

**CITY OF SOUTH PADRE ISLAND, TEXAS**

**COMPREHENSIVE ANNUAL  
FINANCIAL REPORT**

**For the Fiscal Year Ended  
September 30, 2016**

**City of South Padre Island, Texas**  
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March 1, 2017

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

We are pleased to submit to you the Comprehensive Annual Financial Report (CAFR) for the City of South Padre Island (City), Texas for the fiscal year that ended September 30, 2016. This report was prepared from the books and records of the City of South Padre Island, Texas and includes the financial activities of the primary government and its component units. All disclosures necessary to enable the reader to gain an understanding of the City's financial activities have been included.

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

The goal of the independent audit, conducted by Carr, Riggs & Ingram, L.L.C., was to provide reasonable assurance that the financial statements of the City for the fiscal year ending September 30, 2016 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.

Generally Accepted Accounting Principles (GAAP) require that management provide a narrative introduction, overview, and analysis to accompany the basic financial statements in the form of Management's Discussion and Analysis (MD&A). This letter of transmittal is intended to complement the MD&A and should be read in conjunction with it. The City's MD&A can be found immediately following the report of the independent auditors.

## **PROFILE OF THE CITY**

Known as the Tropical Tip of Texas, the City is a tourist oriented resort community as well as a certified retirement community. The white sandy beach of South Padre is known throughout the United States and is ranked as one of America's top 10 beaches. The City occupies approximately 2.5 square miles and serves a full-time residential population of approximately 2,816.

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

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## MAJOR INITIATIVES

To provide a safe and attractive environment as well as to ensure suitable street infrastructure, the Public Works Department continued with street and sidewalk improvements. Phase III of the Gulf Boulevard project was completed and continues enhancements to maximize the parking space available while providing better safety measures for the public. The improvements were accomplished by realigning the north and south bound lanes to the east, reclaiming the unutilized area along the west side of the right-of-way and installing a sidewalk, landscape area and parking where possible.

Ongoing infrastructure planning and growth is demonstrated with the Gulf Boulevard Phase IV reconstruction, as well as street drainage improvements. The Gulf Boulevard project, which has progressed slowly in past fiscal years due to funding constraints, will be accelerated by proceeds from the 2015 Tax Anticipation Notes issued for nearly \$3 million. The project encompasses new paving and improvements to pedestrian safety by relocating street parking to the west side of the street and providing wider walking areas as well as bicycle pathways. The relocation of parking to the opposite side of the street removes the potential of a pedestrian or cyclist not being seen by a driver maneuvering a vehicle into the previously positioned parking spaces. Secondly, Phase IV of the renovation project also addresses a few side streets, including adding curb and gutters to improve drainage, a sidewalk and new paving.

Improvements to Padre Boulevard, the City's main thoroughfare, will be funded with a combination of awarded TAP grant funds of \$3.49 million as well as the proceeds from the Tax Notes Series 2016 of \$4 million. These funds will be used to construct sidewalk, median and related drainage improvements in the City including on, but not limited to, Padre Boulevard. The intent is to revitalize Padre Boulevard to be an attractive, vibrant, commercial corridor in the community, and to develop the Entertainment District into a walkable, mixed-use regional destination.

The Convention Centre has received much needed renovations and upgrades. The Convention Centre was built in 1992, and in 2008 Hurricane Dolly damaged the roof and walls significantly. Although the roof was completely replaced, the exterior walls and windows were not. The \$3 million project's exterior phase, completed in 2015, upgraded the Convention Centre infrastructure. This first phase included replacing the skylights in the lobby with windstorm-rated roofing material, replacing exterior doors, replacing a portion of the parking lot with concrete, improving site drainage, improving parking lot lighting for safety, adding landscaping, and increasing structural integrity with stronger exterior walls. The renovation of the Convention Center exterior was followed by internal improvements. The Convention Centre Interior Renovation for approximately \$1.3 million was concluded in 2016 and included carpeting, interior paint, room partitions, lighting, A/C repairs, kitchen remodeling and other improvements.

Phase I of the Multi-Modal Transportation project has been completed. It included construction of the bus berths and circulation, as well as park-&-ride improvements. This facility will serve as a one-stop transportation hub for eastern Cameron County. The City of South Padre Island was awarded a \$3.5 million TIGER grant for this project, which will be used to fund Phase II of the project. TIGER, which stands for "Transportation Investment Generating Economic Recovery," is a U.S. Department of Transportation (DOT) program that awards federal money to improve roads, transit, cargo rail, hike-and-bike and maritime infrastructure.

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The hub will include a transfer station to be used by Island Metro, Metro Connect, Valley Metro, future intercity bus providers, charter buses, and taxis. The terminal will also connect to two international airports and two international bus terminals through its coordination with regional transit systems. Also included in the project are passenger amenities, driver amenities, administrative offices, and a park-&-ride site.

South Padre Island and its partners were awarded a highly competitive, \$10 million TIGER grant from the U.S. Department of Transportation that will go toward a \$23.8 million “Connecting Communities” project to improve public transit and create a pedestrian/bicycle path along the Queen Isabella Memorial Bridge. The grant requires that engineering and design be complete by December 2017, while construction on the causeway must begin by September 2019 and be complete by 2024. The Connecting Communities TIGER application was written by Brownsville Metro and the Texas A&M Transportation Institute, in collaboration with application partners: the City of McAllen, the City of Port Isabel, the City of South Padre Island, Cameron County Regional Mobility Authority, Cameron County and the University of Texas Rio Grande Valley. A major component of Connecting Communities involves widening the 2.4-mile-long Queen Isabella causeway to allow for a 14-foot dedicated, barrier-protected bike and pedestrian lane. It will be one of the longest bridge hike-and-bike facilities in the United States and the first of its kind in Texas, according to the DOT.

The City’s newest park opened in October 2016. Funded in part by the Texas Local Park Grant Project, John L. Tompkins Park is a 1.9 acre community park that became the core of the citywide system of parks and open space. Its facilities include a skate park, playgrounds for tots and kids, a civic plaza and cultural exhibit area, basketball courts, trails with exercise stations, public bathrooms, parking area, seating and picnic tables, access to beaches and areas for soccer fields. Access is provided from both Padre Boulevard and the beach to create a systemic connection between the inland and shore.

The desire for a local community center has been deliberated for many years. We can proudly say we made that dream a reality in the current fiscal year with the renovation of the old City Hall. The community center project was completed and provides the South Padre Island community with a facility to use for public programs and events. A new Parks & Recreation Manager position was created to manage the new Community Center and focus on tasks related to parks and recreational activities.

The City reorganized the Coastal Resources department to include bayside management in addition to beach management. The new Shoreline department completed the Pearl Beach Access at Beach Circle. The grant was submitted to the General Land Office in the fall of 2013 and awarded in 2014. The project included design and construction for a walkover, which increased beach access, public safety, and protects the dune habitat in that area by isolating the foot and vehicle traffic to a designated path.

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## **FACTORS AFFECTING FINANCIAL CONDITION**

### *Local Economy*

The City of South Padre Island is a tourist oriented resort community. The Queen Isabella Causeway crossings are estimated to be 7.9 million per year according to the Texas Department of Transportation. In the most recent Resort Market Analysis, an estimated 4.35 million visitors come to the island annually. As a result of the City's dependence on tourism, visitor travel may reflect the swings in the national and state economy as well as the economy of northern Mexico. Despite the economic uncertainties, the City has experienced stability in revenue receipts. Increased property tax, and hotel/motel tax receipts, as well as stable sales tax receipts are key indicators of the strength of the City's economic position.

### *Long Term Financial Planning*

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

## **POLICIES AND PRACTICES**

### *Internal Control*

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

### *Single Audit*

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

As part of the City's single audit, tests are made to determine the adequacy of the internal control structure, including that portion related to federal and state financial assistance programs, as well as to determine that the City has complied with applicable laws and regulations. The results of the City's single audit for the fiscal year that ended September 30, 2016 identified no material weaknesses of the internal control or violations of applicable laws and regulations.

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**OTHER INFORMATION**

*Independent Audit*

The City is incorporated under the Laws of the State of Texas and is required to have an annual audit and prepare annual financial statements. This audit was also designed to meet the requirements of the Federal Single Audit Act as amended and the requirements of 2 CFR Part 200 (the Uniform Guidance) and the State of Texas Single Audit Circular.

*Awards*

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the City of South Padre Island for its comprehensive annual financial report for the fiscal year that ended September 30, 2015. This was the twenty-sixth consecutive year the City has achieved this prestigious award. To be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both generally accepted accounting principles and applicable legal requirements. A Certificate of Achievement is valid for a period of one year only. We believe that our current comprehensive annual financial report continues to meet the Certificate of Achievement Program's requirements, and we are submitting it to the GFOA to determine its eligibility for another certificate.

