

PREPARED BY:

Town of South Padre Island
Finance Department
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Manager/Chief Financial
Officer

Town of

**South Padre
ISLAND, TEXAS**

COMPREHENSIVE ANNUAL
FINANCIAL REPORT
FOR THE FISCAL YEAR ENDED
SEPTEMBER 30, 2009

TOWN OF SOUTH PADRE ISLAND, TEXAS

COMPREHENSIVE ANNUAL
FINANCIAL REPORT

September 30, 2009

Town of South Padre Island, Texas
COMPREHENSIVE ANNUAL FINANCIAL REPORT
 For The Fiscal Year Ended September 30, 2009

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TOWN OF

South Padre

ISLAND, TEXAS

INTRODUCTORY SECTION



4601 Padre Boulevard
South Padre Island, Texas 78597

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(956) 761-3892 Fax
www.townspi.com

March 17, 2010

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

We are pleased to submit to you the Comprehensive Annual Financial Report (CAFR) of the Town of South Padre Island (Town), Texas for the fiscal year ended September 30, 2009. This report was prepared from the books and records of the Town of South Padre Island, Texas. All disclosures necessary to enable the reader to gain an understanding of the Town's financial activities have been included.

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

The Town's financial statements have been audited by Long Chilton LLP, Independent Certified Public Accountants. The goal of the independent audit was to provide reasonable assurance that the financial statements of the Town for the fiscal year ended September 30, 2009, were free of material misstatement. The independent audit involved examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; assessing the accounting principles used and significant estimates made by management; and evaluating the overall financial statement presentation. The independent auditor's report is included in this document.

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

THE REPORT

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

PROFILE OF THE TOWN

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

heads of various departments. The Mayor and the Council members serve three (3) year staggered terms and are elected at large.

MAJOR INITIATIVES

The Town is continuing to establish Community Enhancement Guidelines and appropriate ordinances to encourage harmonious and effective development throughout the Island. In October of 2008 the Town adopted the updated Comprehensive Plan. The Economic Development Corporation completed the construction of the Birding-Nature Center. All these efforts require cooperation between the Board of Aldermen, staff, committees, residents, and businesses to effectively carryout these objectives.

FACTORS AFFECTING FINANCIAL CONDITION

Local Economy

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

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

POLICIES AND PRACTICES

Internal control

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

Single Audit

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

As part of the Town's single audit, tests are made to determine the adequacy of the internal control structure, including that portion related to federal financial assistance programs, as well as to determine that the Town has complied with applicable laws and regulations. The results of the Town's single audit for the fiscal year ended September 30, 2009, identified no material weaknesses the internal control or violations of applicable laws and regulations.

OTHER INFORMATION

Independent Audit

The Town 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

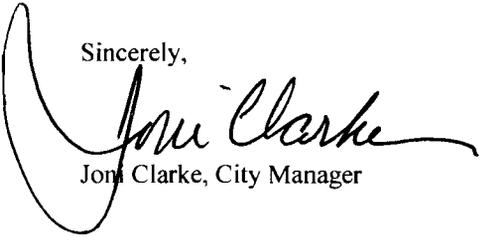
The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the Town of South Padre Island for its comprehensive annual financial report for the fiscal year ended September 30, 2008. This was the nineteenth consecutive year the Town has achieved this prestigious award. In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

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

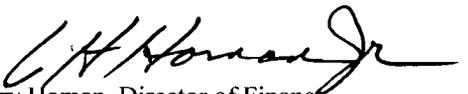
Acknowledgments

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

Sincerely,



Joni Clarke, City Manager



Larry Homan, Director of Finance

Certificate of Achievement for Excellence in Financial Reporting

Presented to

Town of South Padre Island
Texas

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
September 30, 2008

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



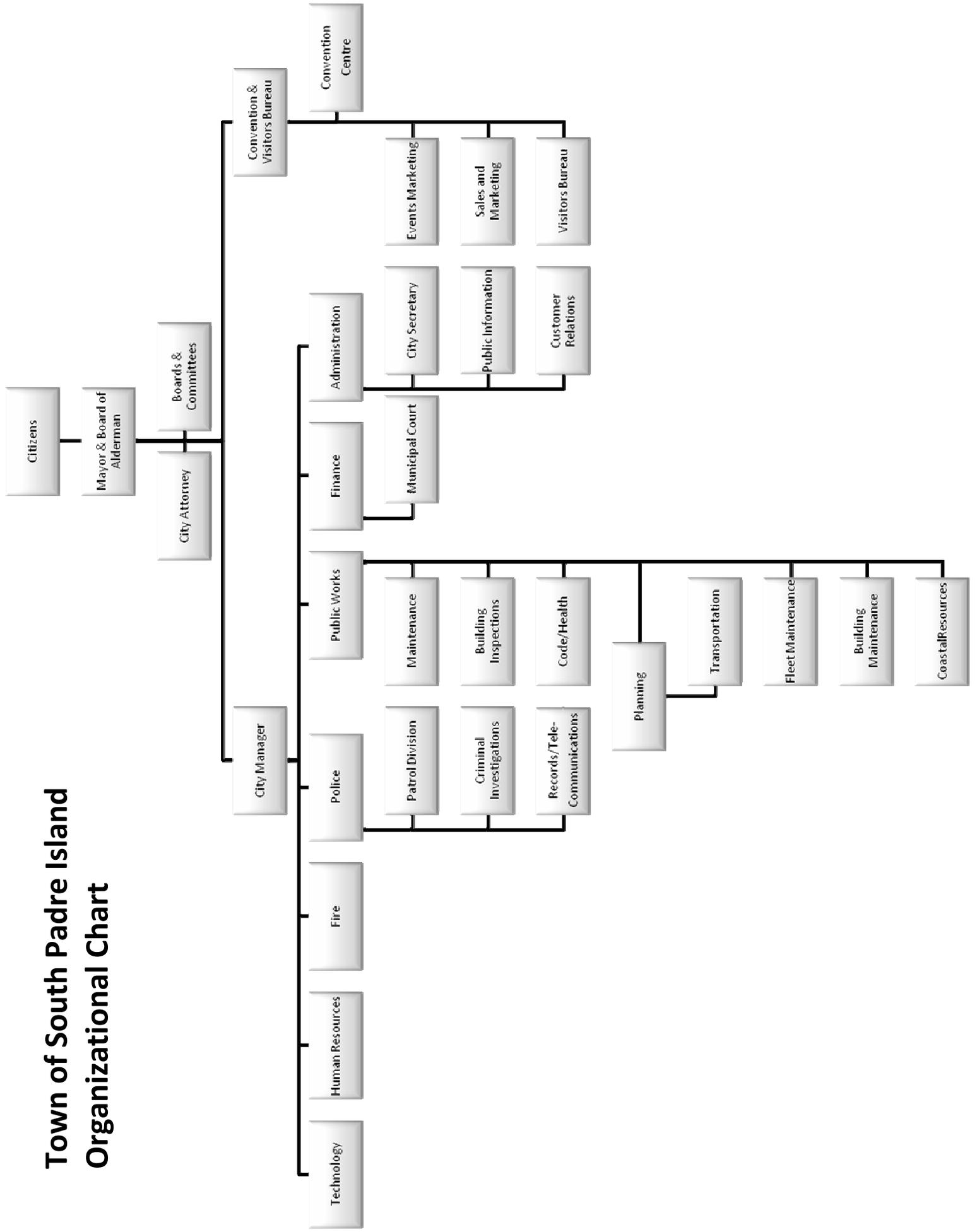
A stylized, handwritten signature in black ink, appearing to be "J.R.E.".

President

A handwritten signature in black ink that reads "Jeffrey R. Emer".

Executive Director

Town of South Padre Island Organizational Chart



Town of South Padre Island, Texas
LIST OF PRINCIPAL OFFICIALS

ELECTED OFFICIALS

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

APPOINTED OFFICIALS

<u>NAME</u>	<u>TITLE</u>
JONI CLARKE	<i>CITY MANAGER</i>
LARRY HOMAN	INTERIM ASSISTANT CITY MANAGER/CHIEF FINANCIAL OFFICER
RODRIGO GIMENEZ	FINANCE DEPARTMENT ACCOUNTANT
DAN QUANDT	EXECUTIVE DIRECTOR OF CONVENTION AND VISITOR BUREAU
JAVIER GARZA	INTERIM POLICE CHIEF
BURNEY BASKETT	FIRE CHIEF
SCOTT FRY	DIRECTOR OF PUBLIC WORKS
CHARLES ZEBROWSKI	INFORMATION TECHNOLOGY DIRECTOR
WENDY DELGADO	HUMAN RESOURCES DIRECTOR
SUSAN HILL	CITY SECRETARY
PAUL Y. CUNNINGHAM, JR.	CITY ATTORNEY
DAVID COLWELL	MUNICIPAL COURT JUDGE

TOWN OF
South Padre
ISLAND, TEXAS

FINANCIAL SECTION

INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying financial statements of the governmental activities, the aggregate discretely presented component unit, each major fund and the aggregate remaining fund information of the Town of South Padre Island ("the Town") as of and for the year ended September 30, 2009, which collectively comprise the Town's basic financial statements as listed in the Table of Contents. These basic financial statements are the responsibility of the Town of South Padre Island, Texas' management. Our responsibility is to express an opinion on these financial statements based on our audit. The prior year, partial and summarized comparative information has been derived from the Town's 2008 financial statements and, in our report dated April 29, 2009, we expressed unqualified opinions on the respective financial statements of the governmental activities, the aggregate discretely presented component unit, each major fund, and the aggregate remaining fund information.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Town's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the aggregate discretely presented component unit, each major fund and the aggregate remaining fund information of the Town of South Padre Island, Texas at September 30, 2009, and the respective changes in financial position for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated March 8, 2010 on our consideration of the Town of South Padre Island, Texas' internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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Management's Discussion and Analysis on pages 15 through 23, budgetary comparison schedules for major funds and information on the Texas Municipal Retirement System on pages 60 through 65 are not a required part of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Town of South Padre Island, Texas' basic financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by the U. S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments and Nonprofit Organizations*, and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

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



LONG CHILTON, LLP
Certified Public Accountants

Harlingen, Texas
March 8, 2010

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Management's Discussion and Analysis

As management of the Town of South Padre Island (the Town), we offer readers of the Town's financial statements this narrative overview and analysis as of September 30, 2009. We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in our letter of transmittal, which can be found on pages 5-7 of this report.

Financial Highlights

- The assets of the Town of South Padre Island exceeded its liabilities at the close of the most recent fiscal year by \$29,654,273 (net assets). Of this amount, \$10,088,864 (unrestricted net assets) may be used to meet the government's ongoing obligations to citizens and creditors.
- Total net assets for the Town of South Padre Island increased by \$3,256,837 during the fiscal year.
- As of the close of the current fiscal year, the Town of South Padre Island governmental funds reported combined ending fund balances of \$10,760,158. Approximately 93% of this amount, \$9,995,726 is available for spending at the government's discretion (unreserved fund balance).
- At the end of the current fiscal year, unreserved fund balance for the general fund was \$6,477,049.
- The Town of South Padre Island's total debt decreased by \$1,160,000 during the current fiscal year. This decrease was due to the retirement of debt during the fiscal year.

Overview of the Financial Statements

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

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

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

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

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

The government-wide financial statements include not only the Town of South Padre Island itself (known as the primary government), but also a legally separate Economic Development Corporation for which the Town of South Padre Island is financially accountable. Financial information for this component unit is reported separately from the financial information presented for the primary government itself.

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

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

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

The Town of South Padre Island maintains 18 individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the General Fund, the Hotel/Motel Fund, the Convention Centre Fund and the Hurricane Recovery Fund all of which are considered to be major funds. Data for the other governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these non-major governmental funds is provided in the form of combining statements elsewhere in this report.

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

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

Government-wide Financial Analysis

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

Table 1
NET ASSETS
September 30
(in thousands)

	<u>Total Governmental Activities</u> <u>2009</u>	<u>Total Governmental Activities</u> <u>2008</u>
<u>ASSETS</u>		
Current and other assets	\$14,540	\$13,165
Capital assets	25,272	22,141
Total assets	<u>39,812</u>	<u>35,576</u>
<u>LIABILITIES</u>		
Long-term liabilities outstanding	6,879	7,853
Other liabilities	3,279	1,326
	<u>10,158</u>	<u>9,179</u>
<u>NET ASSETS</u>		
Invested in capital assets, net of related debt	19,257	15,237
Restricted	308	1,001
Unrestricted	10,089	10,160
Total net assets	<u>\$29,654</u>	<u>\$26,397</u>

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the Town of South Padre Island, assets exceeded liabilities by \$29,654,273 at the close of the most recent fiscal year.

A large portion of the Town's net assets (65%) reflects its investment in capital assets (e.g., land, buildings, machinery, and equipment), less any related debt used to acquire those assets that is still outstanding. The Town uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the Town's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

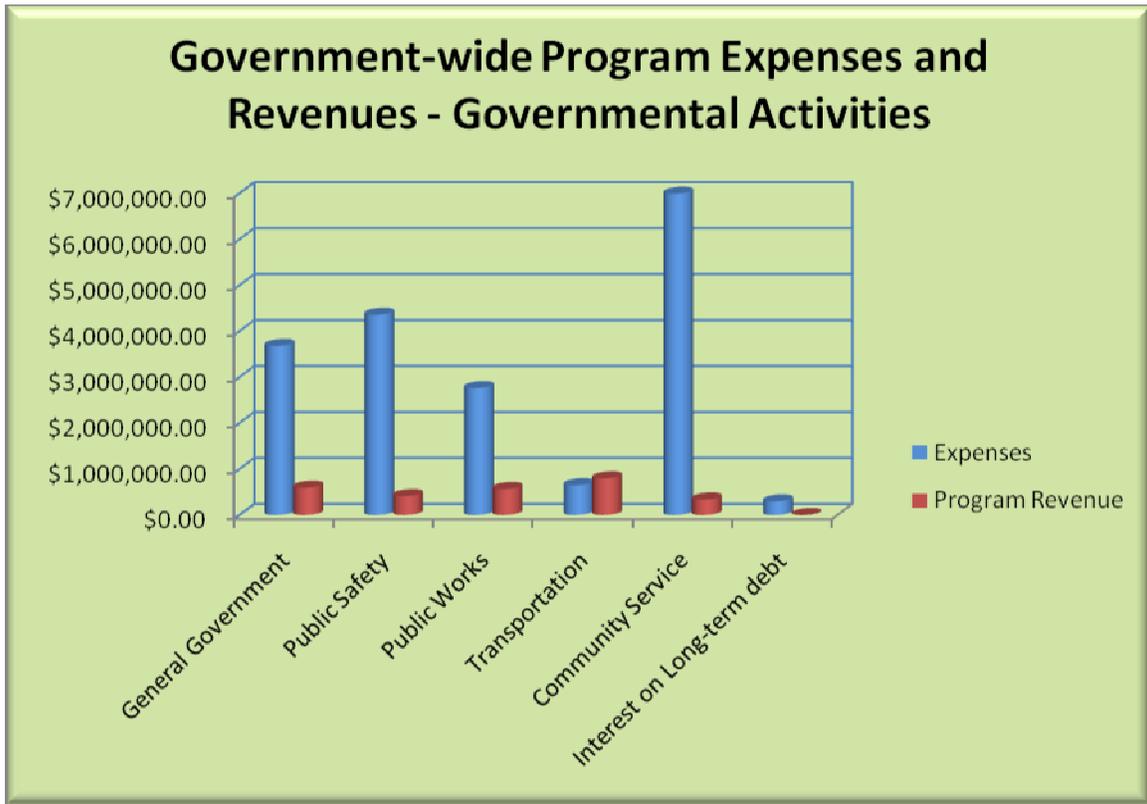
At the end of the current fiscal year, the Town of South Padre Island is able to report a positive balance of net assets for the government as a whole, although the Hotel Motel Fund reports a negative balance.

