard's Restaurant        | 152                        | 7    | 3.42%                            | 180                 | 5    | 2.99%                            |
| Hilton Garden Inn              | 150                        | 8    | 3.37%                            |                     |      |                                  |
| Origins Recovery Center        | 125                        | 9    | 2.81%                            |                     |      |                                  |
| La Quinta Inn & Suites         | 120                        | 10   | 2.70%                            |                     |      |                                  |
| Sheraton Fiesta Beach Resort   |                            |      |                                  | 225                 | 3    | 3.73%                            |
| Radisson Resort                |                            |      |                                  | 200                 | 4    | 3.32%                            |
| Bahia Mar Resort               |                            |      |                                  | 150                 | 6    | 2.49%                            |
| Holiday Inn Sunspree Resort    |                            |      |                                  | 125                 | 8    | 2.07%                            |
| Cameron Parks                  |                            |      |                                  | 63                  | 10   | 1.04%                            |
| <b>Total</b>                   | <b>2,594</b>               |      | <b>58.35%</b>                    | <b>1,739</b>        |      | <b>28.85%</b>                    |

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Source: South Padre Island Economic Development Corporation

\*Includes Sea Ranch, Pier 19, and Laguna Bob's

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

| Function                            | 2006       | 2007       | 2008       | 2009       | 2010       | 2011       | 2012       | 2013       | 2014       | 2015       |
|-------------------------------------|------------|------------|------------|------------|------------|------------|------------|------------|------------|------------|
| <b>General Fund</b>                 |            |            |            |            |            |            |            |            |            |            |
| City Administration                 | 5          | 5          | 5          | 6          | 6          | 4          | 4          | 4          | 4.4        | 4.25       |
| Finance                             | 4          | 5          | 5          | 4          | 5          | 5          | 5          | 5          | 5          | 4.9        |
| Planning                            | 2          | 2          | 2          | 2          | 2          | 1.75       | 1.75       | 2          | 2          | 2          |
| Technology                          | 2          | 2          | 2          | 2          | 2          | 3          | 3          | 3.25       | 3          | 2.95       |
| Human Resources                     | 0          | 0          | 0          | 1          | 2          | 3          | 3          | 3          | 3          | 3          |
| Municipal Court                     | 2          | 2          | 2          | 2          | 3          | 2          | 2          | 2          | 2          | 2          |
| Police                              | 34         | 34         | 34         | 39         | 39         | 39         | 38         | 38         | 38         | 37.95      |
| Fire                                | 18         | 18         | 18         | 21         | 21         | 21         | 27         | 27         | 27         | 26.75      |
| Environmental Health Serv.          | 3          | 4          | 4          | 6          | 6          | 5          | 5          | 6          | 6          | 5.85       |
| Fleet Management                    | 0          | 0          | 0          | 2          | 2          | 2          | 2          | 2          | 2          | 2          |
| Building Maintenance                | 0          | 0          | 0          | 3          | 3          | 3          | 3          | 3          | 3          | 3          |
| Inspections                         | 4          | 4          | 4          | 4          | 4          | 3          | 3          | 3          | 3          | 3          |
| Public Works                        | 22         | 22         | 22         | 18         | 18         | 19         | 19         | 18         | 19         | 18.85      |
| <b>Hotel Motel Fund</b>             |            |            |            |            |            |            |            |            |            |            |
| Visitor's Center                    | 2          | 2          | 2          | 2          | 2          | 2          | 2          | 2          | 3          | 3          |
| Hotel Motel                         | 12         | 13.5       | 13         | 13         | 9.5        | 9.5        | 9.5        | 8.75       | 9.5        | 9.5        |
| Events Marketing                    | 1          | 2          | 2          | 2          | 1          | 1          | 1          | 2          | 1          | 1          |
| <b>Convention Centre</b>            |            |            |            |            |            |            |            |            |            |            |
| Convention Centre                   | 11         | 13.5       | 13         | 13         | 13.5       | 11.5       | 10.5       | 12         | 10         | 11.2       |
| <b>Transportation</b>               |            |            |            |            |            |            |            |            |            |            |
| Transportation                      | 6          | 7          | 7          | 7          | 9          | 9.25       | 15.25      | 15         | 16.1       | 19.2       |
| <b>Beach Maintenance</b>            |            |            |            |            |            |            |            |            |            |            |
| Police                              | 0          | 0          | 0          | 0          | 0          | 0          | 0          | 0          | 0          | 0.05       |
| Fire                                | 0          | 0          | 0          | 0          | 0          | 0          | 0          | 0          | 0          | 0.25       |
| Environmental Health Serv.          | 0          | 0          | 0          | 0          | 0          | 0          | 0          | 0          | 0          | 0.15       |
| Public Works                        | 0          | 0          | 0          | 0          | 0          | 0          | 0          | 0          | 0          | 0.15       |
| Beach Maintenance                   | 0          | 0          | 0          | 0          | 4          | 4          | 4          | 4          | 4          | 6          |
| <b>Total Operating Budget FTE's</b> | <b>128</b> | <b>136</b> | <b>135</b> | <b>147</b> | <b>152</b> | <b>148</b> | <b>158</b> | <b>160</b> | <b>161</b> | <b>167</b> |