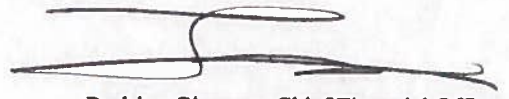
Additionally, the City of South Padre Island was awarded the Distinguished Budget Presentation Award for the Fiscal Year beginning October 1, 2015. This was the fourth consecutive year the City has achieved this prestigious award. To receive the award, the Finance Department had to satisfy nationally recognized guidelines for effective budget presentation. The budget is ranked on how well it serves as a policy document, a financial plan, an operations guide, and a communications device. All four categories must be rated proficient and within the four categories. Additionally, fourteen mandatory criteria must be met.

*Acknowledgments*

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

Sincerely,

  
Susan Guthrie, City Manager

  
Rodrigo Gimenez, Chief Financial Officer

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4601 Padre Boulevard • South Padre Island, Texas 78597 • 956.761.6456 • Fax 956.761.3888



Government Finance Officers Association

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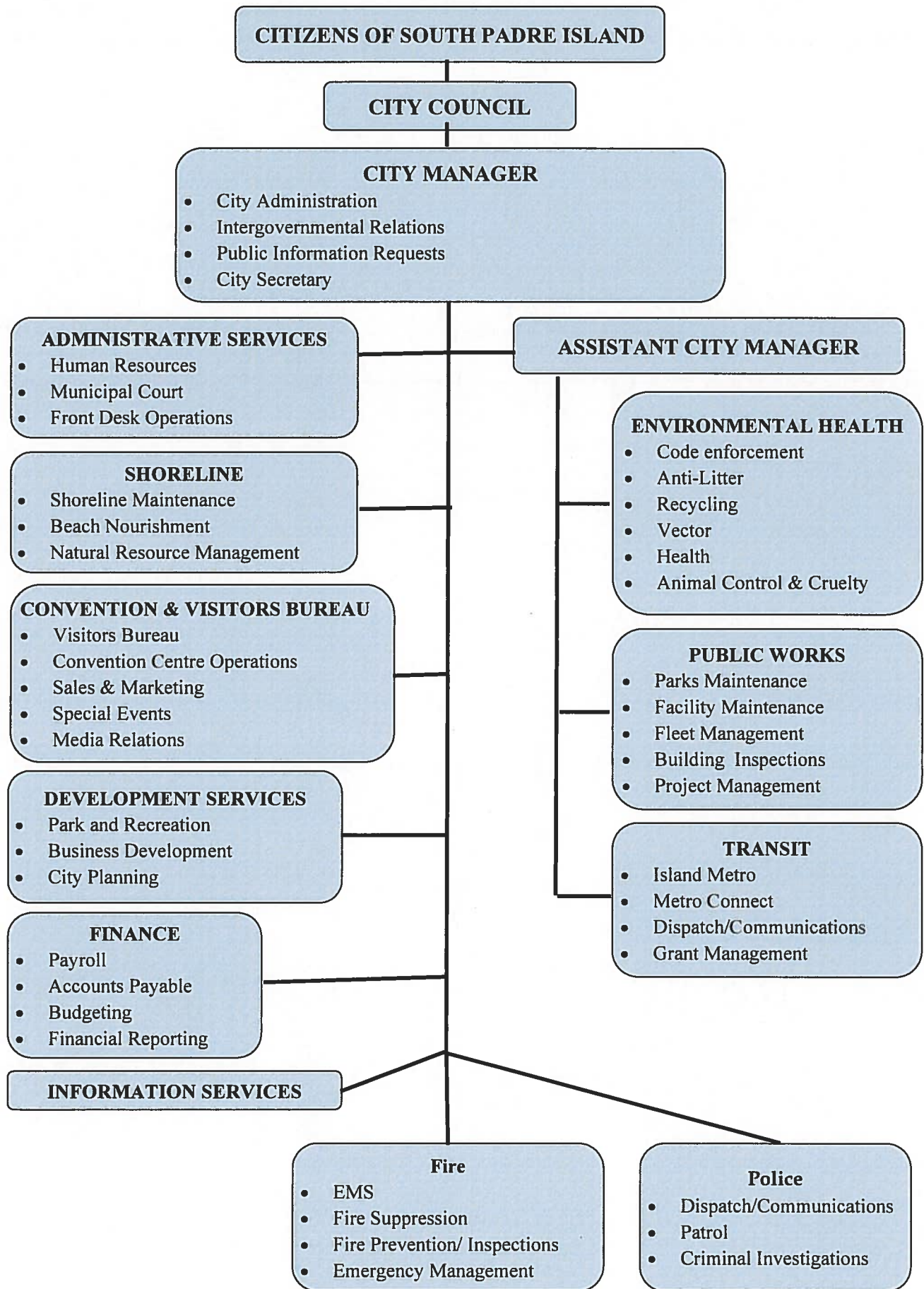
Presented to

**City of South Padre Island  
Texas**

For its Comprehensive Annual  
Financial Report  
for the Fiscal Year Ended

**September 30, 2015**

Executive Director/CEO



**City of South Padre Island, Texas**  
**List of Principal Officials**  
**September 30, 2016**

**ELECTED OFFICIALS**

NAME	TITLE
BARRY PATEL	<b>MAYOR</b> , COUNCIL MEMBER
ALEX AVALOS	COUNCIL MEMBER
DENNIS STAHL	COUNCIL MEMBER
THERESA METTY	COUNCIL MEMBER
PAUL MUNARRIZ	COUNCIL MEMBER
ALITA BAGLEY	MAYOR PRO-TEM, COUNCIL MEMBER

**APPOINTED OFFICIALS**

NAME	TITLE
(VACANT)	CITY MANAGER
DARLA A. JONES	INTERIM CITY MANAGER
RODRIGO GIMENEZ	CHIEF FINANCIAL OFFICER
KEITH ARNOLD	DIRECTOR OF CONVENTION AND VISITORS BUREAU
RANDY SMITH	POLICE CHIEF
(VACANT)	FIRE CHIEF
(VACANT)	DIRECTOR OF PUBLIC WORKS
JUAN INFANTE	INFORMATION TECHNOLOGY DIRECTOR
WENDI DELGADO	ADMINISTRATIVE SERVICES DIRECTOR
VICTOR BALDOVINOS	ENVIRONMENTAL HEALTH SERVICES DIRECTOR
PATRICK BARRINEAU	SHORELINE DIRECTOR
JESSE ARRIAGA	TRANSIT DIRECTOR
SUSAN HILL	CITY SECRETARY
PAUL Y. CUNNINGHAM, JR.	CITY ATTORNEY
EDMUND CYGANIEWICZ	MUNICIPAL COURT JUDGE

## INDEPENDENT AUDITORS' REPORT

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

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the governmental activities, the aggregate discretely presented component unit, each major fund, and the aggregate remaining fund information of City of South Padre Island, Texas as of and for the year ended September 30, 2016 and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

### ***Management's Responsibility for the Financial Statements***

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

### ***Auditors' Responsibility***

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

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

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

### ***Opinions***

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the aggregate discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of South Padre Island, Texas, as of September 30, 2016 and the respective changes in financial position, for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### ***Other Matters***

#### ***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and required supplementary information on pages 19 through 26 and 64 through 72 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

#### ***Other Information***

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of South Padre Island's basic financial statements. The introductory section, the other supplementary information, and statistical section, are presented for purposes of additional analysis and are not a required part of the basic financial statements. The schedule of expenditures of federal and State awards is presented for purposes of additional analysis as required by Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards and the State of Texas Uniform Grants Management Standards*, and is also not a required part of the basic financial statements.

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

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

**Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated February 21, 2017, on our consideration of the City of South Padre Island's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering City of South Padre Island's internal control over financial reporting and compliance.

*Carr, Riggs & Ingram, L.L.C.*

Harlingen, Texas  
February 21, 2017

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# City of South Padre Island, Texas

## Management's Discussion and Analysis

### September 30, 2016

As management of the City of South Padre Island (the City), we offer readers of the City's financial statements this narrative overview and analysis as of September 30, 2016. 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 5-9 of this report.

#### Financial Highlights

- The assets and deferred outflows of the City of South Padre Island exceeded its liabilities and deferred inflows at the close of the most recent fiscal year by \$39,693,990 (net position). Of this amount, \$5,485,644 (unrestricted net position) may be used to meet the government's ongoing obligations to citizens and creditors.
- Total net position for the City of South Padre Island increased by \$1,483,020 during the fiscal year.
- As of the close of the current fiscal year, the City of South Padre Island governmental funds reported combined ending fund balances of \$24,734,308. Approximately 27% of this amount, \$6,685,288 is available for spending at the government's discretion (unassigned fund balance). This unassigned fund balance exceeds the General Fund's required six month reserve (\$5,569,157 for 2016) established by the City Charter.
- At the end of the current fiscal year 73%, \$17,953,444 of the governmental funds fund balance was restricted and approximately 0.4%, \$95,576 was non-spendable.
- The City of South Padre Island's total bonded debt increased by \$3,105,000 during the current fiscal year. This increase is the result of a \$3,890,000 Tax Anticipation Note issued to construct street, sidewalk, median and related drainage improvements along Padre Blvd during the fiscal year, net of payments made on bonded debt totaling \$785,000.