Changes in Net Assets. Governmental activities increased the Town's net assets by \$3,256,837, thereby accounting for all of the total growth in the net assets of the Town of South Padre Island. Key elements of this increase are an increase in property tax revenue, sales tax revenue and insurance recoveries revenues. Due to increase in property values and new construction, property tax revenue saw over a 11% increase. Insurance proceeds for hurricane damages were received during this fiscal period creating a significant increase in revenues. Finally, interest earnings saw a decrease due to the decline in market interest rates during the fiscal year.

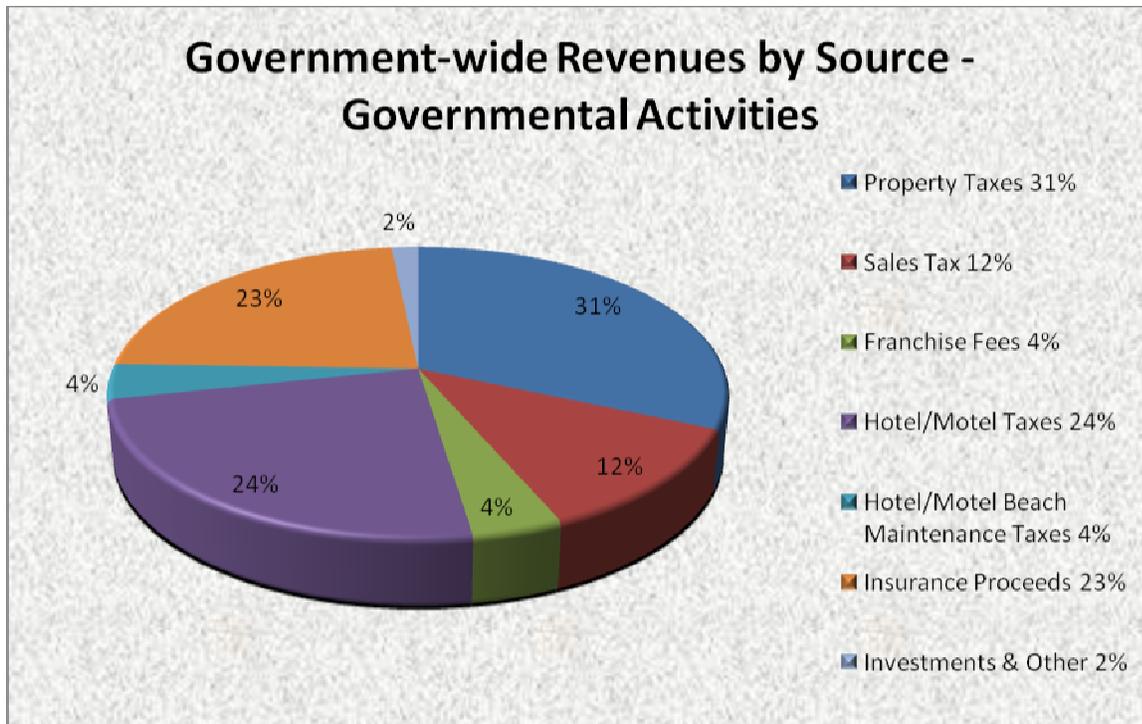
Table 2
Changes in Net Assets

	Total Governmental Activities	Total Governmental Activities
	2009	2008
Program Revenues:		
Charges for Services	\$1,086,485	\$1,082,474
Operating Grants & Contributions	1,373,380	843,668
Capital Grants & Contributions	249,808	234,310
General Revenues:		
Property Tax	6,089,968	5,483,386
Sales Tax	2,295,465	1,965,363
Franchise Tax	792,501	792,992
Hotel Motel Tax	4,638,099	4,610,239
Hotel Motel Beach Mtn. Tax	751,950	630,474
Gain on Sale of Fixed Assets	14,234	1,485,785
Insurance Recoveries	4,401,118	0
Interest & Other	300,492	625,547
Total Revenues	<u>21,993,500</u>	<u>17,754,238</u>
Program Expenses:		
General Government	3,680,425	3,668,745
Public Safety	4,358,811	4,106,050
Public Works	2,761,388	2,090,705
Transportation	647,664	1,129,802
Community Service	6,992,455	6,852,646
Interest on long-term debt	295,920	340,220
Total Expenses	<u>18,736,663</u>	<u>18,188,168</u>
Increase (decrease) in net assets	3,256,837	(433,930)
Beginning Net Assets	<u>26,397,436</u>	<u>26,831,366</u>
Ending Net Assets	<u>\$29,654,273</u>	<u>\$26,397,436</u>

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



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



Financial Analysis of the Government's Funds

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

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

As of the end of the current fiscal year, the Town of South Padre Island's governmental funds reported combined ending fund balances of \$10,760,158, a decrease of \$541,725 in comparison with the prior year. Approximately 93 %, or \$9,995,726, constitutes unreserved fund balance, which is available for spending at the government's discretion. Portions of this fund balance even though unreserved are designated for specific purposes. \$3,040,415 is designated for special revenue funds and \$478,262 is designated for capital projects funds. The remainder of the fund balance, \$764,432 is reserved and is not available for new spending because it has already been committed to pay for debt service, beach maintenance and prepaid expenditures.

The General Fund is the chief operating fund of the Town. At the end of the current fiscal year, unreserved fund balance of the General Fund was \$6,477,049, while total fund balance reached \$6,512,141. As a measure of the general fund's liquidity, it may be useful to compare both unreserved fund balance and total fund balance to total fund expenditures.

Unreserved fund balance represents 70.5% of total general fund expenditures, while total fund balance represents 70.9% of that same amount.

The fund balance of the Town General Fund increased by \$706,641 during the current fiscal year. Key factors in this increase are as follows:

- Property tax revenues in the General Fund increased by \$695,562 as a result of increasing assessed value and new construction growth.
- Sales tax revenues increased by \$340,543
- Intergovernmental revenue decreased \$303,470 due to a grant for the construction of medians received in the prior year.

The Hotel Motel Fund is used to account for occupancy tax collections used for tourism, advertising and promotion. Effective July 2009, the occupancy tax rate increased from 7% to 8.5%. 5.28% of this rate is allocated to the Hotel Motel Fund, 2.72% is allocated to the Convention Centre Fund and 0.5% is allocated to the Beach Nourishment Fund. At the end of the current fiscal year, the Hotel Motel Fund has a negative fund balance of (\$455,730).

The fund balance of the Hotel Motel Fund decreased by \$1,041,782 during the current fiscal year. Key factors in this decrease are as follows:

- Hotel Motel tax revenues were less than budgeted approximately by \$820,000. The current economic conditions of the country are decidedly negative and it is clearly reflected in these revenues. Furthermore, many hotels and for-rent condominiums were still damaged from Hurricane Dolly and not available for rentals for a considerable period of time.
- Expenditures associated with media advertising were over budget in the current year by approximately \$200,000.

The Convention Centre Fund is used to account for occupancy tax collections used for Convention Centre operations. At the end of the current fiscal year, unreserved fund balance of the Convention Centre Fund was \$1,875,512, while total fund balance reached \$1,900,187. Unreserved fund balance represents 168% of total Convention Centre expenditures. The fund balance for the Convention Centre decreased by \$51,112

General Fund budgetary highlights

The original budget of the General Fund was amended six times during fiscal year 2009 by a net of \$350,000. Expenditures were increased by \$350,000. Of this amount, \$74,500 was transferred to the Municipal Complex Fund to pay construction's costs; \$15,000 was for the cost of the 81st Legislature's tour of the Lower Rio Grande Valley, \$20,000 for the relocation of the Automated Weather Observing System (AWOS) to the Helipad, \$48,000 for employee turnovers, \$16,218 was for equipment for the Fire Department and \$154,382 for the elimination of a projected vacancy factor.

During the year, revenues were \$585,565 higher than budgeted. Revenues associated with Fire Protection Services Contract with the Cameron County were higher than budgeted by \$104,305. An increase in property taxes and sales tax also contributed to this increase.

Other Fund budgetary highlights

The Street Improvement Fund budget was amended one time in the amount of \$42,088 for the placement of Traffic Calming Devices.

Capital Asset and Debt Administration

Capital Assets. The Town’s investment in capital assets for its governmental activities as of September 30, 2009 amounts to \$25,272,279 (net of accumulated depreciation). This investment in capital assets includes land, buildings, equipment, streets and construction in progress. Additional information on capital assets can be found in Note E. Capital asset balances are as follows:

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

	Total Governmental Activities 2009	Total Governmental Activities 2008
Land	1,497,793	\$1,497,793
Construction in progress	0	0
Buildings	15,718,192	13,270,339
Improvements	218,856	421,049
Furniture and equipment	2,910,962	2,558,237
Infrastructure	4,926,476	4,664,289
Total net assets	\$25,272,279	\$22,411,797

Long-term debt. At the end of the current fiscal year, the Town had total bonded debt outstanding of \$6,015,000. The table below reflects the outstanding debt at September 30. Additional information can be found in Note G. The Town’s outstanding bonds underlying rating is “A+” by Standard and Poor’s Rating Service.

**Outstanding Debt
September 30**

	Total Governmental Activities 2009	Total Governmental Activities 2008
General Obligation Bonds	\$4,255,000	\$4,440,000
Revenue Bonds	785,000	1,540,000
Tax Anticipation Notes	975,000	1,195,000
Other Obligations	-	-
	\$6,015,000	\$7,175,000

- The Town’s total outstanding debt decreased, by \$1,160,000 during the current fiscal year. This decrease is the repayment of principal.

Economic Factors and Next Year's Budgets and Rates

All of these factors were considered in preparing the Town's budget for the 2009-2010 fiscal year.

Certified property tax values for the Town increased by 2.05% from the preceding year and tax rates stayed constant at a rate of 24.561 cents per hundred. The tax rate has been split with .219310 for maintenance and operations and .0263000 for interest and sinking fund for the retirement of the tax anticipation note and the general obligation bond. Sales tax has been increasing in past years and an increase of 16.67% over last year's budget was accounted for.

Overall, the General Fund is budgeted to end fiscal year 2009-2010 with an estimated fund balance of \$6,019,887. This is approximately 65.9% of General Fund budgeted expenditures.

Requests for Information

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

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

	Primary Government Total	Component Unit
ASSETS	Governmental Activities	
Cash and cash equivalents	\$ 4,023,701	\$ 717,727
Investments	7,644,835	-
Receivables, net	1,985,994	-
Due from component units	2,540	290
Due from other governments	690,295	71,780
Prepaid expenses	79,338	239,881
Bond issue costs	113,465	60,200
Capital assets, net		
Non-depreciable assets	1,497,793	657,236
Depreciable assets	23,774,486	6,194,634
 TOTAL ASSETS	 \$ 39,812,447	 \$ 7,941,748
LIABILITIES AND NET ASSETS		
Liabilities		
Accounts payable	\$ 3,107,152	\$ -
Other liabilities	106,307	1,793
Due to primary government	-	2,540
Due to component unit	-	290
Unearned revenues	65,918	-
Non-current liabilities		
Due within one year	1,544,809	100,000
Due in more than one year	5,333,988	5,021,192
Total liabilities	10,158,174	5,125,815
Net assets		
Invested in capital assets, net of related debt	19,257,279	1,730,678
Restricted	308,130	648,944
Unrestricted	10,088,864	436,311
	29,654,273	2,815,933
 TOTAL LIABILITIES AND NET ASSETS	 \$ 39,812,447	 \$ 7,941,748

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

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

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

General revenues:

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

Net assets - beginning

Net assets - ending

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

Program Revenues	Net (Expense) Revenue and Changes in Net Assets	
	Primary Government	Component Unit
Capital Grants and Contributions	Total Governmental Activities	
\$ -	\$ (3,085,783)	\$ -
-	(3,946,179)	-
249,808	(2,194,547)	-
-	150,424	-
-	(6,654,985)	-
-	(295,920)	-
<u>249,808</u>	<u>(16,026,990)</u>	<u>-</u>
426,571	-	(142,742)
-	-	(229,023)
<u>\$ 426,571</u>	<u>\$ -</u>	<u>\$ (371,765)</u>
	5,433,571	-
	656,397	-
	2,295,465	699,973
	792,501	-
	4,638,099	-
	751,950	-
	198,941	14,508
	14,234	-
	4,401,118	-
	101,551	-
	<u>19,283,827</u>	<u>714,481</u>
	3,256,837	342,716
	<u>26,397,436</u>	<u>2,473,217</u>
	<u>\$ 29,654,273</u>	<u>\$ 2,815,933</u>

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

	Primary Government Total	Component Unit
ASSETS	Governmental Activities	
Cash and cash equivalents	\$ 7,059,801	\$ 2,458,629
Investments	4,063,222	-
Receivables, net	606,308	-
Due from primary government	-	1,160
Due from component units	225,489	-
Inventories	9,329	-
Due from other governments	811,479	83,646
Prepaid expenses	265,065	194,140
Bond issue costs	123,942	63,741
Capital assets, net		
Non-depreciable assets	1,497,793	5,295,213
Depreciable assets	20,914,004	2,781
 TOTAL ASSETS	 \$ 35,576,432	 \$ 8,099,310
LIABILITIES AND NET ASSETS		
Liabilities		
Accounts payable	\$ 1,136,539	\$ 199,508
Other liabilities	124,043	1,096
Due to primary government	-	225,489
Due to component unit	1,160	-
Unearned revenues	64,659	-
Non-current liabilities		
Due within one year	1,485,000	80,000
Due in more than one year	6,367,595	5,120,000
Total liabilities	9,178,996	5,626,093
Net assets		
Invested in capital assets, net of related debt	15,236,797	97,994
Restricted	1,000,669	628,162
Unrestricted	10,159,970	1,747,061
	26,397,436	2,473,217
 TOTAL LIABILITIES AND NET ASSETS	 \$ 35,576,432	 \$ 8,099,310

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

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

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

General revenues:

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

Net assets - beginning

Net assets - ending

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

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

Town of South Padre Island, Texas
BALANCE SHEET
GOVERNMENTAL FUNDS
September 30, 2009