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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

Schedule 17

| Function  | 2006  | 2007  | 2008   | 2009  | 2010  | 2011  | 2012  | 2013   | 2014  | 2015  |
|---|-------|-------|--------|-------|-------|-------|-------|--------|-------|-------|
| <b>Police</b>                                     |       |       |        |       |       |       |       |        |       |       |
| Physical arrests                                  | 973   | 896   | 727    | 952   | 1,002 | 1,199 | 1,454 | 1,258  | 1,246 | 1,246 |
| Parking violations                                | 1,227 | 306   | 514    | 1,643 | 2,123 | 1,897 | 1,138 | 724    | 1,435 | 793   |
| Traffic violations                                | 2,215 | 3,100 | 942    | 995   | 1,204 | 1,038 | 748   | 481    | 658   | 245   |
| Number of commissioned police officers            | 25    | 25    | 26     | 29    | 28    | 28    | 28    | 29     | 28    | 28    |
| Number of employees - police officers & civilians | 34    | 35    | 36     | 40    | 39    | 38    | 38    | 39     | 38    | 38    |
| <b>Fire</b>                                       |       |       |        |       |       |       |       |        |       |       |
| Number of calls answered                          | 928   | 1,194 | 1,420  | 1,667 | 1,783 | 1,858 | 1,964 | 2,107  | 2,243 | 2,105 |
| EMS calls   | 536   | 712   | 838    | 816   | 1,082 | 1,172 | 1,415 | 1,377  | 1,486 | 1,543 |
| Inspections                                       | 331   | 355   | 219    | 475   | 369   | 490   | 327   | 288    | 150   | 166   |
| Number of firefighters                            | 17    | 17    | 18     | 18    | 18    | 20    | 26    | 26     | 26    | 25    |
| Number of employees - firefighters & civilians    | 18    | 18    | 21     | 21    | 21    | 21    | 27    | 27     | 27    | 26    |
| <b>Streets</b>                                    |       |       |        |       |       |       |       |        |       |       |
| Street resurfacing (square yards)                 | -     | 7,040 | 16,837 | 6,956 | 8,611 | 9,032 | 7,867 | 12,050 | -     | 8,891 |
| Sidewalk construction (square yards)              | 1,160 | 647   | 220    | 693   | -     | 73    | 2,069 | 440    | 368   | 1,540 |

Source: City Departments

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

| Function/Program             | 2006  | 2007  | 2008  | 2009  | 2010  | 2011  | 2012  | 2013  | 2014  | 2015  |
|------------------------------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|
| 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 | 47.39 | 47.39 | 47.39 | 47.39 | 47.39 | 47.39 |
| City area (acres)            | 1562  | 1589  | 1640  | 1640  | 1640  | 1640  | 1527  | 1901  | 1901  | 1905  |
| Parks and recreation         |       |       |       |       |       |       |       |       |       |       |
| Playground                   | 1     | 1     | 1     | 1     | 2     | 2     | 2     | 2     | 2     | 2     |
| Parks                        | 2     | 2     | 2     | 2     | 2     | 3     | 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)   | 18    | 18    | 18    | 18    | 18    | 19    | 19    | 19    | 19    | 20    |
| Beach accesses (undeveloped) | 6     | 6     | 6     | 6     | 6     | 5     | 5     | 5     | 5     | 4     |
| Transportation               |       |       |       |       |       |       |       |       |       |       |
| Transit - minibuses          | 5     | 6     | 8     | 12    | 10    | 9     | 10    | 11    | 10    | 11    |

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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 | 167         |

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](http://www.weatherbase.com)

# **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, 2015, 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 March 3, 2016.

**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.

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

**LONG CHILTON, LLP**  
*Certified Public Accountants*

Harlingen, Texas  
March 3, 2016

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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, 2015. City of South Padre Island, Texas' major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

***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, 2015.

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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  
March 3, 2016

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**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE  
FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL  
OVER COMPLIANCE REQUIRED BY STATE OF TEXAS  
UNIFORM GRANT MANAGEMENT STANDARDS  
CHAPTER IV *TEXAS SINGLE AUDIT CIRCULAR***

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 State Of Texas Uniform Grant Management Standards Chapter IV *Texas Single Audit Circular* that could have a direct and material effect on each of City of South Padre Island, Texas' major state programs for the year ended September 30, 2015. City of South Padre Island, Texas' major state programs are identified in the summary of auditors' 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 state programs.

***Auditors' Responsibility***

Our responsibility is to express an opinion on compliance for each of City of South Padre Island, Texas' major state 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; State Of Texas Uniform Grant Management Standards Chapter IV *Texas Single Audit Circular*. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major state program occurred. An audit includes examining, on a test basis, evidence about 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 state 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 state programs for the year ended September 30, 2015.

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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 state program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major state 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 state 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 state 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 state 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 State Of Texas Uniform Grant Management Standards Chapter IV *Texas Single Audit Circular*. Accordingly, this report is not suitable for any other purpose.