#### Overview of the Financial Statements

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

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

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

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

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

## City of South Padre Island, Texas Management's Discussion and Analysis September 30, 2016

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

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

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

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

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

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

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

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

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

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

**City of South Padre Island, Texas**  
**Management's Discussion and Analysis**  
**September 30, 2016**

**Government-wide Financial Analysis**

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

	<u>Total Governmental Activities 2016</u>	<u>Total Governmental Activities 2015</u>
<b><u>ASSETS</u></b>		
Current and other assets	\$26,750,440	\$24,486,577
Capital assets	30,101,564	27,602,796
Total assets	<u>56,852,004</u>	<u>52,089,373</u>
<b><u>DEFERRED OUTFLOWS OF RESOURCES</u></b>		
Deferred outflows related to pension liabilities	2,373,525	913,956
Deferred amount on refunding	210,208	233,565
Total deferred outflows of resources	<u>2,583,733</u>	<u>1,147,521</u>
<b><u>LIABILITIES</u></b>		
Current liabilities	1,746,453	1,934,698
Non-current liabilities	17,672,814	12,954,527
	<u>19,419,267</u>	<u>14,889,225</u>
<b><u>DEFERRED INFLOWS OF RESOURCES</u></b>		
Deferred inflows related to pension liabilities	322,480	142,474
Total deferred inflows of resources	<u>322,480</u>	<u>142,474</u>
<b><u>NET POSITION</u></b>		
Net Investment in capital assets	19,810,801	16,920,738
Restricted	14,397,545	13,800,147
Unrestricted	5,485,644	7,484,310
Total net position	<u>\$39,693,990</u>	<u>\$38,205,195</u>

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the City of South Padre Island, assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by \$39,693,990 at the close of the most recent fiscal year.

A large portion of the City's net position (50%) reflects its investment in capital assets (e.g., land, buildings, machinery, and equipment), less any related debt used to acquire those assets that is still outstanding. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

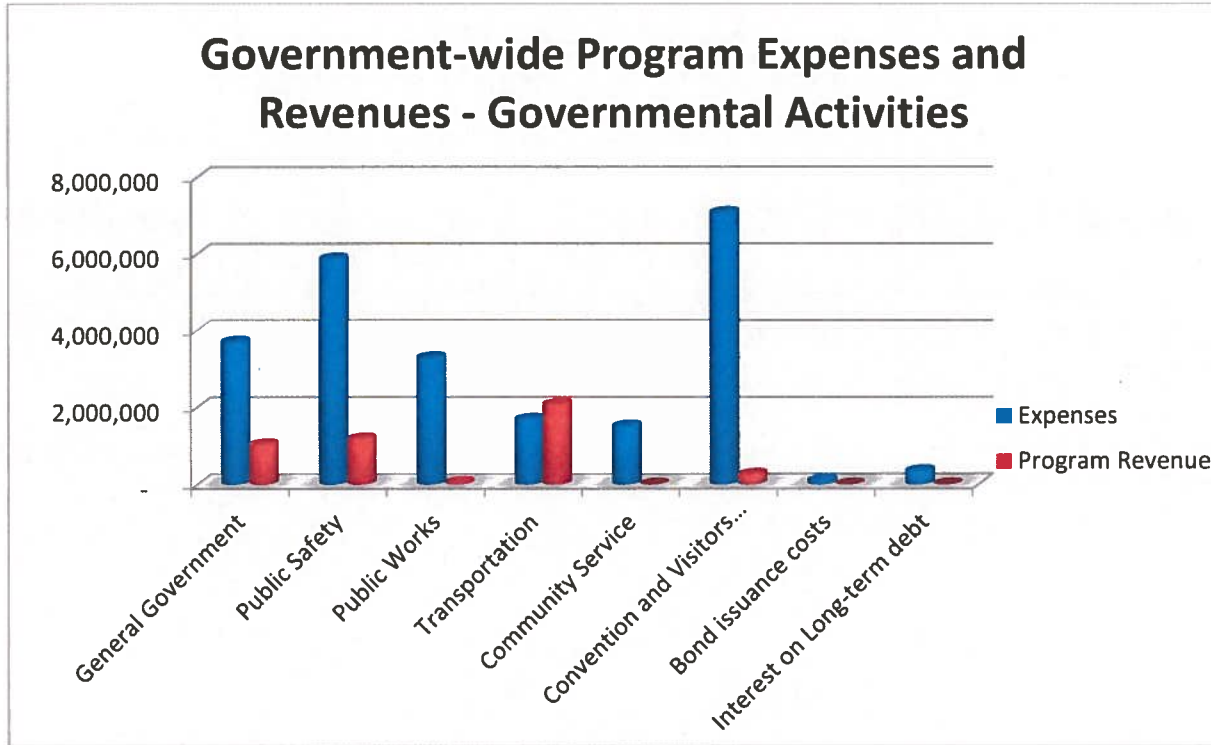
**City of South Padre Island, Texas**  
**Management's Discussion and Analysis**  
**September 30, 2016**

**Changes in Net Position.** Governmental activities increased the City's net position by \$1,483,020. Total revenues increased approximately \$933,000. This includes increases in property tax of 8% or \$523,494 due to an increase of the I&S rate to pay for the 2016 Gulf Blvd Tax Anticipation Note, increases in charges for services for approximately \$336,000 mainly associated with fines and forfeitures as well as increases in local hotel motel tax (3% or \$199,288) and hotel motel beach maintenance tax (2% or \$45,876). Expenses during the fiscal period increased by (\$3,567,293 or 18%). This increase was mostly due to the cost of the beneficial use of dredge material project for \$1.4 million, additional costs associated with the enactment of the sales and marketing program in the amount of \$1.2 million.

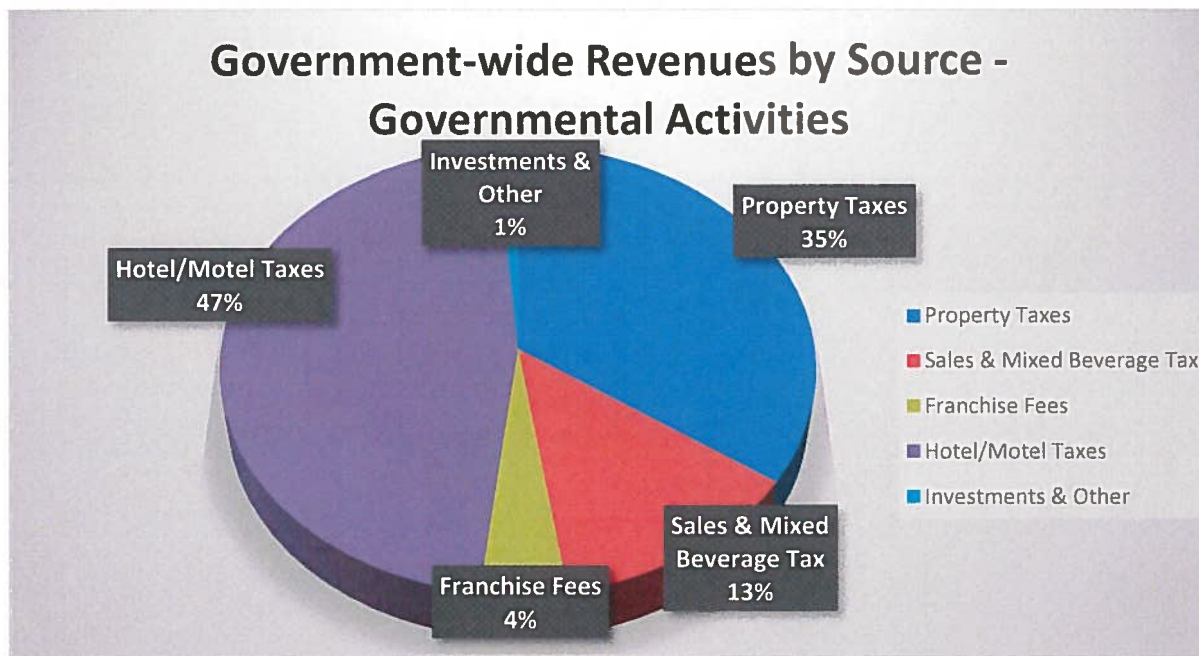
	<b>Total Governmental Activities</b>	<b>Total Governmental Activities</b>
	<b>2016</b>	<b>2015</b>
<b>Program Revenues:</b>		
Charges for Services	\$ 1,963,375	\$ 1,626,636
Operating Grants & Contributions	1,765,405	2,160,260
Capital Grants & Contributions	893,030	662,306
<b>General Revenues:</b>		
Property Tax	7,075,139	6,551,645
Sales Tax	2,318,969	2,343,830
Franchise Tax	886,363	862,253
Hotel Motel Tax	7,360,083	7,160,795
Hotel Motel Beach Mtn. Tax	2,217,195	2,171,319
Mixed Beverage Tax	331,577	319,259
Gain (loss) on Sale of Capital Assets	48,779	58
Interest & Other	210,942	279,083
<b>Total Revenues</b>	<b>25,070,857</b>	<b>24,137,444</b>
<b>Program Expenses:</b>		
General Government	3,693,337	3,549,479
Public Safety	5,871,489	5,534,493
Public Works	3,287,013	3,033,574
Transportation	1,698,124	1,639,747
Community Service	1,519,768	47,101
Convention and Visitors Bureau	7,083,205	5,833,410
Bond Issuance costs	89,736	103,079
Interest on long-term debt	345,165	273,928
<b>Total Expenses</b>	<b>23,587,837</b>	<b>20,014,811</b>
Increase (decrease) in net position	1,483,020	4,122,633
Beginning Net Position	38,210,970	34,088,337
<b>Ending Net Position</b>	<b>\$39,693,990</b>	<b>\$38,210,970</b>