	General Fund	Hotel Motel Fund	Convention Centre Fund	Hurricane Recovery Fund	Other Governmental Funds	Total Governmental Funds
ASSETS						
Cash and cash equivalents	\$ 593,993	\$ 545,341	\$ 630,095	\$ 192,423	\$ 2,061,849	\$ 4,023,701
Investments	7,644,835	-	-	-	-	7,644,835
Receivables (net of allowance for uncollectibles)						
Taxes	418,130	-	-	-	52,096	470,226
Accounts	71,964	201,515	119,503	956,364	166,422	1,515,768
Due from other governments	208,902	-	-	-	481,393	690,295
Due from other funds	236,593	-	1,197,963	970,362	3,667	2,408,585
Due from component unit	2,540	-	-	-	-	2,540
Prepaid items	35,092	12,716	24,675	-	6,855	79,338
TOTAL ASSETS	\$9,212,049	\$ 759,572	\$1,972,236	\$2,119,149	\$ 2,772,282	\$16,835,288
LIABILITIES AND FUND BALANCES						
Liabilities						
Accounts payable	\$1,300,201	\$ 42	\$ 406	\$1,780,628	\$ 25,875	\$ 3,107,152
Due to other funds	970,362	1,207,244	708	-	230,271	2,408,585
Other liabilities	85,827	8,016	5,335	-	7,129	106,307
Deferred revenues	343,518	-	65,600	-	43,968	453,086
Total liabilities	2,699,908	1,215,302	72,049	1,780,628	307,243	6,075,130
Fund balance						
Reserved for						
Debt service	-	-	-	-	376,964	376,964
Beach maintenance	-	-	-	-	308,130	308,130
Prepaid expenditures	35,092	12,716	24,675	-	6,855	79,338
Unreserved, reported in non-major funds						
Special revenue funds	-	(468,446)	1,875,512	-	1,633,349	3,040,415
Capital projects funds	-	-	-	338,521	139,741	478,262
Unreserved	6,477,049	-	-	-	-	6,477,049
Total fund balances	6,512,141	(455,730)	1,900,187	338,521	2,465,039	10,760,158
TOTAL LIABILITIES AND FUND BALANCE	\$9,212,049	\$ 759,572	\$1,972,236	\$2,119,149	\$ 2,772,282	\$16,835,288

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

Town of South Padre Island, Texas
**RECONCILIATION OF THE BALANCE SHEET OF THE GOVERNMENTAL FUNDS
 TO THE STATEMENT OF NET ASSETS**
 September 30, 2009

Fund balances of governmental funds	\$ 10,760,158
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Amounts reported for *governmental activities* in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	25,272,279
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Some liabilities, including bonds payable, are not due in the current period and therefore not reported in the funds.	(6,015,000)
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Liabilities for compensated absences are not due in the current period and therefore are not reported in the funds	(791,940)
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Bond issue costs are expensed during the period incurred in the funds, but are amortized as an adjustment to interest expense in the statement of activities over the remaining life of the debt.	113,465
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Other long-term assets are not available to pay for current period expenditures and therefore are deferred in the funds.	387,168
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Liabilities for net pension obligations are not due in the current period and therefore are not reported in the funds	<u>(71,857)</u>
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Net assets of governmental activities	<u><u>\$ 29,654,273</u></u>
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The notes of the financial statements are an integral part of this statement.

Town of South Padre Island, Texas
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
For the Year Ended September 30, 2009

	General Fund	Hotel Motel Fund	Convention Centre Fund	Hurricane Recovery Fund	Other Governmental Funds	Total Governmental Funds
REVENUES						
Property taxes	\$ 5,458,812	\$ -	\$ -	\$ -	\$ 656,397	\$ 6,115,209
Nonproperty taxes	3,087,966	3,080,724	1,557,375	-	751,939	8,478,004
Fees and services	30,000	29,913	293,632	-	-	353,545
Fines and forfeitures	284,060	-	-	-	11,930	295,990
Licenses and permits	322,645	-	-	-	-	322,645
Intergovernmental	40,372	-	-	249,808	766,587	1,056,767
Miscellaneous and program revenues	<u>318,228</u>	<u>567</u>	<u>16,683</u>	<u>447</u>	<u>645,304</u>	<u>981,229</u>
Total revenues	9,542,083	3,111,204	1,867,690	250,255	2,832,157	17,603,389
EXPENDITURES						
Current						
General government	2,881,385	-	-	89,432	153,378	3,124,195
Public safety	4,096,742	-	-	-	4,505	4,101,247
Public works	1,611,644	-	-	-	544,704	2,156,348
Transportation	-	-	-	-	552,966	552,966
Community service	330,104	4,102,986	1,099,504	-	832,168	6,364,762
Debt service						
Principal retirement	-	-	-	-	1,160,000	1,160,000
Interest	-	-	-	-	285,443	285,443
Capital outlay	<u>268,518</u>	<u>-</u>	<u>11,476</u>	<u>3,741,365</u>	<u>794,901</u>	<u>4,816,260</u>
Total expenditures	<u>9,188,393</u>	<u>4,102,986</u>	<u>1,110,980</u>	<u>3,830,797</u>	<u>4,328,065</u>	<u>22,561,221</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES						
	353,690	(991,782)	756,710	(3,580,542)	(1,495,908)	(4,957,832)
Other financing sources (uses)						
Sale of capital assets	14,989	-	-	-	-	14,989
Insurance Proceeds	-	-	-	4,401,118	-	4,401,118
Transfers out	(212,700)	(50,000)	(807,822)	-	(1,300,662)	(2,371,184)
Transfers in	<u>550,662</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,820,522</u>	<u>2,371,184</u>
Total other financing sources (uses)	<u>352,951</u>	<u>(50,000)</u>	<u>(807,822)</u>	<u>4,401,118</u>	<u>519,860</u>	<u>4,416,107</u>
Net change in fund balances	706,641	(1,041,782)	(51,112)	820,576	(976,048)	(541,725)
Fund balance -- beginning	<u>5,805,500</u>	<u>586,052</u>	<u>1,951,299</u>	<u>(482,055)</u>	<u>3,441,087</u>	<u>11,301,883</u>
Fund balance -- ending	<u>\$ 6,512,141</u>	<u>\$ (455,730)</u>	<u>\$ 1,900,187</u>	<u>\$ 338,521</u>	<u>\$ 2,465,039</u>	<u>\$ 10,760,158</u>

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

Town of South Padre Island, Texas
**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCE OF THE GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES**
For the Year Ended September 30, 2009

Net change in fund balances --total governmental funds \$ (541,725)

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

Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays (\$4,816,260) exceeded depreciation, (\$1,955,023) in the current period. 2,861,237

In the statement of activities, only the gain (loss) on the sale of assets is reported, whereas in the funds, the proceeds from the sale increase financial resources. Thus, the change in net assets differs from the change in fund balance by the book value of the assets sold. (755)

Bond issue costs reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds. This is the amount by which current year bond issue costs incurred exceed current year amortization of bond issue costs (\$10,477). (10,477)

Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets. 1,160,000

The change in compensated absences payable during the year is reported as an increase or decrease to expenditures in the statement of activities but not in the governmental funds. (114,345)

The change in Net Pension Obligation during the year is reported as an increase or decrease to expenditures in the statement of activities but not in the governmental funds. (71,857)

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds (25,241)

Change in net assets of governmental activities \$ 3,256,837

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

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TOWN OF

South Padre

ISLAND, TEXAS

NOTES TO FINANCIAL STATEMENTS

Town of South Padre Island, Texas
NOTES TO FINANCIAL STATEMENTS
September 30, 2009

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

1. *Reporting Entity*

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

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

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

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

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

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

2. *Government-Wide and Fund Financial Statements*

Government-wide Financial Statements

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

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

Town of South Padre Island, Texas
NOTES TO FINANCIAL STATEMENTS – CONTINUED
September 30, 2009

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

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

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

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

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

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

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

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

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

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

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

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

Town of South Padre Island, Texas
NOTES TO FINANCIAL STATEMENTS – CONTINUED
September 30, 2009

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

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

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

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

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

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

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

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

4. *Assets, Liabilities and Equity*

a. Cash and Cash Equivalents

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

Town of South Padre Island, Texas
NOTES TO FINANCIAL STATEMENTS – CONTINUED
September 30, 2009

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

4. *Assets, Liabilities and Equity- Continued*

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

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

c. Inventories

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

d. Prepaid Items

Expenditures made to third party vendors for goods and services that will benefit periods beyond September 30, 2009 are recorded as prepaid items, in both governmental and fund financial statements.

e. Capital Assets

Capital assets, which includes property, plant, equipment and infrastructure assets (e.g., roads, bridges, sidewalks and similar items), are reported in the governmental activities column in the government-wide financial statements. In 2008 the Town changed its definition of capital assets as assets with an initial, individual cost of \$5,000 or more and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated assets are reflected at estimated fair market value at the date of donation.

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

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

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

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

Town of South Padre Island, Texas
NOTES TO FINANCIAL STATEMENTS – CONTINUED
September 30, 2009

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

4. *Assets, Liabilities and Equity - Continued*

f. Compensated Absences

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

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

g. Long-Term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the governmental activities column. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

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

h. Fund Equity

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

i. Bond Discounts/Issue Costs

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

j. Loans to Other Funds/Component Units

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

Town of South Padre Island, Texas
NOTES TO FINANCIAL STATEMENTS - CONTINUED
September 30, 2009

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

4. *Assets, Liabilities and Equity - Continued*

k. Comparative Data

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

l. Estimates

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

m. Income Taxes

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

n. Interfund Transfers

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

NOTE B - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

1. *Budgetary Information*

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

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

Town of South Padre Island, Texas
NOTES TO FINANCIAL STATEMENTS - CONTINUED
September 30, 2009

NOTE B - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY - Continued

1. *Budgetary Information – Continued*

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

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

During fiscal year 2009, various transfers of appropriations were made for the Governmental Funds. The original and final amended budget are presented in the Required Supplementary Information for the General Fund and major Special Revenue Funds (Hotel/Motel and Convention Centre Funds), that have adopted a budget.

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

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

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

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

2. *Deficit Fund Equity*

A deficit balance in unrestricted net assets/fund balance occurred in the following fund for the year ended September 30, 2009 by the indicated amounts:

Hotel/Motel Fund	<u>\$(455,730)</u>
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This deficit fund balance will be covered by the Convention Center fund.

Town of South Padre Island, Texas
NOTES TO FINANCIAL STATEMENTS - CONTINUED
September 30, 2009

NOTE C - CASH AND INVESTMENTS

It is the Town's policy for deposits plus accrued interest thereon to be 102% secured by collateral valued at fair value, less the amount of the Federal Deposit Insurance Corporation insurance. During the year ended September 30, 2009, the Town's cash deposits were covered by federal deposit insurance or were secured by collateral held by the Town's agent in the Town's name pursuant to the Town's investment policy and its depository agreement.

Investments

Investments at fair value, including accrued interest, as of September 30, 2009 are as follows:

	<u>Investment Maturities (in years)</u>		Greater than 1 year
	<u>Fair Value</u>	<u>1 or less</u>	
Primary Government			
Cash and cash equivalents	\$ 3,236,493	\$ 3,236,493	\$ -
TexPool	673,868	673,868	-
Texas Term	<u>113,340</u>	<u>113,340</u>	-
	4,023,701	4,023,701	-
Investments			
Certificates of deposit	<u>7,644,835</u>	<u>6,121,623</u>	<u>1,523,212</u>
	<u>\$11,668,536</u>	<u>\$10,145,324</u>	<u>\$ 1,523,212</u>
Component Unit			
Cash and cash equivalents	\$ 571,737	\$ 571,737	\$ -
TexPool	<u>145,990</u>	<u>145,990</u>	-
	<u>\$ 717,727</u>	<u>\$ 717,727</u>	<u>\$ -</u>

A reconciliation of cash and investments follows:

	<u>Primary Government Governmental Activities</u>	<u>Component Units</u>	<u>Total</u>
Cash	\$ 3,236,493	\$ 571,737	\$ 3,808,230
Cash equivalents			
Texas Term	113,340	145,990	259,331
TexPool	<u>673,868</u>	<u>-</u>	<u>673,868</u>
	787,208	145,990	933,198
Investments			
Certificates of deposit	<u>7,644,835</u>	<u>-</u>	<u>7,644,835</u>
	<u>\$11,668,536</u>	<u>\$ 717,727</u>	<u>\$12,386,263</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 Town manages its exposure to interest rate risk is by purchasing a combination of shorter term and longer term investments and by timing cash flows from maturities so that a portion of the portfolio is maturing or coming close to maturity evenly over time as necessary to provide the cash flows and liquidity needed for operations.

Town of South Padre Island, Texas
NOTES TO FINANCIAL STATEMENTS - CONTINUED
September 30, 2009

NOTE C - CASH AND INVESTMENTS – Continued

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

<u>Description</u>	<u>Rate</u>	<u>Amount</u>	<u>Maturity</u>	<u>Days</u>
Certificate of deposit	1.40%	\$ 522,563	March 15, 2011	531
Certificate of deposit	2.93%	\$ 522,724	November 24, 2009	55
Certificate of deposit	2.25%	\$1,030,416	March 17, 2010	168
Certificate of deposit	3.25%	\$2,065,977	March 17, 2010	168
Certificate of deposit	1.67%	\$1,000,649	March 10, 2011	526
Certificate of deposit	0.70%	\$ 500,297	March 1, 2010	152
Certificate of deposit	1.30%	\$2,002,209	August 31, 2010	335

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

Credit Risk

As of September 30, 2009, the investments in TexPool and Texas Term investment risk pools were rated AAAM and AA Af by Standard and Poor’s, respectively.

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

Public Funds Investment Pools

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

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

Town of South Padre Island, Texas
NOTES TO FINANCIAL STATEMENTS - CONTINUED
September 30, 2009

NOTE C - CASH AND INVESTMENTS – Continued

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

Concentration of Credit Risk

The TexPool and Texas Term risk pools holdings at September 30, 2009 represents 49% of the total portfolio, and Certificates of Deposit holds the remaining 51%. The investment policy is silent in the concentration of holding in the various types of securities and investments.

NOTE D - PROPERTY TAXES

The assessed value for the tax roll as of January 1, 2008 upon which the 2008 levy was based, was \$2,533,597,339. State statutes require that all assessments be made on one hundred percent (100%) of fair market value.

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

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

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

The Town is permitted by the Municipal Finance Law of Texas to levy taxes up to \$1.50 per \$100 of assessed valuation for general governmental services other than the payment of principal and interest on long-term debt and in unlimited amounts for the payment of principal and interest on long-term debt. The combined tax rate to finance general governmental service and the payment of principal and interest on long-term debt for the year ended September 30, 2009, was \$.24561 per \$100.

The Town Charter provides for taxes to become due on October 1st of the year of levy and shall be paid by January 31st of the following year. Liens for unpaid taxes go into effect on July 1st as the taxes become delinquent. Current tax collections for the year ended September 30, 2009, were 95.4 percent of the tax levy.