**LONG CHILTON, LLP**  
*Certified Public Accountants*

Harlingen, Texas  
March 3, 2016

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City of South Padre Island, Texas  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
 For the Year Ended September 30, 2015

**Section I - Summary of Auditors' Results**

*Financial Statements*

Type of auditors' report issued: Unmodified

Internal control over financial reporting:

\* Material weakness(es) identified?                           yes                      X   no

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

Noncompliance material to financial statements noted?                           yes                      X   no

*Federal Awards*

Internal control over major programs:

\* Material weakness(es) identified?                           yes                      X   no

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

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

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

Identification of major programs:

| <i>CFDA Number(s)</i>       | <i>Name of Federal Program or Cluster</i>                   |
|-----------------------------|---|
| 20.513 and 20.516<br>11.419 | Transit Services Cluster<br>Coastal Zone Management Program |

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

Auditee qualified as low-risk auditee?                      X   yes                           no



City of South Padre Island, Texas  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS - CONTINUED**  
For the Year Ended September 30, 2015

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

**A. Significant Deficiencies in Internal Control**

*None reported.*

**B. Compliance Findings**

*None reported.*

**Section III – Federal and State Award Findings and Questioned Costs**

*None reported.*

City of South Padre Island, Texas  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS - CONTINUED**  
**SCHEDULE OF STATUS OF PRIOR AUDIT FINDINGS**  
For the Year Ended September 30, 2015

**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 AND STATE AWARDS**  
For the Year Ended September 30, 2015

| <u>Federal/State Grantor/Pass-Through Grantor/Program or Cluster Title</u> | <u>Federal CFDA Number</u> | <u>Pass-Through Entity Identifying Number</u> | <u>Expenditures</u> |
|--|----------------------------|---|---------------------|
| <b>Federal Awards</b>  |                            |   |                     |
| <b>U.S. Department of Transportation</b>                                   |                            |   |                     |
| Transit Services Programs Cluster-Cluster                                  |                            |   |                     |
| Passed-through Texas Department of Transportation                          |                            |   |                     |
| Enhanced Mobility of Seniors and Individuals with Disabilities             | 20.513                     | ED 1502                                       | 210,697             |
| Job Access And Reverse Commute Program                                     | 20.516                     | JAC 1301 (21) 76                              | <u>51,795</u>       |
| Total Transit Services Programs Cluster-Cluster                            |                            |   | 262,492             |
| Formula Grants for Rural Areas   | 20.509                     | RPT 1403                                      | 457,297             |
|  |                            | RPT 1502 (21) 39                              | 182,262             |
|  |                            | TX-18-X0136-X038                              | 165,705             |
|  |                            | RPT 1401                                      | 620,000             |
|  |                            | RPT 1404                                      | <u>194,350</u>      |
|  |                            |   | 1,619,614           |
| Total Passed-through Texas Department of Transportation                    |                            |   | <u>1,882,106</u>    |
| Total U.S. Department of Transportation                                    |                            |   | 1,882,106           |
| <b>U.S. Department of Homeland Security</b>                                |                            |   |                     |
| Passed-through Texas Department of Public Safety                           |                            |   |                     |
| Homeland Security Grant Program  | 97.067                     | 2015CO6122                                    | <u>2,643</u>        |
| Total Passed-through Texas Department of Public Safety                     |                            |   | 2,643               |
| Total U.S. Department of Homeland Security                                 |                            |   | 2,643               |
| <b>U.S. Department of Commerce</b>   |                            |   |                     |
| Passed through Texas General Land Office                                   |                            |   |                     |
| Coastal Zone Management Administration Awards                              | 11.419                     | NA14NOS4190139                                | 46,447              |
| Coastal Zone Management Administration Awards                              | 11.419                     | NA13NOS4190113                                | <u>272,828</u>      |
| Total passed through Texas General Land Office                             |                            |   | <u>319,275</u>      |
| Total Department of Commerce   |                            |   | 319,275             |
| <b>Total Expenditures of Federal Awards</b>                                |                            |   | \$ 2,204,024        |

City of South Padre Island, Texas  
**SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS - Continued**  
For the Year Ended September 30, 2015

**State Awards**

**Texas A&M Forest Service**

Texas Intrastate Fire Mutual Aid System Grant  
Assistance Program

\$ 2,585

Total Texas A&M Forest Service

2,585

**Texas Department of Transportation**

WAVE Grant Program

RUR 1502 (21)

489,428

WAVE Grant Program

RUR 1602 (21)

58,039

Total Texas Department of Transportation

547,467

**Total Expenditures of State Awards**

\$ 550,052

**Total Expenditures of Federal and State Awards**

2,754,076

City of South Padre Island, Texas  
**NOTES ON ACCOUNTING POLICIES FOR FEDERAL AND STATE AWARDS**  
For the Year Ended September 30, 2015

**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, 2015. 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 and state grant funds were accounted for in the Special Revenue Funds and within the General Fund. 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, 2015

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

Rodrigo Gimenez, Finance Director  
Darla Jones, Assistant City Manager

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