**City of South Padre Island, Texas**  
**Management's Discussion and Analysis**  
**September 30, 2016**

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



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



# City of South Padre Island, Texas

## Management's Discussion and Analysis

### September 30, 2016

#### Financial Analysis of the Government's Funds

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

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

As of the end of the current fiscal year, the City of South Padre Island's governmental funds reported combined ending fund balances of \$24,734,308 an increase of \$2,473,018 in comparison with the prior year. Approximately 27%, or \$6,685,288 constitutes unassigned fund balance, which is available for spending at the government's discretion. The General Fund six month reserve required by city charter amounts to \$5,569,157 and is contained within the unassigned fund balance of the General Fund. The restricted funds are 73% or \$17,953,444 of the total fund balance. This portion is the amount of the fund that is subject to externally enforceable legal restrictions such as imposed by creditors, grantors, laws or regulations or imposed by law through constitutional provisions or enabling legislation. Approximately 1% or \$95,576 of the fund balance is nonspendable; in this case all of the \$95,576 consists of prepaid expenses.

The General Fund is the chief operating fund of the City. At the end of the current fiscal year, unassigned fund balance of the General Fund was \$6,685,288 while total fund balance reached \$6,856,446. As a measure of the general fund's liquidity, it may be useful to compare both unassigned fund balance and total fund balance to total fund expenditures. Unassigned fund balance represents 58% of total general fund expenditures, while total fund balance represents 59% of that same amount.

The fund balance of the City General Fund decreased by \$35,561 during the current fiscal year:

In comparison with last year, the total actual expenditures increased by \$1,118,164. The increase is primarily due to development of capital outlay including the new Tompkins Park (\$781,348), additional equipment and vehicles for public safety (\$228,920) as well as equipment leases for Public Works. Revenues increased by \$604,571 mainly due to the \$400,000 grant proceeds for the Tompkins Park.

Non-property taxes for both the Hotel Motel and Convention Centre funds, increased by approximately 3% or \$200,000 compared to last fiscal year. The Hotel Motel fund expenditures increased by \$725,410 due to an enhancement in the marketing program while the Convention Centre fund balance increased by \$1,249,320 due to a comprehensive Convention Centre interior renovation.

The Transportation fund didn't have significant variances in fund balance. A total of \$773,903 was spent in construction and engineering services for the future Transit Multimodal facility.

A Tax Anticipation Note was issued to finance improvements on Padre Blvd. This amount is reflected in the Padre Blvd. Improvement Fund.

The fund balance of the Beach Nourishment fund decreased by 34% or \$997,658 due to increase of expenditures associated with the beneficial uses of dredge material project.

#### General Fund budgetary highlights

The original budget of the General Fund was amended 76 times during fiscal year 2015-2016. Some of the projects approved include, a local grant match for the new Tompkins Park for \$303,434. Five new Police vehicles and an ambulance were purchased for \$164,000. Street improvement projects for \$143,800 were approved. A new dune walkover near the Pearl Resort Hotel was approved for \$80,000. Police Cameras were also added to the Causeway for \$63,000.



**City of South Padre Island, Texas**  
**Management's Discussion and Analysis**  
**September 30, 2016**

**General Fund budget variances**

During the year, revenues were \$401,712 higher than budgeted. This change can be primarily attributed to an increase of \$196,743 in fines and forfeitures activity and intergovernmental revenue received from the General Land Office for Gulf Blvd Phase III.

Total expenditures were \$680,698 less than what was budgeted. All operating expenditures of the general fund departments were under budget. The Public Works department was \$171,805 under budget due to lower than anticipated personnel and operating expenses. The Police department had savings in the amount of \$152,997 due to vacant personnel positions. Finally, the Fleet Management department had significant savings in fuel costs due to lower gas prices which contributed to being \$132,346 under budget.

**Capital Asset and Debt Administration**

**Capital Assets.** The City's investment in capital assets for its governmental activities as of September 30, 2016 amounts to \$30,101,564 (net of accumulated depreciation). This investment in capital assets includes land, buildings, equipment, streets and construction in progress. Additional information on capital assets can be found in Note G. Capital asset balances are as follows:

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

	<b>Total Governmental Activities</b>	<b>Total Governmental Activities</b>
	<b>2016</b>	<b>2015</b>
Land	\$ 1,497,793	\$ 1,497,793
Construction in progress	4,135,268	1,279,306
Buildings	17,030,185	17,574,140
Improvements	2,096,254	2,079,892
Furniture and equipment	1,921,057	1,923,727
Infrastructure	3,421,007	3,247,938
Total net position	\$30,101,564	\$27,602,796

**Long-term debt.** At the end of the current fiscal year, the City had total bonded debt outstanding of \$12,610,000. The table below reflects the outstanding debt at the fiscal year end. Additional information can be found in Note J. The City's outstanding bonds underlying rating is "AA+/Stable" by Standard and Poor's Rating Service and Aa2 Moody's rating.

**Outstanding Debt**  
**September 30**

	<b>Total Governmental Activities</b>	<b>Total Governmental Activities</b>
	<b>2016</b>	<b>2015</b>
General Obligation Bonds and Anticipation Notes	\$12,610,000	\$9,505,000
	\$12,610,000	\$9,505,000



## City of South Padre Island, Texas Management's Discussion and Analysis September 30, 2016

The City of South Padre Island's total bonded debt increased by \$3,105,000 during the current fiscal year. This change is the result of paying \$165,000 principal on the General Obligation 2011 series bonds, \$270,000 principal on the General Obligation Refunding 2012 series bonds, \$350,000 principal on the Tax Anticipation Note 2015, and the issuance of a Tax Anticipation Note 2016 of \$3,890,000.

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

All of these factors were considered in preparing the City's budget for the 2016-2017 fiscal year.

Certified property tax values for the City showed an increase in market value by approximately \$2.3 million, or 0.10% from the preceding year. The City Council adopted a tax rate of \$0.305640 cents per hundred which is split between \$0.239110 per hundred for maintenance and operations and \$0.066530 per hundred for the debt service fund and the retirement of the general obligation bonds. The adopted tax rate includes an increase of \$0.02 cents per hundred due to the additional debt service needed to pay for Padre Boulevard improvements.

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

### **Requests for Information**

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

City of South Padre Island, Texas  
**STATEMENT OF NET POSITION**  
September 30, 2016

	Primary Government Total	Component Governmental Activities	Unit
<b>ASSETS</b>			
Cash and cash equivalents	\$ 14,320,609		\$ 1,220,725
Investments	9,530,511		-
Receivables, net	1,486,785		84,768
Due from other governments	1,316,959		-
Prepaid expenses	95,576		337,545
Loans receivable	-		56,935
Capital assets, net			
Non-depreciable assets	5,633,061		657,236
Depreciable assets	24,468,503		5,738,230
<b>TOTAL ASSETS</b>	<b>56,852,004</b>		<b>8,095,439</b>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>			
Deferred outflows related to pension liabilities	2,373,525		18,870
Deferred amount on refunding	210,208		196,308
<b>TOTAL DEFERRED OUTFLOWS OF RESOURCES</b>	<b>2,583,733</b>		<b>215,178</b>
<b>LIABILITIES</b>			
Accounts payable	1,315,514		-
Other liabilities	351,806		2,269
Unearned revenues	79,133		-
Non-current liabilities			
Net pension liability	2,822,279		22,478
Due within one year	2,163,406		295,000
Due in more than one year	12,687,129		3,930,385
<b>TOTAL LIABILITIES</b>	<b>19,419,267</b>		<b>4,250,132</b>
<b>DEFERRED INFLOWS OF RESOURCES</b>			
Deferred inflows related to pension liabilities	322,480		2,571
<b>NET POSITION</b>			
Net investment in capital assets	19,810,801		2,366,389
Restricted			
Debt service	361,774		427,412
Capital projects	2,858,126		-
Beach nourishment	1,872,911		-
Transportation	231,280		-
Beach maintenance	2,260,996		-
Municipal court	61,026		-
Criminal justice	116,716		-
Parks and recreation	3,884		-
Hotel/motel taxes	6,630,832		-
Unrestricted	5,485,644		1,264,113
<b>TOTAL NET POSITION</b>	<b>\$ 39,693,990</b>		<b>\$ 4,057,914</b>