Town of South Padre Island, Texas
NOTES TO FINANCIAL STATEMENTS - CONTINUED
September 30, 2009

NOTE E - RECEIVABLES

Receivables at September 30, 2009, consist of the following:

	Primary Government					Total
	General	Hotel/Motel Tax	Convention Center	Hurricane Recovery	Other Governmental Funds	
Receivables						
Taxes	\$440,137	\$ -	\$ -	\$ -	\$ 54,838	\$ 494,975
Accounts	<u>71,964</u>	<u>201,515</u>	<u>119,503</u>	<u>956,364</u>	<u>166,422</u>	<u>1,515,768</u>
Gross receivables	512,101	201,515	119,503	956,364	221,260	2,010,743
Less allowance for uncollectibles	<u>(22,007)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(2,742)</u>	<u>(24,749)</u>
Net total receivables	<u>\$490,094</u>	<u>\$201,515</u>	<u>\$119,503</u>	<u>\$956,364</u>	<u>\$218,518</u>	<u>\$1,985,994</u>

NOTE F - DUE FROM OTHER GOVERNMENTS

Due from other governments at September 30, 2009 consist of the following:

	Primary Government				Component Unit
	General	Transportation	Beach Maintenance	Total	
Texas State Comptroller – sales taxes	\$208,902	\$ -	\$ -	\$208,902	\$ 71,780
Texas State Comptroller – occupancy taxes	-	-	332,918	332,918	-
State of Texas – Department of Transportation	-	148,475	-	148,475	-
	<u>\$208,902</u>	<u>\$148,475</u>	<u>\$332,918</u>	<u>\$690,295</u>	<u>\$ 71,780</u>

NOTE G - CAPITAL ASSETS

Capital asset activity for the year ended September 30, 2009 is as follows:

Governmental Activities

	Beginning Balance October 1, 2008	Additions	Transfers	Retirements	Ending Balance September 30, 2009
Capital assets, not being depreciated:					
Land	\$ 1,497,793	\$ -	\$ -	\$ -	\$ 1,497,793
Construction in progress	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
	1,497,793	-	-	-	1,497,793
Capital assets, being depreciated:					
Buildings	20,189,359	3,251,556	-	-	23,440,915
Improvements	1,118,529	29,857	-	-	1,148,386
Furniture and equipment	7,222,648	1,054,667	-	(376,326)	7,900,989
Infrastructure	<u>9,275,599</u>	<u>480,180</u>	<u>-</u>	<u>-</u>	<u>9,755,779</u>
	37,806,135	4,816,260	-	(376,326)	42,246,069
Less accumulated depreciation for:					
Buildings	(6,919,020)	(803,703)	-	-	(7,722,723)
Improvements	(697,480)	(232,050)	-	-	(929,530)
Furniture and equipment	(4,664,321)	(701,277)	-	375,571	(4,990,027)
Infrastructure	<u>(4,611,310)</u>	<u>(217,993)</u>	<u>-</u>	<u>-</u>	<u>(4,829,303)</u>
Total accumulated depreciation	<u>(16,892,131)</u>	<u>(1,955,023)</u>	<u>-</u>	<u>375,571</u>	<u>(18,471,583)</u>
Total capital assets, being depreciated, net	<u>20,914,004</u>	<u>2,861,237</u>	<u>-</u>	<u>(755)</u>	<u>23,774,486</u>
Governmental activities, capital assets, net	<u>\$22,411,797</u>	<u>\$2,861,237</u>	<u>\$ -</u>	<u>\$ (755)</u>	<u>\$25,272,279</u>

Town of South Padre Island, Texas
NOTES TO FINANCIAL STATEMENTS - CONTINUED
September 30, 2009

NOTE G - CAPITAL ASSETS - Continued

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

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

Depreciation was charged to government functions as follows:

General government	\$ 370,028
Public safety	257,564
Public works	605,040
Community service	627,693
Transportation	94,698
Total depreciation - governmental activities	<u>\$1,955,023</u>

Component Unit:

Activity for Economic Development Corporation is as follows:

	Beginning Balance October 1, 2008	Additions	Transfers	Retirements	Ending Balance September 30, 2009
Capital assets, not being depreciated					
Land	\$ 657,236	\$ -	\$ -	\$ -	\$ 657,236
Construction in progress	4,637,977	1,736,611	(6,374,588)	-	-
	5,295,213	1,736,611	(6,374,588)	-	657,236
Capital assets, being depreciated					
Buildings	-	-	6,374,588	-	6,374,588
Furniture and equipment	18,304	-	-	-	18,304
	18,304	-	6,374,588	-	6,392,892
Less accumulated depreciation					
Buildings	-	(181,262)	-	-	(181,262)
Furniture and equipment	(15,523)	(1,473)	-	-	(16,996)
Total accumulated depreciation	(15,523)	(182,735)	-	-	(198,258)
Total capital assets being depreciated, net	<u>2,781</u>	<u>(182,735)</u>	<u>-</u>	<u>-</u>	<u>6,194,634</u>
Total capital assets	<u>\$5,297,994</u>	<u>\$1,553,876</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$6,851,870</u>

NOTE H - DEFERRED REVENUE

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

	2009		2008	
	Unavailable	Unearned	Unavailable	Unearned
Governmental funds				
Delinquent property taxes receivable	\$387,168	\$ -	\$412,409	\$ -
Grants and other	-	65,918	-	64,659
Total deferred/unearned revenue for governmental funds	<u>\$387,168</u>	<u>\$ 65,918</u>	<u>\$412,409</u>	<u>\$ 64,659</u>

Town of South Padre Island, Texas
NOTES TO FINANCIAL STATEMENTS - CONTINUED
September 30, 2009

NOTE I - LONG-TERM DEBT

Primary Government

General Obligation Bonds

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

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

1. Bonds

	Beginning Balance <u>10-1-08</u>	<u>Additions</u>	<u>Reductions</u>	Ending Balance <u>9-30-09</u>	Due In <u>One Year</u>
<i>General Government:</i>					
2002 Series, Combination Tax and Revenue Refunding Bonds	\$1,540,000	\$ -	\$ (755,000)	\$ 785,000	\$ 785,000
2005 Series, General Obligation Bonds	4,440,000	-	(185,000)	4,255,000	190,000
2006 Series, Tax Anticipation Notes	<u>1,195,000</u>	<u>-</u>	<u>(220,000)</u>	<u>975,000</u>	<u>230,000</u>
Total Bonds	<u>\$7,175,000</u>	<u>\$-</u>	<u>\$(1,160,000)</u>	<u>\$6,015,000</u>	<u>\$1,205,000</u>

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

Year Ending September 30,	<u>Refunding Bonds</u>		<u>General Obligation Bonds</u>		<u>Tax Anticipation Notes</u>		<u>Total</u>		<u>Principal and Interest</u>
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	
2010	\$785,000	\$18,153	\$ 190,000	\$ 181,199	\$230,000	\$ 35,260	\$1,205,000	\$ 234,612	\$1,439,612
2011	-	-	200,000	172,874	240,000	25,625	440,000	198,499	638,499
2012	-	-	205,000	163,261	245,000	15,683	450,000	178,944	628,944
2013	-	-	215,000	153,811	260,000	5,330	475,000	159,141	634,141
2014	-	-	225,000	143,911	-	-	225,000	143,911	368,911
2015-2019	-	-	1,280,000	565,217	-	-	1,280,000	565,217	1,845,217
2020-2024	-	-	1,580,000	267,347	-	-	1,580,000	267,347	1,847,347
2025	<u>-</u>	<u>-</u>	<u>360,000</u>	<u>8,325</u>	<u>-</u>	<u>-</u>	<u>360,000</u>	<u>8,325</u>	<u>368,325</u>
	<u>\$785,000</u>	<u>\$18,153</u>	<u>\$4,255,000</u>	<u>\$1,655,945</u>	<u>\$975,000</u>	<u>\$81,898</u>	<u>\$6,015,000</u>	<u>\$1,755,996</u>	<u>\$7,770,996</u>

Component Unit

2. Revenue Bond

	Beginning Balance October 1, 2008	<u>Additions</u>	<u>Reductions</u>	Ending Balance September 30, 2009	Amount Due In <u>One Year</u>
2007 Series, Sales Tax Bond	<u>\$5,200,000</u>	<u>\$ -</u>	<u>\$(80,000)</u>	<u>\$5,120,000</u>	<u>\$100,000</u>
Total revenue bond	<u>\$5,200,000</u>	<u>\$ -</u>	<u>\$(80,000)</u>	<u>\$5,120,000</u>	<u>\$100,000</u>

Town of South Padre Island, Texas
NOTES TO FINANCIAL STATEMENTS - CONTINUED
September 30, 2009

NOTE I - LONG-TERM DEBT - Continued

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

<u>Year Ending September 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2010	\$ 100,000	\$ 221,559	\$ 321,559
2011	125,000	216,643	341,643
2012	145,000	210,743	355,743
2013	165,000	203,970	368,970
2014	190,000	196,213	386,213
2015-2019	1,235,000	833,031	2,068,031
2020-2024	1,595,000	522,761	2,117,761
2025-2029	<u>1,565,000</u>	<u>140,823</u>	<u>1,705,823</u>
	<u>\$5,120,000</u>	<u>\$2,545,744</u>	<u>\$7,665,744</u>

Primary Government

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

As discussed below, the Town defeased \$4,705,000 in Series 1993 Combination Tax and Revenue Refunding Bonds during December 2002 by creating a separate irrevocable trust fund. New debt was issued and the proceeds were used to purchase U. S. Governmental securities that were placed in the trust fund. The investments and fixed earnings from the investments were sufficient to fully service the defeased debt upon its first call date, of March 2003. For financial reporting purposes, the debt has been considered defeased and, therefore, removed as a liability from the Town's long-term debt. This advance refunding was undertaken to reduce total debt service payments. This transaction resulted in an economic gain of \$200,362 and a reduction in debt service payments of \$209,113. The balance outstanding of the refunded bonds was \$785,000 as of September 30, 2009.

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

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

Town of South Padre Island, Texas
NOTES TO FINANCIAL STATEMENTS - CONTINUED
September 30, 2009

NOTE I - LONG-TERM DEBT - Continued

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

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

Changes in Long-term Liabilities for Governmental Activities

During the year ended September 30, 2009, the following changes occurred in liabilities reported as non-current liabilities.

	October 1, 2008	Additions	Reductions	September 30, 2009	Amount Due Within One Year
Compensated Absences*	\$ 677,595	\$ 420,240	\$ (305,895)	\$ 791,940	\$ 339,809
General Obligation Bonds Payable	7,175,000	-	(1,160,000)	6,015,000	1,205,000
Net pension obligation	-	71,857	71,857	71,857	-
 Total long-term debt	 <u>\$7,852,595</u>	 <u>\$ 492,097</u>	 <u>\$(1,465,895)</u>	 <u>\$6,878,797</u>	 <u>\$1,544,809</u>

*Compensated absences are generally liquidated by the General Fund.

Component Unit

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

Changes in Long-term Liabilities for Component Units

	October 1, 2008	Additions	Reductions	September 30, 2009	Amount Due Within One Year
2007 Series, Sales Tax Bond	\$5,200,000	\$ -	\$ (80,000)	\$5,120,000	\$ 100,000
Net pension obligation	-	1,192	-	1,192	-
 Total long-term debt	 <u>\$5,200,000</u>	 <u>\$ 1,192</u>	 <u>\$(80,000)</u>	 <u>\$5,121,192</u>	 <u>\$ 100,000</u>

Town of South Padre Island, Texas
NOTES TO FINANCIAL STATEMENTS - CONTINUED
September 30, 2009

NOTE J - INTERFUND ASSETS/LIABILITIES

Due to/from other funds:

<u>Payable Fund</u>	<u>Receivable Fund</u>				<u>Total</u>
	<u>General</u>	<u>Convention Center</u>	<u>Municipal Complex</u>	<u>Hurricane Recovery</u>	
General	\$ -	\$ -	\$ -	\$ 970,362	\$ 970,362
Hotel/Motel	9,281	1,197,963	-	-	1,207,244
Convention Center	708	-	-	-	708
Municipal Court Technology	411	-	-	-	411
Transportation Grant	23,888	-	-	-	23,888
Street Improvements	26,873	-	-	-	26,873
Debt Service	-	-	3,667	-	3,667
Beach Maintenance	149,363	-	-	-	149,363
Beach Access	8,360	-	-	-	8,360
Beach Nourishment	17,709	-	-	-	17,709
	<u>\$ 236,593</u>	<u>\$ 1,197,963</u>	<u>\$ 3,667</u>	<u>\$ 970,362</u>	<u>\$ 2,408,585</u>

Due to/from Component Unit:

<u>Payable Fund</u>	<u>Receivable Fund</u>		<u>Total</u>
	<u>General</u>	<u>Birding Center Construction</u>	
Debt Service Reserve – EDC	\$ -	\$ 290	\$ 290
Economic Development Corporation	2,540	-	2,540
	<u>\$ 2,540</u>	<u>\$ 290</u>	<u>\$ 2,830</u>

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

NOTE K - TRANSFERS

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

<u>Transfer Out Funds</u>	<u>Transfer in Funds</u>						<u>Total</u>
	<u>General</u>	<u>Transportation Grant</u>	<u>Long Range Planning</u>	<u>Municipal Complex</u>	<u>Debt Service</u>	<u>Beach Nourishment</u>	
General	\$ -	\$ -	\$ 138,200	\$ 74,500	\$ -	\$ -	\$ 212,700
Hotel/Motel	-	50,000	-	-	-	-	50,000
Convention Center	-	-	-	-	807,822	-	807,822
Street Improvement	275,000	-	-	-	-	-	275,000
Beach Maintenance	205,662	-	-	-	-	750,000	955,662
Capital Replacement	70,000	-	-	-	-	-	70,000
	<u>\$ 550,662</u>	<u>\$ 50,000</u>	<u>\$ 138,200</u>	<u>\$ 74,500</u>	<u>\$ 807,822</u>	<u>\$ 750,000</u>	<u>\$ 2,371,184</u>

Transfer between Component Units

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

Town of South Padre Island, Texas
NOTES TO FINANCIAL STATEMENTS - CONTINUED
September 30, 2009

NOTE L - COMMITMENTS AND CONTINGENT LIABILITIES

1. *Litigation*

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

2. *Grant Programs*

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

NOTE M - RISK MANAGEMENT

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

The risk pool is an interlocal non-assessable agency with present unreserved resources in excess of \$400,000,000 (as of September 30, 2008, the most recently audited financial statements completed for the risk pool). Reinsurance is provided by several A and A++ rated companies in amounts ranging from \$10,000,000 to \$100,000,000 depending on type of insurance coverage. Town management is not aware of any pending or alleged claims that could exceed the policy limits of the present insurance coverage.

NOTE N - PENSION PLAN

Plan Description

The Town 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 Town are within the options available in the governing state statutes of TMRS.