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

City of South Padre Island, Texas  
**STATEMENT OF ACTIVITIES**  
For the Year Ended September 30, 2016

<u>Functions/Programs</u>	Program Revenues		
<u>Expenses</u>	<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	
<b>Governmental activities:</b>			
General government	\$ 3,693,337	\$ 472,715	\$ 19,303
Public safety	5,871,489	1,188,668	2,319
Public works	3,287,013	45,623	-
Transportation	1,698,124	-	1,743,783
Community service	1,519,768	-	-
Convention and visitors bureau	7,083,205	256,369	-
Interest and fees on long-term debt	<u>434,901</u>	<u>-</u>	<u>-</u>
Total governmental activities	<u>23,587,837</u>	<u>1,963,375</u>	<u>1,765,405</u>
<b>Component unit:</b>			
Economic development	408,916	-	-
Interest expense	<u>291,913</u>	<u>-</u>	<u>-</u>
Total component unit	<u>\$ 700,829</u>	<u>\$ -</u>	<u>\$ -</u>

General revenues:

- Property taxes, levied for general purposes
- Property taxes, levied for debt service
- Sales tax
- Franchise taxes
- Hotel motel taxes
- Hotel motel beach maintenance taxes
- Mixed beverage taxes
- Unrestricted investment earnings
- Gain on disposal of capital assets
- Miscellaneous

Total general revenues, special items, and transfers

Change in net position

Net position - beginning

Prior period adjustment

Net position - ending

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



Program Revenues	Net (Expense) Revenue and Changes in Net Position	
	Primary Government	
Capital Grants and Contributions	Total Governmental Activities	Component Unit
\$ 550,000	\$ (2,651,319)	\$ -
-	(4,680,502)	-
-	(3,241,390)	-
343,030	388,689	-
-	(1,519,768)	-
-	(6,826,836)	-
-	(434,901)	-
<u>893,030</u>	<u>(18,966,027)</u>	<u>-</u>
-	-	(408,916)
-	-	(291,913)
<u>\$ -</u>	<u>\$ -</u>	<u>\$ (700,829)</u>

5,926,927	-
1,148,212	-
2,318,969	772,990
886,363	-
7,360,083	-
2,217,195	-
331,577	-
82,464	5,693
48,779	-
<u>128,478</u>	<u>20</u>
<u>20,449,047</u>	<u>778,703</u>
1,483,020	77,874
38,205,195	3,980,040
5,775	-
<u>\$ 39,693,990</u>	<u>\$ 4,057,914</u>

City of South Padre Island, Texas  
**BALANCE SHEET**  
**GOVERNMENTAL FUNDS**  
September 30, 2016

	General Fund	Hotel Motel Fund	Padre Blvd Improvement Fund	Other Governmental Funds	Total Governmental Funds
<b>ASSETS</b>					
Cash and cash equivalents	\$ 3,146,016	\$ 3,844,921	\$ 502,316	\$ 6,827,356	\$ 14,320,609
Investments	4,521,876	-	3,001,784	2,006,851	9,530,511
Receivables (net of allowance for uncollectibles)					
Property taxes	192,747	-	-	30,238	222,985
Accounts	678,827	428,594	-	156,379	1,263,800
Due from other governments	-	-	-	1,316,959	1,316,959
Due from other funds	204,522	-	-	-	204,522
Prepaid items	58,086	5,910	-	31,580	95,576
	<u>8,802,074</u>	<u>4,279,425</u>	<u>3,504,100</u>	<u>10,369,363</u>	<u>26,954,962</u>
<b>TOTAL ASSETS</b>	<b>\$ 8,802,074</b>	<b>\$ 4,279,425</b>	<b>\$ 3,504,100</b>	<b>\$ 10,369,363</b>	<b>\$ 26,954,962</b>
<b>LIABILITIES</b>					
Accounts payable	\$ 1,314,606	\$ -	\$ -	\$ 908	\$ 1,315,514
Due to other funds	-	-	-	204,522	204,522
Other liabilities	275,461	-	-	-	275,461
Unearned revenues - other	34,083	-	-	45,050	79,133
	<u>1,624,150</u>	<u>-</u>	<u>-</u>	<u>250,480</u>	<u>1,874,630</u>
<b>Total liabilities</b>	<b>1,624,150</b>	<b>-</b>	<b>-</b>	<b>250,480</b>	<b>1,874,630</b>
<b>DEFERRED INFLOWS OF RESOURCES</b>					
Unavailable revenue - property taxes	158,196	-	-	24,546	182,742
Unavailable revenue - other	163,282	-	-	-	163,282
	<u>321,478</u>	<u>-</u>	<u>-</u>	<u>24,546</u>	<u>346,024</u>
<b>Total deferred inflows of resources</b>	<b>321,478</b>	<b>-</b>	<b>-</b>	<b>24,546</b>	<b>346,024</b>
<b>FUND BALANCE</b>					
Nonspendable	58,086	5,910	-	31,580	95,576
Restricted	113,072	4,273,515	3,504,100	10,062,757	17,953,444
Unassigned	6,685,288	-	-	-	6,685,288
<b>Total fund balances</b>	<b>6,856,446</b>	<b>4,279,425</b>	<b>3,504,100</b>	<b>10,094,337</b>	<b>24,734,308</b>
	<u>8,802,074</u>	<u>4,279,425</u>	<u>3,504,100</u>	<u>10,369,363</u>	<u>26,954,962</u>
<b>TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCE</b>	<b>\$ 8,802,074</b>	<b>\$ 4,279,425</b>	<b>\$ 3,504,100</b>	<b>\$ 10,369,363</b>	<b>\$ 26,954,962</b>

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

City of South Padre Island, Texas

**RECONCILIATION OF THE BALANCE SHEET OF THE GOVERNMENTAL FUNDS  
TO THE STATEMENT OF NET POSITION**

September 30, 2016

Fund balances of governmental funds \$ 24,734,308

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

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds. 30,101,564

Some liabilities, including bonds payable (\$12,610,000 and premiums of \$597,147), capital leases (\$803,699) are not due in the current period and therefore not reported in the funds. (14,005,071)

Deferred outflows of resources related to amounts deferred on refundings of long term debt and are not reported in the funds. 210,208

Liabilities for compensated absences are not due in the current period and therefore are not reported in the funds. (845,464)

Certain amounts receivable for property taxes (\$182,742) and other revenues (\$163,282) but which do not represent current financial resources are deferred in the funds. 346,024

Liabilities for accrued interest on long-term debt are not due in the current period and therefore are not reported in the funds. (76,345)

Included in the statement of net position non-current liabilities is the recognition of the City's net pension liability required by GASB 68 in the amount of (\$2,822,279), a deferred resource inflow in the amount of (\$322,480), and a deferred resource outflow in the amount of \$2,373,525. This resulted in a decrease in net position of \$771,234. (771,234)

Net position of governmental activities \$ 39,693,990

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

City of South Padre Island, Texas  
**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES**  
**GOVERNMENTAL FUNDS**  
For the Year Ended September 30, 2016

	General Fund	Hotel Motel Fund	Padre Boulevard Improvement Fund	Other Governmental Funds	Total Governmental Funds
<b>REVENUES</b>					
Property taxes	\$ 5,801,539	\$ -	\$ -	\$ 1,301,958	\$ 7,103,497
Nonproperty taxes	3,536,909	5,653,243	-	3,924,035	13,114,187
Fees and services	749,698	8,675	-	248,691	1,007,064
Fines and forfeitures	606,743	-	-	21,082	627,825
Licenses and permits	264,933	-	-	-	264,933
Intergovernmental	617,244	-	-	2,036,814	2,654,058
Miscellaneous	80,530	81,964	5,198	91,954	259,646
Total revenues	<u>11,657,596</u>	<u>5,743,882</u>	<u>5,198</u>	<u>7,624,534</u>	<u>25,031,210</u>
<b>EXPENDITURES</b>					
Current					
General government	3,203,814	-	34,144	70,870	3,308,828
Public safety	4,907,744	-	-	265,393	5,173,137
Public works	1,768,018	-	-	634,303	2,402,321
Transportation	-	-	-	1,513,709	1,513,709
Community service	-	-	-	1,456,385	1,456,385
Convention and visitors bureau	-	4,614,257	-	1,253,283	5,867,540
Capital outlay	1,350,909	-	477,647	3,757,484	5,586,040
Debt service					
Principal retirement - bonds	-	-	-	785,000	785,000
Principal retirement - capital lease	287,137	-	-	10,950	298,087
Interest	38,185	-	-	334,071	372,256
Bond issue costs	-	-	89,736	-	89,736
Administrative charges	2,041	-	-	2,296	4,337
Total expenditures	<u>11,557,848</u>	<u>4,614,257</u>	<u>601,527</u>	<u>10,083,744</u>	<u>26,857,376</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	99,748	1,129,625	(596,329)	(2,459,210)	(1,826,166)
Other financing sources (uses)					
Sale of capital assets	21,557	-	-	32,863	54,420
Lease proceeds	144,335	-	-	-	144,335
Issuance of debt	-	-	3,890,000	-	3,890,000
Premium on issuance of debt	-	-	210,429	-	210,429
Uses of debt refunding	-	-	-	-	-
Transfers in	103,091	-	-	854,713	957,804
Transfers out	(404,292)	-	-	(553,512)	(957,804)
Total other financing sources (uses)	<u>(135,309)</u>	<u>-</u>	<u>4,100,429</u>	<u>334,064</u>	<u>4,299,184</u>
Net change in fund balances	(35,561)	1,129,625	3,504,100	(2,125,146)	2,473,018
Fund balance -- beginning	6,892,007	3,149,800	-	12,219,483	22,261,290
Fund balance -- ending	<u>\$ 6,856,446</u>	<u>\$ 4,279,425</u>	<u>\$ 3,504,100</u>	<u>\$ 10,094,337</u>	<u>\$ 24,734,308</u>

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



City of South Padre Island, Texas  
**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCE OF THE GOVERNMENTAL FUNDS  
TO THE STATEMENT OF ACTIVITIES**  
For the Year Ended September 30, 2016

Net change in fund balances --total governmental funds \$ 2,473,018

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

Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. The effect of removing capital outlays (\$5,586,040) and including depreciation (\$3,081,630), in the current period is to increase net position. 2,504,410

In the statement of activities, only the gain (loss) on the sale of assets is reported, whereas in the funds, the proceeds from the sale increase financial resources. Thus, the change in net position differs from the change in fund balance by the book value of the assets sold. (5,642)

Governmental funds report the issuance of debt as an other financing source, but in governmental activities the issuance of debt is recorded as a long term liability. The effect of removing the bond proceeds of \$3,890,000, bond premium of \$210,429 and capital lease proceeds of \$144,335 from the statement of activities change in net position is to decrease the overall change in net position. (4,244,764)

Repayment of bond and capital lease principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position. 1,083,087

The increase in compensated absences payable of (\$4,139) during the year is reported as an increase to expenditures in the statement of activities but not in the governmental funds. The amortization of bond premiums \$66,564 reduces interest expense in the statement of activities, and amortization of debt refunding related deferred outflows of resources of (\$23,357) is an expenditure in the statement of activities but not in the governmental funds. The net effect of including the amortization of deferred outflows of resources, bond premiums and the change in compensated absences is to decrease net position. 39,068

GASB 68 requires that certain expenditures be de-expended and recorded as deferred resource outflows. These contributions made after the measurement date of 12/31/15 caused the change in the ending net position to increase in the amount of \$684,907. Contributions made before the measurement date but after the previous measurement date were reversed from deferred resource outflows and recorded as a current year expense. This caused a decrease in the change in net position totaling (\$674,398). The City's reported TMRS net pension expense had to be recorded. The pension expense decreased the change in net position by \$(355,756). The result of these changes is to decrease net position. (345,247)

Some revenues and expenses reported in the statement of activities do not provide or require the use of current financial resources and therefore are not reported as revenues or expenditures in governmental funds. The change in the balance of deferred inflows related to property taxes and other receivables was (\$9,131) and interest expense increased by (\$11,779) in 2016. Recognition of these amounts in the statement of activities results in a decrease in the change in net position. (20,910)

Change in net position of governmental activities \$ 1,483,020

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

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

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

**1. Reporting Entity**

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

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

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

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

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

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

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

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

*Government-wide Financial Statements*

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

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

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

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

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

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

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

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

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

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

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

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

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

***Other major funds are:***

***Capital Project Fund: Padre Boulevard Improvement Fund*** is used to account for bond proceeds received and expenditures associated with improvements to Padre Boulevard.

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 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.

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

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

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

**4. New Accounting Standards Adopted**

In fiscal year 2016, the City adopted three new statements of financial accounting standards issued by the Governmental Accounting Standards Board:

- Statement No. 72, *Fair Value Measurement and Application*
- Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*.
- Statement No. 79, *Certain Investment Pools and Pool Participants*.

Statement No. 72 addresses accounting and financial reporting issues related to fair value measurements. The definition of fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. This information provides guidance for determining a fair value measurement and guidance for applying fair value to certain investments and disclosures related to all fair value measurements.

Statement No. 76 was issued to identify - in the context of the current governmental financial reporting environment - the hierarchy of generally accepted accounting principles (GAAP). The “GAAP hierarchy” consists of the sources of accounting principles used to prepare financial statements of state and local governmental entities in conformity with GAAP and the framework for selecting those principles. This Statement reduces the GAAP hierarchy to two categories of authoritative GAAP and addresses the use of authoritative and nonauthoritative literature in the event that the accounting treatment for a transaction or other event is not specified within a source of authoritative GAAP. This Statement supercedes Statement No. 55, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*.

Statement No. 79 was issued to address the accounting and financial reporting for certain external investment pools and pool participants. Specifically, it establishes criteria for an external investment pool to qualify for making the election to measure all its investments at amortized cost for financial reporting purposes. An external investment pool qualifies for that reporting if it meets all the applicable criteria established in this Statement. The Statement also establishes additional note disclosure requirements for qualifying external investment pools that measure all of their investments at amortized cost for financial reporting purposes and for governments that participate in those pools.

There was no impact on the City’s financial statements as a result of the implementation of Statements No. 72 and 79.

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

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

**a. Cash and Cash Equivalents**

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

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

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

**c. Inventories**

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

**d. Prepaid Items**

Expenditures made to third party vendors for goods and services that will benefit periods beyond September 30, 2016 are recorded as prepaid items, in both government-wide and fund financial statements. The cost of prepaid items is recorded as expenditures/expenses when consumed rather than when purchased.

**e. Capital Assets**

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

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

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

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

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

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

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

**f. Compensated Absences**

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

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

**g. Long-Term Obligations**

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

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



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

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

**h. Pensions**

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

**i. Bond Discounts/Issue Costs**

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

**j. Comparative Data**

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

**k. Estimates**

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

**l. Interfund Transfers**

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

**m. Fund Balance Reporting**

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

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

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

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

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

The City charter requires establishment of an operating reserve in the General Fund of no less than six months of operating expenditures, to be used for emergency appropriations. The estimated required fund balance to meet this at September 30, 2016 is \$5,569,157. Since the City's unassigned fund balance exceeds this amount at September 30, 2016, no additional appropriation is needed at this time in order to comply with this policy.

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

**n. Net Position**

The City's net position is classified as follows:

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

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

**Unrestricted:** consists of all other net position that does not meet the definition of "restricted" or "net investment in capital assets."

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

***o. Deferred Outflows and Inflows of Resources***

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

The City has an accounting loss on refunding bonds which is a deferred resource outflow and also has unavailable revenues from property taxes which are deferred resource inflows under this standard.

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

***1. Budgetary Information***

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

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

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

During fiscal year 2016 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 Padre Boulevard Improvement), that have adopted a budget.

**City of South Padre Island, Texas**  
**Notes to Financial Statements**  
**September 30, 2016**

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

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

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

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

*2. Expenditures over Appropriations*

None noted.

**NOTE C – DEPOSITS AND INVESTMENTS**

It is the City's policy for deposits plus accrued interest thereon to be 102% secured by collateral valued at fair value, less the amount of the Federal Deposit Insurance Corporation insurance. During the year ended September 30, 2016 the City's cash deposits were covered by federal deposit insurance or were secured by collateral held by the City's agent in the City's name pursuant to the City's investment policy and its depository agreement.