Town of South Padre Island, Texas
NOTES TO FINANCIAL STATEMENTS - CONTINUED
September 30, 2009

NOTE N - PENSION PLAN - Continued

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

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

	<u>Plan Year 2008</u>	<u>Plan Year 2009</u>
Employee deposit rate	7.0%	7.0%
Matching ratio (town to employee)	2 to 1	2 to 1
Years required for vesting	5	5
Service retirement eligibility (expressed as age/ years of service)	60/5,0/20	60/5,0/20
Updated service credit	100% repeating transfers	100% repeating transfers
Annuity increase (to retirees)	70% of CPI	0% of CPI

Contributions

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

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

	<u>Primary Government</u>	<u>Component Unit</u>
Annual Required Contribution (ARC)	\$684,789	\$ 11,583
Interest on net pension obligation	-	-
Adjustment to the ARC	-	-
Annual Pension Cost (APC)	684,789	11,583
Contributions made	<u>(612,932)</u>	<u>(10,391)</u>
Increase (decrease) in net pension obligation	71,857	1,192
Net pension obligation/(asset), beginning of year	-	-
Net pension obligation/(asset), end of year	<u>\$ 71,857</u>	<u>\$ 1,192</u>

Town of South Padre Island, Texas
NOTES TO FINANCIAL STATEMENTS - CONTINUED
September 30, 2009

NOTE N - PENSION PLAN - Continued

The required contribution rates for fiscal year 2009 were determined as part of the December 31, 2006 and 2007 actuarial valuations. Additional information as of the latest actuarial valuation, December 31, 2008, also follows:

<u>Valuation Date</u>	<u>12/31/2006</u>	<u>12/31/2007</u>	<u>12/31/2008</u>
Actuarial Cost Method	Unit Credit	Projected Unit Credit	Projected Unit Credit
Amortization Method	Level Percent of Payroll	Level Percent of Payroll	Level Percent of Payroll
Remaining Amortization Period	25 years; open period	30 years; closed period	29 years; closed period
Asset Valuation Method	Amortized Cost	Amortized Cost	Amortized Cost

Actuarial Assumptions:

Investment rate of return*	7.0%	7.0%	7.5%
Projected salary increases*	Varies by age and service	Varies by age and service	Varies by age and service
*Includes Inflation at	3.00%	3.00%	3.00%
Cost-of-Living Adjustments	N/A	2.1%	2.1%

The funded status as of December 31, 2008, the most recent actuarial valuation date, is as follows:

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets</u> (1)	<u>Actuarial Accrued Liability (AAL)</u> (2)	<u>Funded Ratio</u> (3)	<u>Unfunded AAL (UAAL)</u> (4)	<u>Covered Payroll</u> (5)	<u>UAAL as a Percentage of Covered Payroll</u> (6)
			(1)/(2)	(2)-(1)		(4)/(5)
12/31/2008	<u>\$10,760,696</u>	<u>\$12,965,920</u>	83.0%	<u>\$2,205,224</u>	<u>\$5,769,030</u>	38.2%

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

Town of South Padre Island, Texas
NOTES TO FINANCIAL STATEMENTS - CONTINUED
 September 30, 2009

NOTE O - OTHER POST EMPLOYMENT BENEFITS

Plan Description

The Town 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 Town elected, by ordinance, to provide group-term life insurance coverage to both current and retired employees. The Town may terminate coverage under and discontinue participation in the SDBF by adopting an ordinance before November 1 of any year to be effective the following January 1.

Benefits

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

Contributions

The Town 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 Town’s contributions to the TMRS SDBF for the years ended 2009, 2008 and 2007 were \$12,803, \$10,145 and \$9,132, respectively, which equaled the required contributions each year.

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

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

NOTE P - ADDITIONAL HOTEL/MOTEL OCCUPANCY TAX

Senate Bill No. 550 was passed which entitles certain small coastal municipalities to receive an additional 1% hotel/motel occupancy tax allocation from the State beginning September 1, 1999. Under this law, the money must be used to clean and maintain public beaches within the Town. The Town received \$623,370 as a result of this additional allocation and expended \$1,312,571 of it and reserved funds during the fiscal year ended September 30, 2009. The Town accounts for this activity in the Beach Maintenance Fund. The balance of the unexpended funds at the beginning of the year, \$1,000,669, together with interest earned on these funds of \$2,104, is decreased by the current year expenditure amount being larger than current year revenue amount, leaving \$308,130 legally reserved in the fund equity portion of the balance sheet at year end.

Town of South Padre Island, Texas
NOTES TO FINANCIAL STATEMENTS - CONTINUED
September 30, 2009

NOTE Q - IMPAIRMENT OF CAPITAL ASSETS

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

For the year ending September 30, 2008, Town management has determined that certain identified capital assets were impaired and recorded an impairment loss of \$809,220 resulting from the hurricane. The Town recorded the impairment loss in the government wide financial statements. General Government expenses include an impairment loss of \$32,106, Public Safety expenses include an impairment loss of \$32,137, Public Works expenses include an impairment loss of \$3,259 and Community Service expenses include an impairment loss of \$741,718. This loss was not recorded as an extraordinary item since the Texas Gulf Coast is susceptible to hurricanes.

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

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

NOTE R - SUBSEQUENT EVENT

On November 11, 2009, the Board of Aldermen amended the City Charter and converted the Town to a Home Rule City. This process converts the Town to a City Council – City Manager form of government and is effective December 12, 2009.

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TOWN OF
South Padre
ISLAND, TEXAS

**REQUIRED SUPPLEMENTARY
INFORMATION**

Town of South Padre Island, Texas
Pension Plan (TMRS) Schedule of Funding Progress
September 30, 2009

Funding Progress - An analysis of funding progress for the entity as of September 30, 2009, follows.

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL) - Unit Credit	Overfunded (Unfunded) AAL (UAAL)	Funded Ratio	Covered Payroll	AAL (UAAL) as a Percentage of Covered Payroll
12/31/00	\$4,329,488	\$3,988,713	\$ 340,775	108.5%	\$2,615,100	13.03%
12/31/01	4,963,975	4,914,601	49,374	101.0	3,004,274	1.64%
12/31/02	5,847,815	5,931,321	(83,506)	98.6	3,473,974	(2.40%)
12/31/03	6,706,656	7,041,472	(334,816)	95.2	3,645,911	(9.20%)
12/31/04	7,548,520	7,751,625	(203,105)	97.4	3,632,677	(5.67%)
12/31/05	8,454,007	8,728,488	(274,481)	96.9	4,265,760	(6.43%)
12/31/06	9,414,303	9,739,958	(325,655)	96.7	4,604,059	(7.07%)
12/31/07	9,493,921	11,001,566	(1,507,645)	86.3	4,748,977	(31.75%)
12/31/08	10,760,696	12,965,920	(2,205,224)	83.0	5,769,030	(38.23%)

Town of South Padre Island, Texas

GENERAL FUND

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

For the Year Ended September 30, 2009

	Budget		Actual	Variance
	Original	Final		Final Budget Positive (Negative)
REVENUES				
Property taxes - including penalty and interest	\$ 5,216,918	\$5,216,918	\$ 5,458,812	\$ 241,894
Nonproperty taxes	2,742,000	2,742,000	3,087,966	345,966
Fees and services	12,200	12,200	30,000	17,800
Fines and forfeitures	200,000	200,000	284,060	84,060
Licenses and permits	483,100	483,100	322,645	(160,455)
Intergovernmental	40,000	40,000	40,372	372
Miscellaneous and program revenues	260,800	262,300	318,228	55,928
Total revenues	8,955,018	8,956,518	9,542,083	585,565
EXPENDITURES				
Current				
General government				
Board of aldermen	20,499	27,999	27,683	316
City administration	596,251	637,707	637,706	1
Finance	252,892	254,031	254,030	1
Planning	189,165	182,972	171,080	11,892
Technology	286,548	338,689	338,688	1
General services	1,123,469	1,202,712	1,202,712	-
Special projects	469,340	392,465	249,486	142,979
Total general government	2,938,164	3,036,575	2,881,385	155,190
Public safety				
Municipal court	156,309	164,360	163,739	621
Police	2,242,663	2,311,520	2,294,506	17,014
Fire	1,421,618	1,638,130	1,633,378	4,752
Emergency management	5,600	5,600	5,119	481
Total public safety	3,826,190	4,119,610	4,096,742	22,868
Public works				
Building maintenance	132,772	159,224	155,172	4,052
Inspections	227,050	233,401	233,401	-
Fleet Management	339,905	334,082	334,081	1
Public works	903,503	897,423	888,991	8,432
Total public works	1,603,230	1,624,130	1,611,645	12,485
Community service				
Code enforcement	319,773	335,519	330,104	5,415
Total community service	319,773	335,519	330,104	5,415
Capital outlay				
Total expenditures	455,250	291,273	268,517	22,756
Total expenditures	9,142,607	9,407,107	9,188,393	218,714
EXCESS OF REVENUES OVER EXPENDITURES	(187,589)	(450,589)	353,690	804,279

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

	Budget		Actual	Variance Final Budget Positive (Negative)
	Original	Final		
OTHER FINANCING SOURCES (USES)				
Sale of fixed asset	\$ -	\$ -	\$ 14,989	\$ 14,989
Transfers in	720,000	720,000	550,662	(169,338)
Transfers out	(288,200)	(377,700)	(212,700)	165,000
Total other financing sources (uses)	<u>431,800</u>	<u>342,300</u>	<u>352,951</u>	<u>10,651</u>
 NET CHANGE IN FUND BALANCE	 <u>\$ 244,211</u>	 <u>\$ (108,289)</u>	 706,641	 <u>\$ 814,930</u>
 Fund balance -- beginning			 <u>5,805,500</u>	
 Fund balance -- ending			 <u>\$ 6,512,141</u>	

Town of South Padre Island, Texas

HOTEL/MOTEL TAX FUND

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

For the Year Ended September 30, 2009

	Budget		Actual	Variance
	Original	Final		Final Budget Positive (Negative)
REVENUES				
Nonproperty taxes	3,902,000	3,151,213	\$ 3,080,724	\$ (70,489)
Fees and services	93,000	93,000	29,913	(63,087)
Miscellaneous and program revenues	20,500	20,500	567	(19,933)
Total revenues	4,015,500	3,264,713	3,111,204	(153,509)
EXPENDITURES				
Current				
Community service				
Visitors bureau	292,741	310,271	306,646	3,625
Sales and marketing	2,968,003	3,117,303	3,108,522	8,781
Events marketing	691,394	688,204	687,818	386
Total community service	3,952,138	4,115,778	4,102,986	12,792
Capital outlay	12,000	5,070	-	5,070
Total expenditures	3,964,138	4,120,848	4,102,986	17,862
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	51,362	(856,135)	(991,782)	(135,647)
OTHER FINANCING SOURCES (USES)				
Transfers out	(50,000)	(50,000)	(50,000)	-
NET CHANGE IN FUND BALANCE	\$ 1,362	\$ (906,135)	(1,041,782)	\$ (135,647)
Fund balance -- beginning			586,052	
Fund balance -- ending			\$ (455,730)	

Town of South Padre Island, Texas

CONVENTION CENTRE FUND

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

For the Year Ended September 30, 2009

	Budget		Actual	Variance
	Original	Final		Final Budget Positive (Negative)
REVENUES				
Nonproperty taxes	951,500	951,500	\$ 1,557,375	\$ 605,875
Convention center revenue	200,000	200,000	293,632	93,632
Miscellaneous and program revenues	<u>21,000</u>	<u>21,000</u>	<u>16,683</u>	<u>(4,317)</u>
Total revenues	1,172,500	1,172,500	1,867,690	695,190
EXPENDITURES				
Current				
Community service				
Convention centre	<u>1,156,390</u>	<u>1,088,390</u>	<u>1,099,504</u>	<u>(11,114)</u>
Total community service	1,156,390	1,088,390	1,099,504	(11,114)
Capital outlay	<u>83,000</u>	<u>50,000</u>	<u>11,476</u>	<u>38,524</u>
Total expenditures	<u>1,239,390</u>	<u>1,138,390</u>	<u>1,110,980</u>	<u>27,410</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(66,890)	34,110	756,710	722,600
OTHER FINANCING SOURCES (USES)				
Transfers in	900,000	-	-	-
Transfers out	<u>(807,882)</u>	<u>(807,882)</u>	<u>(807,822)</u>	<u>60</u>
Total other financing sources (uses)	<u>92,118</u>	<u>(807,882)</u>	<u>(807,822)</u>	<u>60</u>
NET CHANGE IN FUND BALANCE	<u>\$ 25,228</u>	<u>\$ (773,772)</u>	(51,112)	<u>\$ 722,660</u>
Fund balance -- beginning			<u>1,951,299</u>	
Fund balance -- ending			<u>\$ 1,900,187</u>	

Town of South Padre Island, Texas
NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
Year Ended September 30, 2009

Stewardship, compliance, and accountability

Budgetary information

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

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

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

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

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

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TOWN OF

South Padre

ISLAND, TEXAS

OTHER SUPPLEMENTARY INFORMATION

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NON-MAJOR GOVERNMENTAL FUND STATEMENTS AND SCHEDULES

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Town of South Padre Island, Texas
NON MAJOR GOVERNMENTAL FUNDS
BALANCE SHEETS
September 30, 2009

	Special Revenue Funds					
	Municipal Court Technology Fund	Municipal Court Security Fund	Transportation Grant Fund	Criminal Justice Grant	Beach Nourishment Fund	Pirate Days Fund
ASSETS						
Cash and cash equivalents	\$ 18,234	\$ 19,387	\$ 11,184	\$ 4,079	\$ 950,636	\$ 84
Receivables (net of allowance)						
Taxes	-	-	-	-	-	-
Accounts	-	-	-	-	163,964	-
Due from other governments	-	-	148,475	-	-	-
Due from other funds	-	-	-	-	-	-
Prepaid items	-	-	1,413	-	-	-
TOTAL ASSETS	<u>\$ 18,234</u>	<u>\$ 19,387</u>	<u>\$ 161,072</u>	<u>\$ 4,079</u>	<u>\$ 1,114,600</u>	<u>\$ 84</u>
LIABILITIES AND FUND BALANCE						
Accounts payable	\$ -	\$ -	\$ 25,875	\$ -	\$ -	\$ -
Due to other funds	411	-	23,888	-	17,709	-
Other liabilities	-	-	4,496	-	-	1
Deferred revenues	-	-	-	317	-	-
TOTAL LIABILITIES	411	-	54,259	317	17,709	1
Fund balance						
Unreserved, undesignated	17,823	19,387	105,400	3,762	1,096,891	83
Reserved for beach maintenance	-	-	-	-	-	-
Reserved for prepaid expenditures	-	-	1,413	-	-	-
Reserved for debt service	-	-	-	-	-	-
	<u>17,823</u>	<u>19,387</u>	<u>106,813</u>	<u>3,762</u>	<u>1,096,891</u>	<u>83</u>
TOTAL LIABILITIES AND FUND BALANCE	<u>\$ 18,234</u>	<u>\$ 19,387</u>	<u>\$ 161,072</u>	<u>\$ 4,079</u>	<u>\$ 1,114,600</u>	<u>\$ 84</u>

Special Revenue Funds		Capital Projects Funds					Total Non Major Governmental Funds	
Capital Replacement Fund	Street Improvement Fund	Long Range Planning Fund	Municipal Complex Fund	Beach Maintenance Fund	Bay Access Fund	Beach Access Fund	Debt Service	
\$ 1,018	\$ 415,858	\$ 23,487	\$ 24,089	\$ 127,207	\$ 48,750	\$ 48,108	\$ 369,728	\$ 2,061,849
-	-	-	-	-	-	-	52,096	52,096
-	-	-	-	-	-	-	2,458	166,422
-	-	-	-	332,918	-	-	-	481,393
-	-	-	3,667	-	-	-	-	3,667
-	-	-	-	5,442	-	-	-	6,855
<u>\$ 1,018</u>	<u>\$ 415,858</u>	<u>\$ 23,487</u>	<u>\$ 27,756</u>	<u>\$ 465,567</u>	<u>\$ 48,750</u>	<u>\$ 48,108</u>	<u>\$ 424,282</u>	<u>\$ 2,772,282</u>
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 25,875
-	26,873	-	-	149,363	-	8,360	3,667	230,271
-	-	-	-	2,632	-	-	-	7,129
-	-	-	-	-	-	-	43,651	43,968
-	26,873	-	-	151,995	-	8,360	47,318	307,243
1,018	388,985	23,487	27,756	-	48,750	39,748	-	1,773,090
-	-	-	-	308,130	-	-	-	308,130
-	-	-	-	5,442	-	-	-	6,855
-	-	-	-	-	-	-	376,964	376,964
<u>1,018</u>	<u>388,985</u>	<u>23,487</u>	<u>27,756</u>	<u>313,572</u>	<u>48,750</u>	<u>39,748</u>	<u>376,964</u>	<u>2,465,039</u>
<u>\$ 1,018</u>	<u>\$ 415,858</u>	<u>\$ 23,487</u>	<u>\$ 27,756</u>	<u>\$ 465,567</u>	<u>\$ 48,750</u>	<u>\$ 48,108</u>	<u>\$ 424,282</u>	<u>\$ 2,772,282</u>

Town of South Padre Island, Texas
NON MAJOR GOVERNMENTAL FUNDS
STATEMENT OF REVENUE, EXPENDITURES AND
CHANGES IN FUND BALANCES
For the Year Ended September 30, 2009

	Special Revenue Funds					
	Municipal Court Technology Fund	Municipal Court Security Fund	Transportation Grant Fund	Criminal Justice Grant	Beach Nourishment Fund	Pirate Days Fund
Revenues						
Property taxes	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Nonproperty taxes	-	-	-	-	128,569	-
Fines and forfeitures	6,817	5,113	-	-	-	-
Intergovernmental	-	-	766,587	-	-	-
Miscellaneous and program revenue	51	48	20,013	12	617,919	83
Total revenues	6,868	5,161	786,600	12	746,488	83
Expenditures						
Current						
General government	-	-	-	-	-	-
Public safety	4,505	-	-	-	-	-
Public works	-	-	-	-	-	-
Community service	-	-	-	-	832,168	-
Transportation	-	-	552,966	-	-	-
Capital outlay	-	-	234,222	-	-	-
Debt service						
Principal	-	-	-	-	-	-
Interest	-	-	-	-	-	-
Total expenditures	4,505	-	787,188	-	832,168	-
EXCESS (DEFICIENCY) REVENUES OVER (UNDER) EXPENDITURES	2,363	5,161	(588)	12	(85,680)	83
Other financing sources (uses)						
Transfers in	-	-	50,000	-	750,000	-
Transfers (out)	-	-	-	-	-	-
Total other financing sources (uses)	-	-	50,000	-	750,000	-
EXCESS (DEFICIENCY) OF REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	2,363	5,161	49,412	12	664,320	83
Fund balance, beginning of year	15,460	14,226	57,401	3,750	432,571	-
Fund balance, end of year	<u>\$ 17,823</u>	<u>\$ 19,387</u>	<u>\$ 106,813</u>	<u>\$ 3,762</u>	<u>\$ 1,096,891</u>	<u>\$ 83</u>

Special Revenue Funds		Capital Projects Funds							Total Non Major Governmental Funds
Capital Replacement Fund	Street Improvement Fund	Long Range Planning Fund	Municipal Complex Fund	Beach Maintenance Fund	Bay Access Fund	Beach Access Fund	Debt Service		
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 656,397	\$ 656,397	
-	-	-	-	623,370	-	-	-	751,939	
-	-	-	-	-	-	-	-	11,930	
-	-	-	-	-	-	-	-	766,587	
<u>132</u>	<u>2,885</u>	<u>38</u>	<u>6</u>	<u>2,104</u>	<u>174</u>	<u>445</u>	<u>1,394</u>	<u>645,304</u>	
132	2,885	38	6	625,474	174	445	657,791	2,832,157	
-	-	136,433	16,945	-	-	-	-	153,378	
-	-	-	-	-	-	-	-	4,505	
-	245,554	-	-	262,895	27,475	8,780	-	544,704	
-	-	-	-	-	-	-	-	832,168	
-	-	-	-	-	-	-	-	552,966	
-	339,904	-	(24,115)	94,014	-	150,876	-	794,901	
-	-	-	-	-	-	-	1,160,000	1,160,000	
-	-	-	-	-	-	-	285,443	285,443	
<u>-</u>	<u>585,458</u>	<u>136,433</u>	<u>(7,170)</u>	<u>356,909</u>	<u>27,475</u>	<u>159,656</u>	<u>1,445,443</u>	<u>4,328,065</u>	
132	(582,573)	(136,395)	7,176	268,565	(27,301)	(159,211)	(787,652)	(1,495,908)	
-	-	138,200	74,500	-	-	-	807,822	1,820,522	
<u>(70,000)</u>	<u>(275,000)</u>	<u>-</u>	<u>-</u>	<u>(955,662)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(1,300,662)</u>	
<u>(70,000)</u>	<u>(275,000)</u>	<u>138,200</u>	<u>74,500</u>	<u>(955,662)</u>	<u>-</u>	<u>-</u>	<u>807,822</u>	<u>519,860</u>	
(69,868)	(857,573)	1,805	81,676	(687,097)	(27,301)	(159,211)	20,170	(976,048)	
<u>70,886</u>	<u>1,246,558</u>	<u>21,682</u>	<u>(53,920)</u>	<u>1,000,669</u>	<u>76,051</u>	<u>198,959</u>	<u>356,794</u>	<u>3,441,087</u>	
<u>\$ 1,018</u>	<u>\$ 388,985</u>	<u>\$ 23,487</u>	<u>\$ 27,756</u>	<u>\$ 313,572</u>	<u>\$ 48,750</u>	<u>\$ 39,748</u>	<u>\$ 376,964</u>	<u>\$ 2,465,039</u>	

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

	Budget		Actual	Variance Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Fines and forfeitures	\$ 4,000	\$ 4,000	\$ 6,817	\$ 2,817
Miscellaneous and program revenues	350	350	51	(299)
Total revenues	4,350	4,350	6,868	2,518
EXPENDITURES				
Current				
Municipal court	5,600	5,600	4,505	1,095
Capital outlay	10,500	10,500	-	10,500
Total expenditures	16,100	16,100	4,505	11,595
NET CHANGE IN FUND BALANCE	\$ (11,750)	\$ (11,750)	2,363	\$ 14,113
Fund balance -- beginning			15,460	
Fund balance -- ending			\$ 17,823	

Town of South Padre Island, Texas
MUNICIPAL COURT SECURITY FUND

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

For the Year Ended September 30, 2009

	Budget		Actual	Variance Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Fines and forfeitures	\$ 4,500	\$ 4,500	\$ 5,113	\$ 613
Miscellaneous and program revenues	200	200	48	(152)
Total revenues	4,700	4,700	5,161	461
EXPENDITURES				
Current				
Public safety	5,000	5,000	-	5,000
NET CHANGE IN FUND BALANCE	\$ (300)	\$ (300)	5,161	\$ 5,461
Fund balance -- beginning			14,226	
Fund balance -- ending			\$ 19,387	

Town of South Padre Island, Texas

TRANSPORTATION GRANT

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

For the Year Ended September 30, 2009

	Budget		Actual	Variance
	Original	Final		Final Budget Positive (Negative)
REVENUES				
Intergovernmental	\$ 734,243	\$ 911,605	\$ 766,587	\$ (145,018)
Miscellaneous and program revenues	<u>20,000</u>	<u>20,000</u>	<u>20,013</u>	<u>13</u>
Total revenues	754,243	931,605	786,600	(145,005)
EXPENDITURES				
Current				
Transportation				
Transportation	<u>736,256</u>	<u>517,590</u>	<u>552,966</u>	<u>(35,376)</u>
Total transportation	736,256	517,590	552,966	(35,376)
Capital outlay				
Capital outlay	<u>67,939</u>	<u>463,968</u>	<u>234,222</u>	<u>229,746</u>
Total expenditures	<u>804,195</u>	<u>981,558</u>	<u>787,188</u>	<u>194,370</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES				
	(49,952)	(49,953)	(588)	49,365
OTHER FINANCING SOURCES (USES)				
Transfers in				
Transfers in	<u>50,000</u>	<u>50,000</u>	<u>50,000</u>	<u>-</u>
Total other financing sources (uses)	<u>50,000</u>	<u>50,000</u>	<u>50,000</u>	<u>-</u>
NET CHANGE IN FUND BALANCE				
	<u>\$ 48</u>	<u>\$ 47</u>	49,412	<u>\$ 49,365</u>
Fund balance -- beginning			<u>57,401</u>	
Fund balance -- ending			<u>\$ 106,813</u>	

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

	Budget		Actual	Variance
	Original	Final		Final Budget Positive (Negative)
REVENUES				
Nonproperty taxes	\$ -	\$ -	\$ 128,569	\$ 128,569
Miscellaneous and program revenues	<u>10,000</u>	<u>10,000</u>	<u>617,919</u>	<u>607,919</u>
Total revenues	10,000	10,000	746,488	736,488
EXPENDITURES				
Current				
Community service	<u>1,000,000</u>	<u>1,000,000</u>	<u>832,168</u>	<u>167,832</u>
Total expenditures	<u>1,000,000</u>	<u>1,000,000</u>	<u>832,168</u>	<u>167,832</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(990,000)	(990,000)	(85,680)	904,320
Transfer in	<u>850,000</u>	<u>850,000</u>	<u>750,000</u>	<u>(100,000)</u>
NET CHANGE IN FUND BALANCE	<u>\$ (140,000)</u>	<u>\$ (140,000)</u>	664,320	<u>\$ 804,320</u>
Fund balance -- beginning			<u>432,571</u>	
Fund balance -- ending			<u>\$ 1,096,891</u>	

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

	Budget		Actual	Variance Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Miscellaneous and program revenues	\$ -	\$ 5,000	\$ 83	\$ (4,917)
EXPENDITURES				
Current				
General government	-	-	-	-
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	-	5,000	83	(4,917)
NET CHANGE IN FUND BALANCE	<u>\$ -</u>	<u>\$ 5,000</u>	\$ 83	<u>\$ (4,917)</u>
Fund balance -- beginning			-	
Fund balance -- ending			<u>\$ 83</u>	

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

	Budget		Actual	Variance
	Original	Final		Final Budget Positive (Negative)
REVENUES				
Intergovernmental	\$ -	\$ -	\$ -	\$ -
Miscellaneous and program revenues	-	-	132	132
Total revenues	-	-	132	132
EXPENDITURES				
Current				
Public works	-	-	-	-
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	-	-	132	132
OTHER FINANCING SOURCES (USES)				
Transfers in	-	-	-	-
Transfers out	(70,000)	(70,000)	(70,000)	-
Total other financing sources (uses)	(70,000)	(70,000)	(70,000)	-
NET CHANGE IN FUND BALANCE	<u>\$ (70,000)</u>	<u>\$ (70,000)</u>	(69,868)	<u>\$ 132</u>
Fund balance -- beginning			<u>70,886</u>	
Fund balance -- ending			<u>\$ 1,018</u>	

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

	Budget		Actual	Variance
	Original	Final		Final Budget Positive (Negative)
REVENUES				
Miscellaneous and program revenues	25,000	25,000	\$ 2,885	\$ (22,115)
Total revenues	25,000	25,000	2,885	(22,115)
EXPENDITURES				
Current				
Public works	890,000	932,088	245,554	686,534
Capital outlay	-	-	339,904	(339,904)
Total expenditures	890,000	932,088	585,458	346,630
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(865,000)	(907,088)	(582,573)	324,515
OTHER FINANCING SOURCES (USES)				
Transfers out	(275,000)	(275,000)	(275,000)	-
NET CHANGE IN FUND BALANCE	<u>\$ (1,140,000)</u>	<u>\$ (1,182,088)</u>	\$ (857,573)	<u>\$ 324,515</u>
Fund balance -- beginning			<u>1,246,558</u>	
Fund balance -- ending			<u>\$ 388,985</u>	

Town of South Padre Island, Texas

DEBT SERVICE FUND

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

For the Year Ended September 30, 2009

	Budget		Actual	Variance
	Original	Final		Final Budget Positive (Negative)
REVENUES				
Property taxes	\$ 637,248	\$ 637,248	\$ 656,397	\$ 19,149
Miscellaneous and program revenues	<u>15,000</u>	<u>15,000</u>	<u>1,394</u>	<u>(13,606)</u>
Total revenues	652,248	652,248	657,791	5,543
EXPENDITURES				
Debt service				
Principal retirement	1,160,000	1,160,000	1,160,000	-
Interest	<u>285,820</u>	<u>285,820</u>	<u>285,443</u>	<u>377</u>
Total expenditures	<u>1,445,820</u>	<u>1,445,820</u>	<u>1,445,443</u>	<u>377</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(793,572)	(793,572)	(787,652)	5,920
OTHER FINANCING SOURCES (USES)				
Transfers in	<u>807,822</u>	<u>807,822</u>	<u>807,822</u>	-
Total other financing sources (uses)	<u>807,822</u>	<u>807,822</u>	<u>807,822</u>	-
NET CHANGE IN FUND BALANCE	<u>\$ 14,250</u>	<u>\$ 14,250</u>	20,170	<u>\$ 5,920</u>
Fund balance -- beginning			<u>356,794</u>	
Fund balance -- ending			<u>\$ 376,964</u>	

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COMPONENT UNIT

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

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Town of South Padre Island, Texas
SOUTH PADRE ISLAND ECONOMIC DEVELOPMENT CORPORATION
DISCRETELY PRESENTED COMPONENT UNIT
COMBINING BALANCE SHEET
September 30, 2009

ASSETS	Economic Development Corporation General Fund	Birding Center Construction Fund	EDC Debt Service Reserve Fund	EDC Debt Service Fund	Total Component Unit
Cash	\$ 90,482	\$ 189,883	\$ 433,158	\$ 4,204	\$ 717,727
Prepaid expenses	28,009	-	-	211,872	239,881
Due from other governments	71,780	-	-	-	71,780
Due from primary government/comp Unit	<u>-</u>	<u>290</u>	<u>-</u>	<u>-</u>	<u>290</u>
 TOTAL ASSETS	 <u>\$ 190,271</u>	 <u>\$ 190,173</u>	 <u>\$ 433,158</u>	 <u>\$ 216,076</u>	 <u>\$ 1,029,678</u>
 LIABILITIES AND FUND BALANCE					
Liabilities					
Other liabilities	\$ 1,793	\$ -	\$ -	\$ -	\$ 1,793
Due to primary government/comp unit	<u>2,540</u>	<u>-</u>	<u>290</u>	<u>-</u>	<u>2,830</u>
 Total liabilities	 4,333	 -	 290	 -	 4,623
Fund balance					
Reserved for debt service	-	-	432,868	216,076	648,944
Unreserved	<u>185,938</u>	<u>190,173</u>	<u>-</u>	<u>-</u>	<u>376,111</u>
	<u>185,938</u>	<u>190,173</u>	<u>432,868</u>	<u>216,076</u>	<u>1,025,055</u>
 TOTAL LIABILITIES AND FUND BALANCE	 <u>\$ 190,271</u>	 <u>\$ 190,173</u>	 <u>\$ 433,158</u>	 <u>\$ 216,076</u>	 <u>\$ 1,029,678</u>

Town of South Padre Island, Texas
SOUTH PADRE ISLAND ECONOMIC DEVELOPMENT CORPORATION
RECONCILIATION OF THE COMBINING BALANCE SHEET OF THE
COMPONENT UNIT TO THE STATEMENT OF NET ASSETS
September 30, 2009

Fund balances of the component unit funds	\$ 1,025,055
---	--------------

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

Capital assets used in governmental type activities are not financial resources and therefore are not reported in the funds.	6,851,870
--	-----------

Some liabilities, including bonds payable, are not due in the current period and therefore not reported in the funds.	(5,122,384)
---	-------------