**Investments**

Investments at fair value, including accrued interest, as of September 30, 2016 are as follows:

	<u>Investment Maturities (in years)</u>		<u>Greater than 1 year</u>
	<u>Fair Value</u>	<u>1 or less</u>	
<b>Primary Government</b>			
Cash and cash equivalents	\$14,198,666	\$14,198,666	\$ -
TexPool	7,443	7,443	-
Texas Term	<u>114,500</u>	<u>114,500</u>	-
	14,320,609	14,320,609	-
Investments			
Certificates of deposit	<u>9,530,511</u>	<u>9,530,511</u>	-
	<u>\$23,851,120</u>	<u>\$23,851,120</u>	<u>\$ -</u>
<b>Component Unit</b>			
Cash and cash equivalents	\$ 1,198,402	\$ 1,198,402	\$ -
TexPool	<u>22,323</u>	<u>22,323</u>	-
	<u>\$ 1,220,725</u>	<u>\$ 1,220,725</u>	<u>\$ -</u>

**City of South Padre Island, Texas**  
**Notes to Financial Statements**  
**September 30, 2016**

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

A reconciliation of cash and investments follows:

	<u>Primary Governmental Activities</u>	<u>Component Units</u>	<u>Total</u>
Cash	\$14,198,666	\$1,198,402	\$15,397,068
Cash equivalents			
Texas Term	114,500	22,323	136,823
TexPool	<u>7,443</u>	<u>-</u>	<u>7,443</u>
	121,943	22,323	144,266
Investments			
Certificates of deposit	<u>9,530,511</u>	<u>-</u>	<u>9,530,511</u>
	<u>\$23,851,120</u>	<u>\$1,220,725</u>	<u>\$25,071,845</u>

***Interest Rate Risk***

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

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

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

<u>Description</u>	<u>Rate</u>	<u>Amount</u>	<u>Maturity</u>
Certificate of deposit	0.75%	\$1,003,787	March 22, 2017
Certificate of deposit	0.90%	2,006,023	June 16, 2017
Certificate of deposit	0.70%	3,001,784	February 16, 2017
Certificate of deposit	0.91%	1,010,465	February 1, 2017
Certificate of deposit	0.96%	<u>503,083</u>	February 12, 2018
		<u>\$7,525,142</u>	

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

***Credit Risk***

As of September 30, 2016 the investments in TexPool and Texas Term investment risk pools were rated AAAM and AAAf by Standard and Poor's, respectively.

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

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

***Public Funds Investment Pools***

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

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

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

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

**NOTE D - PROPERTY TAXES**

The assessed value for the tax roll as of January 1, 2015 upon which the 2015 levy was based, was \$2,478,519,198. State statutes require that all assessments be made on one hundred percent (100%) of fair market value.

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

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

**City of South Padre Island, Texas**  
**Notes to Financial Statements**  
**September 30, 2016**

**NOTE D - PROPERTY TAXES - Continued**

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

The City is permitted by the Municipal Finance Law of Texas to levy taxes up to \$1.50 per \$100 of assessed valuation for general governmental services other than the payment of principal and interest on long-term debt and in unlimited amounts for the payment of principal and interest on long-term debt. The combined tax rate to finance general governmental service and the payment of principal and interest on long-term debt for the year ended September 30, 2016 was \$.285640 per \$100.

The City Charter provides for taxes to become due on October 1st of the year of levy and shall be paid by January 31st of the following year. Liens for unpaid taxes go into effect on July 1st as the taxes become delinquent. Current tax collections for the year ended September 30, 2016 were 98.19 percent of the tax levy.

**NOTE E - RECEIVABLES**

Receivables at September 30, 2016, consist of the following:

	Primary Government			Total Governmental Funds	Component Unit
	General	Hotel/Motel Fund	Other Governmental Funds		
Receivables					
Taxes	\$202,892	\$ -	\$ 31,831	\$ 234,723	\$ -
Accounts	<u>678,827</u>	<u>428,594</u>	<u>156,379</u>	<u>1,263,800</u>	<u>84,768</u>
Gross receivables	881,719	428,594	188,210	1,493,523	84,768
Less allowance for uncollectibles	<u>(10,145)</u>	<u>-</u>	<u>(1,592)</u>	<u>(11,738)</u>	<u>-</u>
Total receivables, net	<u>\$871,574</u>	<u>\$428,594</u>	<u>\$186,617</u>	<u>\$1,486,785</u>	<u>\$ 84,768</u>

**NOTE F - DUE FROM OTHER GOVERNMENTS**

Due from other governments at September 30, 2016 consist of the following:

**Primary Government**

	Transportation Fund
Texas State Comptroller – occupancy taxes	\$ 880,280
State of Texas – Department of Transportation	<u>436,679</u>
Net total receivables	<u>\$1,316,959</u>

As of September 30, 2016 the component unit had a loan receivable of \$56,935. The Revolving Loan Fund was granted to the EDC in 2011 at an amount of \$105,150 at a rate of 4% for 10 years.

**City of South Padre Island, Texas**  
**Notes to Financial Statements**  
**September 30, 2016**

**NOTE G - CAPITAL ASSETS**

Capital asset activity for the year ended September 30, 2016 is as follows:

**Governmental Activities**

	Beginning Balance October 1, 2015	Additions	Transfers	Retirements	Ending Balance September 30, 2016
<b>Capital assets, not being depreciated:</b>					
Land	\$ 1,497,793	\$ -	\$ -	\$ -	\$ 1,497,793
Construction in progress	<u>1,279,306</u>	<u>2,855,962</u>	<u>-</u>	<u>-</u>	<u>4,135,268</u>
	2,777,099	2,855,962	-	-	5,633,061
<b>Capital assets, being depreciated:</b>					
Buildings	32,699,313	1,005,455	-	(130,399)	33,574,369
Improvements	4,910,755	284,432	-	(1,113)	5,194,074
Furniture and equipment	7,479,272	852,371	-	(553,881)	7,777,762
Infrastructure	<u>9,334,430</u>	<u>587,820</u>	<u>-</u>	<u>-</u>	<u>9,922,250</u>
	54,423,770	2,730,078	-	(685,393)	56,468,455
Less accumulated depreciation for:					
Buildings	(15,125,173)	(1,544,162)	-	125,151	(16,544,184)
Improvements	(2,830,863)	(268,070)	-	1,113	(3,097,820)
Furniture and equipment	(5,555,545)	(854,647)	-	553,487	(5,856,705)
Infrastructure	<u>(6,086,492)</u>	<u>(414,751)</u>	<u>-</u>	<u>-</u>	<u>(6,501,243)</u>
Total accumulated depreciation	<u>(29,598,073)</u>	<u>(3,081,630)</u>	<u>-</u>	<u>679,751</u>	<u>(31,999,952)</u>
Total capital assets, being depreciated, net	<u>24,825,697</u>	<u>(351,552)</u>	<u>-</u>	<u>(5,642)</u>	<u>24,468,503</u>
Governmental activities, capital assets, net	<u>\$27,602,796</u>	<u>\$2,504,410</u>	<u>\$ -</u>	<u>\$ (5,642)</u>	<u>\$30,101,564</u>

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

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

Depreciation was charged to government functions as follows:

General government	\$ 323,921
Public safety	538,641
Public works	830,592
Community service	22,437
Convention and visitors bureau	1,215,665
Transportation	<u>150,374</u>
Total depreciation - governmental activities	<u>\$3,081,630</u>



**City of South Padre Island, Texas**  
**Notes to Financial Statements**  
**September 30, 2016**

**NOTE G - CAPITAL ASSETS - Continued**

**Component Unit:**

Activity for Economic Development Corporation is as follows:

	Beginning Balance <u>October 1, 2015</u>	<u>Additions</u>	<u>Transfers</u>	<u>Retirements</u>	Ending Balance <u>September 30, 2016</u>
Capital assets, not being depreciated					
Land	\$ 657,236	\$ -	\$ -	\$ -	\$ 657,236
Construction in progress	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
	657,236	-	-	-	657,236
Capital assets, being depreciated					
Buildings	6,569,015	-	-	-	6,569,015
Improvements	375,000	-	-	-	375,000
Furniture and equipment	<u>21,604</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>21,604</u>
	6,965,619	-	-	-	6,965,619
Less accumulated depreciation					
Buildings	(998,333)	(136,147)	-	-	(1,134,480)
Improvements	(45,820)	(25,485)	-	-	(71,305)
Furniture and equipment	<u>(21,604)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(21,604)</u>
Total accumulated depreciation	(1,065,757)	(161,632)	-	-	(1,227,389)
Total capital assets being depreciated, net	<u>5,899,862</u>	<u>(161,632)</u>	<u>-</u>	<u>-</u>	<u>5,738,230</u>
Governmental activities, capital assets, net	<u>\$6,557,098</u>	<u>\$(161,632)</u>	<u>\$-</u>	<u>\$-</u>	<u>\$6,395,466</u>

**NOTE H - DEFERRED INFLOWS AND OUTFLOWS OF RESOURCES**

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

	<u>Unavailable</u>
Governmental funds	
Delinquent property taxes receivable	\$182,742
Grants and other	<u>163,282</u>
Total deferred/inflows of resources for governmental funds	<u>\$346,024</u>

In governmental activities, deferred outflows of resources consist of \$210,208 of deferred charges on refundings of long-term debt and \$2,373,525 of deferred charges related to pension liabilities. Deferred inflows related to pensions are \$322,480 at September 30, 2016.

**NOTE I – UNEARNED REVENUE**

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

For the year ended September 30, 2016, \$79,133 of unearned revenues are reported in the government funds and in the statement of net position for amounts received for in advance of the City performing the related services.