Bond issue costs are expensed during the period incurred in the funds, but are amortized as an adjustment to interest expense in the statement of activities over the remaining life of the debt.	60,200
---	--------

Liabilities for net pension obligations are not due in the current period and therefore are not reported in the funds	<u>1,192</u>
---	--------------

Net assets of governmental type activities	<u><u>\$ 2,815,933</u></u>
--	----------------------------

Town of South Padre Island, Texas
SOUTH PADRE ISLAND ECONOMIC DEVELOPMENT CORPORATION
DISCRETELY PRESENTED COMPONENT UNIT
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
For the Year Ended September 30, 2009

	Economic Development Corporation General Fund	Birding Center Construction Fund	EDC Debt Service Reserve Fund	EDC Debt Service Fund	Total Component Unit
REVENUES					
Sales taxes	\$ 699,973	\$ -	\$ -	\$ -	\$ 699,973
Intergovernmental revenues	-	145,835	-	-	145,835
Miscellaneous and program revenues	<u>1,267</u>	<u>10,729</u>	<u>2,241</u>	<u>271</u>	<u>14,508</u>
Total revenues	701,240	156,564	2,241	271	860,316
EXPENDITURES					
Current					
Community service	385,386	-	-	-	385,386
Debt service					
Principal retirement	-	-	-	80,000	80,000
Interest expense	-	-	-	225,482	225,482
Capital outlay	-	<u>1,736,611</u>	-	-	<u>1,736,611</u>
Total expenditures	<u>385,386</u>	<u>1,736,611</u>	<u>-</u>	<u>305,482</u>	<u>2,427,479</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES					
	315,854	(1,580,047)	2,241	(305,211)	(1,567,163)
Other financing sources (uses)					
Contributed Capital	-	280,736	-	-	280,736
Transfers out	(323,744)	-	-	-	(323,744)
Transfers in	<u>-</u>	<u>-</u>	<u>-</u>	<u>323,744</u>	<u>323,744</u>
Total other financing sources (uses)	<u>(323,744)</u>	<u>280,736</u>	<u>-</u>	<u>323,744</u>	<u>280,736</u>
Net change in fund balances	(7,890)	(1,299,311)	2,241	18,533	(1,286,427)
Fund balance -- beginning	<u>193,828</u>	<u>1,489,484</u>	<u>430,627</u>	<u>197,543</u>	<u>2,311,482</u>
Fund balance -- ending	<u>\$ 185,938</u>	<u>\$ 190,173</u>	<u>\$ 432,868</u>	<u>\$ 216,076</u>	<u>\$1,025,055</u>

Town of South Padre Island, Texas
SOUTH PADRE ISLAND ECONOMIC DEVELOPMENT CORPORATION
RECONCILIATION OF THE COMBINING STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCE OF THE COMPONENT UNIT FUNDS
TO THE STATEMENT OF ACTIVITIES
For the Year Ended September 30, 2009

Net change in fund balances --total component unit funds \$ (1,286,427)

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

Governmental type funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays (\$1,736,611) exceeded depreciation, (\$182,735) in the current period. 1,553,876

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

The change in Net Pension Obligation during the year is reported as an increase or decrease to expenditures in the statement of activities but not in the governmental funds. (1,192)

Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets. 80,000

Change in net assets of governmental activities \$ 342,716

TOWN OF
South Padre
ISLAND, TEXAS

STATISTICAL SECTION

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STATISTICAL SECTION

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

CONTENTS

Financial Trends

Schedules 1-4

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

Revenue Capacity

Schedules 5-9

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

Debt Capacity

Schedules 10-14

These schedules present information to help the reader assess the affordability of the government's current levels of outstanding debt and the government's ability to issue additional debt in the future.

Demographic and Economic Information

Schedules 15-16

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

Operating Information

Schedules 17-20

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

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

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

Schedule 1

	Fiscal Year					
	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>
Governmental activities						
Invested in capital assets, net of related debt	\$ 9,242,667	\$ 9,506,514	\$ 11,150,821	\$ 13,855,905	\$ 15,236,797	\$ 19,257,279
Restricted	-	-	1,320,614	1,535,329	1,000,669	308,130
Unrestricted	<u>10,454,635</u>	<u>12,393,418</u>	<u>11,831,195</u>	<u>11,440,132</u>	<u>10,159,970</u>	<u>10,088,864</u>
Total governmental activities net assets	<u>\$ 19,697,302</u>	<u>\$ 21,899,932</u>	<u>\$ 24,302,630</u>	<u>\$ 26,831,366</u>	<u>\$ 26,397,436</u>	<u>\$ 29,654,273</u>

Note: The Town 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.

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

Schedule 2

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

Source: Statement of Activities

Note: The Town 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.

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

Schedule 3

	Fiscal Year									
	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>
General fund										
Reserved	\$ 188,909	\$ 124,105	\$ 206,631	\$ 126,658	\$ 481,152	\$ 448,862	\$ 35,721	\$ 54,073	\$ 37,321	\$ 35,092
Unreserved	<u>2,280,416</u>	<u>2,520,959</u>	<u>3,283,352</u>	<u>3,241,689</u>	<u>3,454,047</u>	<u>4,250,065</u>	<u>4,329,297</u>	<u>5,095,575</u>	<u>5,768,180</u>	<u>6,477,049</u>
Total General fund	<u>\$2,469,325</u>	<u>\$2,645,064</u>	<u>\$3,489,983</u>	<u>\$3,368,347</u>	<u>\$3,935,199</u>	<u>\$ 4,698,927</u>	<u>\$ 4,365,018</u>	<u>\$5,149,648</u>	<u>\$5,805,501</u>	<u>\$6,512,141</u>
All Other Governmental Funds										
Reserved	\$ 452,924	\$ 711,187	\$1,153,404	\$1,134,956	\$ 485,622	\$ 427,649	\$ 577,625	\$ 568,453	\$ 766,366	\$ 729,340
Unreserved, reported in:										
Special revenue funds	2,701,510	3,144,092	3,507,383	3,539,846	5,736,110	6,598,953	6,133,843	5,857,458	681,831	3,040,415
Capital projects funds	<u>430,631</u>	<u>532,575</u>	<u>764,078</u>	<u>924,292</u>	<u>625,681</u>	<u>5,700,520</u>	<u>7,307,966</u>	<u>1,609,091</u>	<u>4,048,185</u>	<u>478,262</u>
Total all other governmental funds	<u>\$3,585,065</u>	<u>\$4,387,854</u>	<u>\$5,424,865</u>	<u>\$5,599,094</u>	<u>\$6,847,413</u>	<u>\$12,727,122</u>	<u>\$14,019,434</u>	<u>\$8,035,002</u>	<u>\$5,496,382</u>	<u>\$4,248,017</u>

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

Schedule 4

	2000	2001	2002	2003
REVENUES				
Property taxes	\$1,983,352	\$2,144,755	\$2,373,906	\$2,622,048
Nonproperty taxes	6,362,700	6,871,130	7,136,979	6,996,138
Fees and services	310,391	341,174	273,336	326,843
Fines and forfeitures	392,967	404,229	490,373	499,703
Licenses and permits	274,710	255,371	351,697	292,731
Intergovernmental	765,298	966,728	1,025,363	3,113,629
Miscellaneous and program	277,657	386,984	173,923	146,666
Total revenues	10,367,075	11,370,371	11,825,577	13,997,758
EXPENDITURES				
General	1,120,404	1,187,929	1,199,137	1,470,151
Public safety	1,863,782	1,951,917	2,188,162	2,335,486
Public works	639,465	715,740	776,603	919,703
Transportation	200,839	279,857	700,312	271,787
Community service	2,227,393	3,765,124	3,219,760	6,152,517
Debt service				
Principal retirement	1,251,000	690,000	719,000	808,000
Interest	406,263	354,213	320,271	318,399
Administrative charges	-	-	-	-
Capital outlay	906,224	1,580,868	877,359	1,772,868
Total expenditures	8,615,370	10,525,648	10,000,604	14,048,911
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	1,751,705	844,723	1,824,973	(51,153)
Other financing sources (uses)				
Sale of fixed assets	5,465	3,369	10,711	8,500
Bond proceeds	-	-	-	112,854
Insurance Proceeds	-	-	-	-
Transfers out	(1,666,720)	(2,102,567)	(1,734,839)	(1,749,908)
Transfers in	1,716,720	2,233,403	1,781,085	1,809,319
Total other financing sources and (uses)	55,465	134,205	56,957	180,765
Net change in fund balances	\$1,807,170	\$978,928	\$1,881,930	\$129,612
Debt service as a percentage of noncapital expenditures	21.50%	11.67%	11.39%	9.18%

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

Schedule 4

<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>
\$3,126,553	\$3,743,132	\$4,123,204	\$4,719,773	\$5,393,449	\$6,115,209
7,676,631	8,223,206	8,439,497	8,722,337	7,999,068	8,478,004
273,285	288,136	335,617	287,475	298,189	353,545
454,340	386,011	265,700	295,560	219,209	295,990
316,180	512,384	887,829	451,372	573,866	322,645
434,464	2,210,966	489,358	920,629	1,077,978	1,056,767
103,745	398,202	970,769	1,203,760	616,757	981,229
<u>12,385,198</u>	<u>15,762,037</u>	<u>15,511,974</u>	<u>16,600,906</u>	<u>16,178,516</u>	<u>17,603,389</u>
1,788,195	2,123,657	1,967,410	2,179,937	4,084,721	3,124,195
2,697,669	2,860,988	3,135,257	3,256,352	3,822,108	4,101,247
1,028,903	1,101,741	1,158,093	1,346,075	1,484,580	2,156,348
292,721	295,769	382,221	430,979	1,063,572	552,966
3,136,498	5,717,119	4,806,573	5,039,678	5,440,883	6,364,762
585,000	655,000	845,000	1,065,000	1,110,000	1,160,000
171,308	234,820	329,844	372,160	329,243	285,443
-	119,461	32,100	500	500	-
869,735	1,065,470	3,503,133	8,110,027	3,211,465	4,816,260
<u>10,570,029</u>	<u>14,174,025</u>	<u>16,159,631</u>	<u>21,800,708</u>	<u>20,547,072</u>	<u>22,561,221</u>
1,815,169	1,588,012	(647,657)	(5,199,802)	(4,368,556)	(4,957,832)
-	10,365	6,060	-	1,485,785	14,989
-	5,045,060	1,600,000	-	1,000,000	-
-	-	-	-	-	4,401,118
(1,648,535)	(1,929,200)	(3,105,238)	(2,031,131)	(2,209,420)	(2,371,184)
1,648,535	1,929,200	3,105,238	2,031,131	2,209,420	2,371,184
<u>-</u>	<u>5,055,425</u>	<u>1,606,060</u>	<u>-</u>	<u>2,485,785</u>	<u>4,416,107</u>
<u>\$1,815,169</u>	<u>\$6,643,437</u>	<u>\$958,403</u>	<u>(\$5,199,802)</u>	<u>(\$1,882,771)</u>	<u>(\$541,725)</u>
7.80%	7.70%	9.54%	10.50%	8.31%	8.15%

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

Schedule 5

Fiscal Year Ended September 30,	Net Taxable Assessed Value		Less: Exempt Property	Total Taxable Assessed Value	Total Direct Tax Rate
	Real Property	Personal Property			
2000	788,887,621	20,972,057	28,102,492	781,757,186	0.25829
2001	840,436,989	22,201,672	30,082,516	832,556,145	0.25811
2002	916,777,350	24,612,338	32,429,740	908,959,948	0.25811
2003	1,037,328,591	25,832,316	35,218,564	1,027,942,343	0.25811
2004	1,222,211,135	26,540,260	44,573,534	1,204,177,861	0.25811
2005	1,503,904,613	28,449,556	77,073,416	1,455,280,753	0.25811
2006	1,712,735,440	31,000,283	83,532,833	1,660,202,890	0.25311
2007	1,941,204,388	32,472,880	61,850,862	1,911,826,406	0.25311
2008	2,305,658,543	34,289,547	71,535,213	2,268,412,877	0.24561
2009	2,578,466,822	33,419,535	78,289,018	2,533,597,339	0.24561

Source: Cameron County Appraisal District

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

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

Fiscal Period	Town of South Padre Island Direct Rates			Water Supply District No. 1	Point Isabel Cons. ISD	Cameron County	Texas Southmost College	South Texas ISD
	Maintenance & Operations Rate	Debt Service	Total Direct					
2000	0.244620	0.013670	0.258290	0.226820	1.25500	0.345843	0.131400	0.0372
2001	0.246360	0.011750	0.258110	0.212260	1.30500	0.340536	0.131400	0.0392
2002	0.247360	0.010750	0.258110	0.187420	1.35612	0.340536	0.131400	0.0392
2003	0.248640	0.009470	0.258110	0.139306	1.35612	0.358191	0.131400	0.0392
2004	0.258110	0.000000	0.258110	0.139306	1.35612	0.358191	0.131400	0.0392
2005	0.258110	0.000000	0.258110	0.123807	1.35612	0.358191	0.128782	0.0392
2006	0.230197	0.022913	0.253110	0.105800	1.35612	0.358191	0.162772	0.0392
2007	0.219598	0.033512	0.253110	0.080820	1.06163	0.343191	0.161089	0.0492
2008	0.216810	0.028800	0.245610	0.080820	1.06163	0.353191	0.161089	0.0492
2009	0.218400	0.027210	0.245610	0.080820	1.061634	0.363191	0.161924	0.0492

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

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

Schedule 7

Taxpayer	2009			2000		
	Taxable Assessed Valuation	Rank	Percentage of Total Assessed Valuation	Taxable Assessed Valuation	Rank	Percentage of Total Assessed Valuation
Sapphire VP LP (1)	\$ 62,483,163	1	2.57%			
ICS Management Company	11,212,212	2	0.46%	4,768,213	4	0.61%
Peninsula Island Resort & Spa Llc	9,601,770	3	0.39%			
Sapphire VP LP (2)	8,763,485	4	0.36%			
Shores Development Inc	7,844,672	5	0.32%			
SPI La Copa Ltd	7,652,111	6	0.31%			
SPI Oleander Ltd	7,465,218	7	0.31%			
Bayside Capital Llc	7,081,722	8	0.29%			
AEP Texas Central Co.	6,727,450	9	0.28%			
SSPIBR Ltd	6,770,780	8	0.28%	10,277,143	1	1.32%
Brashear Clayton	1,501,130	10	0.06%			
The Villas of South Padre, Llc				5,129,427	2	0.66%
SPI Management				4,910,533	3	0.63%
Alma Investments Inc.				4,679,598	5	0.60%
HISPI, Ltd				4,040,315	6	0.52%
Sayda Royale Corporation				3,255,391	7	0.42%
Central & Southwest Corp.				3,198,930	8	0.41%
Dalor Limited Partnership				3,153,387	9	0.41%
Williamson, Joe				289,828	10	0.38%
Total	<u>\$137,103,713</u>		<u>5.63%</u>	<u>\$46,306,765</u>		<u>5.96%</u>

Source: Cameron County Appraisal District

Shores Development Inc

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

Fiscal Year	Tax Roll Year	Taxes Levied for the Fiscal Year	Collected within the Fiscal Year of the Levy		Collections in Subsequent Years	Percentage of Levy	
			Amount	Percentage of Levy		Amount	Percentage of Levy
2000	1999	\$ 2,017,794	\$ 1,941,216	96.20%	\$ 70,031	\$ 2,011,247	99.68%
2001	2000	2,148,911	2,071,557	96.40%	74,562	2,146,119	99.87%
2002	2001	2,346,116	2,259,269	96.30%	82,638	2,341,907	99.82%
2003	2002	2,653,324	2,543,740	95.87%	99,686	2,643,426	99.63%
2004	2003	3,108,102	3,009,684	96.83%	86,016	3,095,700	99.60%
2005	2004	3,737,909	3,646,511	97.55%	77,979	3,724,490	99.64%
2006	2005	4,196,142	4,033,570	96.13%	103,851	4,137,421	98.60%
2007	2006	4,772,418	4,564,448	95.64%	123,798	4,688,246	98.24%
2008	2007	5,479,052	5,215,751	95.19%	162,000	5,377,751	98.15%
2009	2008	5,944,225	5,804,355	97.65%	-	5,804,355	97.65%

Source: Point Isabel Independent School District.

TAX REVENUES BY SOURCE - GOVERNMENTAL FUNDS

LAST TEN FISCAL YEARS

(modified accrual basis of accounting)

<u>Fiscal Year</u>	<u>Property Taxes</u>	<u>Sales Tax</u>	<u>Franchise Tax</u>	<u>Hotel/Motel Tax</u>	<u>Total</u>
2000	1,983,352	1,261,012	509,706	3,882,354	7,636,424
2001	2,144,755	1,288,091	653,160	4,736,162	8,822,168
2002	2,373,906	1,350,574	652,118	4,953,531	9,330,129
2003	2,622,048	1,385,146	558,947	4,831,285	9,397,426
2004	3,126,830	1,642,306	602,821	4,473,153	9,845,110
2005	3,732,956	1,711,622	621,012	4,878,739	10,944,329
2006	4,165,498	1,866,426	644,126	5,191,304	11,867,354
2007	4,780,512	1,897,938	748,363	5,334,627	12,761,440
2008	5,483,386	1,965,363	792,992	4,610,239	12,851,980
2009	6,089,968	2,295,465	792,501	4,638,099	13,816,033

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

Fiscal Year	Governmental Activities					Total Primary Government	Percentage of Personal Income	Per Capita ¹
	General Obligation Bonds	Public Property Finance Contractual Obligations	Combination Tax & Revenue Refunding Bonds	Combination Tax & Revenue Certificates of Obligation	Tax Anticipation Notes			
2000	-	505,000	6,260,000	252,000	-	7,017,000	7.93%	2,474
2001	-	390,000	5,765,000	172,000	-	6,327,000	6.20%	1,838
2002	-	270,000	5,250,000	88,000	-	5,608,000	4.45%	1,853
2003	-	140,000	4,745,000	-	-	4,885,000	3.95%	1,517
2004	-	-	4,300,000	-	-	4,300,000	3.56%	1,285
2005	4,950,000	-	3,645,000	-	-	8,595,000	4.08%	1,507
2006	4,785,000	-	2,965,000	-	1,600,000	9,350,000	4.14%	1,639
2007	4,615,000	-	2,265,000	-	1,405,000	8,285,000	3.77%	1,452
2008	4,440,000	-	1,540,000	-	1,195,000	7,175,000	3.49%	1,258
2009	4,255,000	-	785,000	-	975,000	6,015,000	2.77%	1,019

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

¹ See Schedule 15 for personal income and population data.

RATIO OF GENERAL BONDED DEBT OUTSTANDING
Last Ten Fiscal Years

Fiscal Year	General Obligation Bonds	Percentage of Actual Taxable Value of Property (1)	Per Capita (2)
2000	-	-	-
2001	-	-	-
2002	-	-	-
2003	-	-	-
2004	-	-	-
2005	4,950,000	0.34%	868
2006	4,785,000	0.29%	839
2007	4,615,000	0.24%	809
2008	4,440,000	0.20%	778
2009	4,255,000	0.17%	721

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

1 See Schedule 5 for property value data

2 See Schedule 14 for population data

DIRECT AND OVERLAPPING GOVERNMENTAL ACTIVITIES DEBT

As of September 30, 2009

Governmental Unit	Debt Outstanding	Estimated Percentage Applicable	Estimated Share of Overlapping Debt
Debt repaid with property taxes			
Cameron County	\$ 58,775,000	15.77%	\$ 9,268,818
Point Isabel Independent School District	34,896,114	68.80%	24,008,526
Laguna Madre Water District #1	14,657,566	77.94%	11,424,107
Texas Southmost College	104,765,000	23.13%	<u>24,232,145</u>
Subtotal, overlapping debt			68,933,596
City direct debt	5,230,000	100.00%	<u>5,230,000</u>
Total direct and overlapping debt			<u><u>\$ 74,163,596</u></u>

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

Debt outstanding data provided by each governmental unit listed above.

Town of South Padre Island, Texas
COMPUTATION OF LEGAL DEBT MARGIN
September 30, 2009

Schedule 13

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

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

Fiscal Year	Gross Revenue (1)	Operating Expenditures (2)	Net Revenue Available For Debt Service	Debt Service Requirements			Coverage (3)
				Principal	Interest	Total	
2000	1,966,203	539,237	1,426,966	1,070,000	355,961	1,425,961	1.00
2001	2,064,632	625,371	1,439,261	495,000	313,825	808,825	1.78
2002	2,083,985	581,527	1,502,458	515,000	290,209	805,209	1.87
2003	2,129,496	692,439	1,437,057	590,000	219,625	809,625	1.77
2004	2,163,770	827,257	1,336,513	445,000	166,713	611,713	2.18
2005	2,059,075	837,927	1,221,148	655,000	150,213	805,213	1.52
2006	1,877,855	868,660	1,009,195	680,000	128,488	808,488	1.25
2007	2,172,451	899,167	1,273,284	700,000	105,650	805,650	1.58
2008	1,881,284	1,045,290	835,994	725,000	82,025	807,025	1.04
2009	1,867,690	1,099,504	768,186	755,000	52,822	807,822	0.95

(1) Convention Center Fund revenues, including interest.

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

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

Schedule 15

Year	Estimated Population	Personal Income	Per Capita Personal Income	Median Age	School Enrollment	Unemployment Rate	
2000	2,836	88,539,920	31,220	49.7	2,378	7.00%	5
2001	3,443	102,002,318	29,626	46.6	2,389	7.90%	5
2002	3,026	125,954,224	41,624	50.4	2,447	9.00%	5
2003	3,220	123,599,700	38,385	51.4	2,246	9.50%	5
2004	3,346	120,673,490	36,065	50.7	2,500	8.70%	5
2005	5,705	210,828,275	36,955	51.8	2,487	7.60%	5
2006	5,705	225,957,935	39,607	51.9	2,585	6.60%	5
2007	5,705	219,693,845	38,509	52.3	2,593	6.00%	5
2008	5,705	205,665,250	36,050	57.2	2,418	8.20%	5
2009	5,900	217,090,500	36,795	57.7	2,520	8.30%	5

Source:

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

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

3 Point Isabel Independent School District

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

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

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

Employer	2009			2000*		
	Number of Employees (Peak)	Rank	Percent of Total City Employment	Number of Employees	Rank	Percent of Total City Employment
Schlitterbahn Beach Water Park	350	1	6.55%	-	-	-
Sheraton South PadreIsland Beach Hotel	225	2	4.21%	-	-	-
Isla Grand Resort	204	3	3.82%	-	-	-
Blackbeard's Restaurant	180	4	3.37%	-	-	-
Town of South Padre Island	170	5	3.18%	-	-	-
Louie's Backyard	130	6	2.43%	-	-	-
La Quinta Inn and Suites	125	7	2.34%	-	-	-
Sea Ranch Enterprises	100	8	1.87%	-	-	-
Amberjack's Restaurant	85	9	1.59%	-	-	-
Blue Marlin Supermarket	55	10	1.03%	-	-	-
Total	<u>1,624</u>		<u>30.39%</u>			

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

*Information for 2000 not available

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

Function	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
General Fund										
City Administration	3	3	3	4	4	5	5	5	5	6
Finance	2	2	2	3	3	4	4	5	5	4
Planning	2	2	2	2	2	2	2	2	2	2
Technology	0	0	0	0	0	1	2	2	2	2
Human Resources	0	0	0	0	0	0	0	0	0	1
Municipal Court	1	2	2	2	2	2	2	2	2	2
Police	29	32	31	32	33	33	34	34	34	39
Fire	15	15	15	18	18	18	18	18	18	21
Code Enforcement	2	2	2	2	2	2	3	4	4	6
Fleet Management	0	0	0	0	0	0	0	0	0	2
Building Maintenance	0	0	0	0	0	0	0	0	0	3
Inspections	1	3	3	3	3	3	4	4	4	4
Public Works	15	15	16	21	21	21	22	22	22	18
Hotel Motel Fund										
Visitor's Center	2	2	2	2	2	2	2	2	2	2
Hotel Motel	9	10	11	11	11	11	12	13.5	13	13
Events Marketing	0.5	0.5	0.5	1	1	1	1	2	2	2
Convention Centre										
Convention Centre	9.5	9.5	9.5	11	10	10	11	13.5	13	13
Transportation										
Transportation	0	0	0	0	5	5	6	7	7	7
Total Operating Budget FTE's	91	98	99	112	117	120	128	136	135	147

Source: Town of South Padre Island Annual Budget

Note: Full-time budgeted positions are shown

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

Function	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Police										
Physical arrests	1,677	1,381	1,431	1,824	1,402	1,212	973	896	727	952
Parking violations	408	957	956	851	456	552	1,227	306	514	1,643
Traffic violations	3,148	3,955	3,660	3,877	3,277	2,803	2,215	3,100	942	995
Number of commissioned police officers	22	25	24	24	25	25	25	25	26	29
Number of employees - police officers & civilians	29	32	31	32	33	33	34	35	36	40
Fire										
Number of calls answered	755	568	1,121	477	470	821	928	1,176	1,452	1,667
EMS calls	n/a	304	259	165	199	443	536	712	838	816
Inspections	n/a	693	527	507	414	307	331	355	219	475
Number of firefighters	14	14	14	17	17	17	17	17	18	18
Number of employees - firefighters & civilians	15	15	15	18	18	18	18	18	21	21
Streets										
Street resurfacing (square yards)	14,200	-	23,500	24,617	18,679	10,811	-	7,040	16,837	6,956
Sidewalk construction (square yards)	-	-	2,105	-	-	-	1,160	647	220	693

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

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

Function/Program	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Public Safety										
Police Stations	1	1	1	1	1	1	1	1	1	1
Fire Stations	1	1	1	1	1	1	1	1	1	1
Development Services										
Streets (miles)	47.31	47.31	47.31	47.31	47.31	47.09	47.09	47.09	47.09	47.09
City area (acres)	1333	1333	1333	1333	1562	1562	1562	1589	1640	1640
Parks and recreation										
Playground	1	1	1	1	1	1	1	1	1	1
Parks	1	1	1	1	1	1	2	2	2	2
Municipal Beach (miles)	4.5	4.5	4.5	4.5	5	5	5	5	5	5
Beach accesses (developed)	16	16	16	16	16	17	18	19	19	19
Beach accesses (undeveloped)	8	8	8	8	8	7	6	5	5	5
Transportation										
Transit - minibuses	4	4	4	4	4	6	5	6	8	12

Source: City Departments

Town of South Padre Island, Texas
MISCELLANEOUS STATISTICAL DATA

Schedule 20

Date of incorporation	1973
Fiscal year begins	October 1st
Number of budgeted Town employees	147

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

Temperature: 65 degrees winter average
82 degrees summer average

Source: City Staff

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TOWN OF
South Padre
ISLAND, TEXAS

COMPLIANCE

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

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

We have audited the accompanying financial statements of the governmental activities, the aggregate discretely presented component unit, each major fund, and the aggregate remaining fund information of the Town of South Padre Island, Texas (“the Town”) as of and for the year ended September 30, 2009, which collectively comprise the Town’s basic financial statements as listed in the Table of Contents. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Town of South Padre Island, Texas’ internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Town of South Padre Island, Texas’ internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Town of South Padre Island, Texas’ internal control over financial reporting.

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

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

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

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Compliance and Other Matters

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

We noted certain matters that we reported to management in a separate letter dated March 8, 2010.

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

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 8, 2010

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

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

Compliance

We have audited the compliance of Town of South Padre Island, Texas with the types of compliance requirements described in the *U. S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the fiscal year ended September 30, 2009. Town of South Padre Island, Texas' major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of Town of South Padre Island, Texas' management. Our responsibility is to express an opinion on Town of South Padre Island, Texas compliance based on our audit.

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

In our opinion, Town of South Padre Island, Texas complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the fiscal year ended September 30, 2009.

Internal Control Over Compliance

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

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

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

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

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



LONG CHILTON, LLP
Certified Public Accountants

Harlingen, Texas
March 8, 2010

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Town of South Padre Island, Texas
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
 For the Year Ended September 30, 2009

Section I - Summary of Auditors' Results

Financial Statements

Type of auditors' report issued: Unqualified

Internal control over financial reporting:

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

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

Noncompliance material to financial statements
 noted? _____ yes X no

Federal and State Awards

Internal control over major programs:

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

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

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

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

Identification of major programs:

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

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

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

Town of South Padre Island, Texas
SCHEDULE OF FINDINGS AND QUESTIONED COSTS - CONTINUED
For the Year Ended September 30, 2009

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.

Town 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, 2009

PROGRAM DESCRIPTION

Schedule Reference Number (08-1)

DESCRIPTION

Expenditures in excess of budget appropriations for fiscal year ending September 30, 2009 in the Transportation Grant Fund.

The Transportation Grant Fund did not have any expenditures in excess of budget appropriations.

Town of South Padre Island, Texas
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended September 30, 2009

<u>Federal Grantor/ Pass/Through Grantor/ Program Title</u>	<u>Federal CFDA Number</u>	<u>Pass-Through Entity Identifying Number</u>	<u>Expenditures</u>
U. S. Department of Transportation			
Formula Grants for Other Than Non- Urbanized areas	20.509	RPT 0806(21) 31	\$270,979
		RPT 0906(21) 31	79,049
		RPT 0809(21) 31	17,242
		ED0809	16,375
		VCR0904	<u>69,874</u>
			453,519
National Oceanic and Atmospheric Administration			
Texas Coastal Management Program	11.419	NADGNOS54190219	89,711
U. S. Department of Homeland Security			
P. A. Pilot Program	97.036		<u>249,808</u>
Total Federal Awards			<u>\$793,038</u>

Town of South Padre Island, Texas
NOTES ON ACCOUNTING POLICIES FOR FEDERAL AWARDS
For the Year Ended September 30, 2009

1. General

The accompanying Schedule of Expenditures of Federal Awards presents the activity of all federal award programs of Town of South Padre Island, Texas, for the year ended September 30, 2009. The reporting entity consists of the primary government, organizations for which the primary government is financially accountable, and other organizations for which the primary government is not accountable, but for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete.

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

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

2. Measurement Focus and Basis of Accounting

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

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

Town of South Padre Island, Texas
EXIT CONFERENCE
Year Ended September 30, 2009

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

Lawrence Homan, Finance Director
Joni Clarke, City Manager

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