**City of South Padre Island, Texas**  
**Notes to Financial Statements**  
**September 30, 2016**

**NOTE J - LONG-TERM DEBT**

**Primary Government**

*General Obligation Bonds*

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

General obligation bonds and tax anticipation notes are direct obligations and pledge the full faith and credit of the City. These bonds and certificates generally are issued as 25-year serial bonds, with varying amounts of principal maturing each year. Tax anticipation notes pledge the ad valorem taxes collected by the City for the repayment of the obligation. General obligation bonds and tax anticipation notes currently outstanding are as follows:

*1. Bonds*

	Beginning Balance <u>10-1-15</u>	<u>Additions</u>	<u>Reductions</u>	Ending Balance <u>9-30-16</u>	Due In <u>One Year</u>
<i>General Government:</i>					
2011 Series, General Obligation Bonds	\$3,485,000	\$ -	\$(165,000)	\$ 3,320,000	\$ 170,000
2012 Series, General Obligation Refunding Bonds	3,115,000	-	(270,000)	2,845,000	280,000
Series 2015 Tax Anticipation Notes	2,905,000	-	(350,000)	2,555,000	395,000
Series 2016 Tax Anticipation Notes	<u>-</u>	<u>3,890,000</u>	<u>-</u>	<u>3,890,000</u>	<u>520,000</u>
Total bonds	<u>\$9,505,000</u>	<u>\$3,890,000</u>	<u>\$(785,000)</u>	<u>\$12,610,000</u>	<u>\$1,365,000</u>

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

Year Ending <u>September 30,</u>	<u>General Obligation Bonds</u>		<u>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>	
2017	\$ 450,000	\$ 197,425	\$ 915,000	\$ 169,925	\$ 1,365,000	\$ 367,350	\$ 1,732,350
2018	460,000	183,775	935,000	147,425	1,395,000	331,200	1,726,200
2019	480,000	168,775	955,000	124,425	1,435,000	293,200	1,728,200
2020	500,000	152,225	980,000	100,850	1,480,000	253,075	1,733,075
2021	510,000	135,150	1,010,000	71,525	1,520,000	206,675	1,726,675
2022-2026	2,440,000	435,238	1,650,000	45,075	4,090,000	480,313	4,570,313
2027-2031	<u>1,325,000</u>	<u>136,500</u>	<u>-</u>	<u>-</u>	<u>1,325,000</u>	<u>136,500</u>	<u>1,461,500</u>
	<u>\$6,165,000</u>	<u>\$1,409,088</u>	<u>\$6,445,000</u>	<u>\$659,225</u>	<u>\$12,610,000</u>	<u>\$2,068,313</u>	<u>\$14,678,313</u>

**City of South Padre Island, Texas**  
**Notes to Financial Statements**  
**September 30, 2016**

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

**Component Unit**

*1. Revenue Bond*

	Beginning Balance October 1, <u>2015</u>	<u>Additions</u>	<u>Reductions</u>	Ending Balance September 30, <u>2016</u>	Amount Due In <u>One Year</u>
2016 Series, Sales Tax Bond	\$ -	\$3,485,000	\$ -	\$3,485,000	\$ 45,000
2007 Series, Sales Tax Bond	<u>4,185,000</u>	<u>-</u>	<u>(3,670,000)</u>	<u>515,000</u>	<u>250,000</u>
Total Revenue Bond	<u>\$4,185,000</u>	<u>\$3,485,000</u>	<u>\$(3,670,000)</u>	<u>\$4,000,000</u>	<u>\$295,000</u>

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

Year Ending <u>September 30,</u>	<u>2007 Revenue Bonds</u>		<u>2016 Revenue Bonds</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>	
2017	\$ 250,000	\$ 17,043	\$ 45,000	\$ 69,250	\$ 295,000	\$ 86,293	\$ 381,293
2018	265,000	5,790	30,000	68,500	295,000	74,290	369,290
2019	-	-	310,000	65,000	310,000	65,100	375,100
2020	-	-	310,000	58,900	310,000	58,900	368,900
2021	-	-	320,000	52,600	320,000	52,600	372,600
2022-2026	-	-	1,705,000	130,925	1,705,000	130,925	1,835,925
2027-2031	-	-	<u>765,000</u>	<u>21,225</u>	<u>765,000</u>	<u>21,225</u>	<u>786,225</u>
	<u>\$ 515,000</u>	<u>\$ 22,833</u>	<u>\$3,485,000</u>	<u>\$466,500</u>	<u>\$4,000,000</u>	<u>\$ 489,333</u>	<u>\$4,489,333</u>

**Primary Government**

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

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

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

During April of 2016, the City issued Series 2016 Tax Notes for \$3,890,000 primarily to finance the cost of improvements on Padre Boulevard. The bonds are collateralized by the pledged tax revenues of the City and will be repaid over the next 7 years with final maturity in fiscal year end 2023. Principal is due annually, and interest payments at the rate of 2% - 3% are due on February 15 and August 15 of each fiscal year.

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

*Advance Refundings*

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

The advance refunding was undertaken to reduce the City's interest payments. The advance refunding resulted in an economic gain (difference between the present value of the debt service payment of the refunded and refunding bonds) of \$201,901, and a gross savings of \$223,738. At September 30, 2016, the defeased portion of the 2005 Series General Obligation bonds had a balance of \$2,985,000.

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

**Capital Lease Obligations**

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

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

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

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

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

In November of 2015, the City entered into a lease agreement with TYMCO, Inc. for the purchase of a Street Sweeper in the amount of \$144,335. Lease payments are due annually in October of each year beginning in October of 2015.

**City of South Padre Island, Texas**  
**Notes to Financial Statements**  
**September 30, 2016**

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

The following is a schedule of the future minimum lease payments under the capital lease together with the present value of the next minimum lease payments as of September 30, 2016:

Year ending September 30,	Fire Ladder <u>Truck</u>	<u>Ambulance</u>	Police Radio <u>Equipment</u>	Vehicles <u>Merchant</u>	TYMCO - Street <u>Sweeper</u>	<u>Total</u>
2017	\$106,439	\$ 29,987	\$ 63,062	\$ 53,646	\$ 37,458	\$290,592
2018	242,788	20,132	63,062	34,666	37,458	398,106
2019	-	-	63,062	-	37,458	100,520
2020	-	-	<u>63,062</u>	-	-	<u>63,062</u>
Total minimum lease payments	349,227	50,119	252,248	88,312	112,374	852,280
Less the amount representing interest	<u>(17,003)</u>	<u>(4,858)</u>	<u>(19,346)</u>	<u>(7,653)</u>	<u>(5,496)</u>	<u>(54,356)</u>
Present value of net minimum lease payments	<u>\$332,224</u>	<u>\$ 45,261</u>	<u>\$232,902</u>	<u>\$ 80,659</u>	<u>\$106,878</u>	<u>\$797,924</u>

*Changes in Long-term Liabilities for Governmental Activities*

During the year ended September 30, 2016, the following changes occurred in liabilities reported as non-current liabilities.

	October 1, 2015	Additions	Reductions	September 30, 2016	Amount Due Within One Year
Compensated absences*	\$ 841,435	\$ 642,861	\$ (638,832)	\$ 845,464	\$ 449,084
Bonds payable	9,505,000	3,890,000	(785,000)	12,610,000	1,365,000
Premium on bond issuances	453,172	210,429	(66,454)	597,147	51,424
Capital leases	951,676	144,335	(298,087)	797,924	297,898
Net pension liability	<u>1,197,469</u>	<u>1,624,810</u>	-	<u>2,822,279</u>	-
Total long-term debt	<u>\$12,948,752</u>	<u>\$6,512,435</u>	<u>\$(1,788,373)</u>	<u>\$17,672,814</u>	<u>\$2,163,406</u>

\*Compensated absences are generally liquidated by the General Fund.

**Component Unit**

During May 2016, the Economic Development Corporation (“EDC”) issued Series 2016 Sales Tax Revenue Refunding Bonds in the amount of \$3,485,000 to provide resources to refund the majority of the EDC’s 2007 Series Sales Tax Bonds and cover costs of issuance. As a result, \$3,440,000 of the Series 2007 bonds are considered to be defeased and the liability has been removed from the accounts of the EDC. The bonds were issued at a premium of \$225,384 and the cost of issuance totaled \$114,138. Principal is due annually on October 1 of each year until maturity on October 1, 2027. Interest is payable on April 1 and October 1 of each year until maturity at rates ranging from 2.00% - 4.00%. The bonds are secured by a lien and pledge of the sales tax revenues of the EDC.

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

**City of South Padre Island, Texas**  
**Notes to Financial Statements**  
**September 30, 2016**

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

*Changes in Long-term Liabilities for Component Units*

	October 1, <u>2015</u>	<u>Additions</u>	<u>Reductions</u>	September 30, <u>2016</u>	Amount Due Within <u>One Year</u>
2007 Series, Sales Tax Bond	\$4,185,000	\$ -	\$(3,670,000)	\$ 515,000	\$250,000
2016 Series, Sales Tax Revenue Refunding Bond	-	3,485,000	-	3,485,000	45,000
Premium on bond issuance	-	225,385	-	225,385	-
Net pension liability	<u>9,791</u>	<u>12,687</u>	<u>-</u>	<u>22,478</u>	<u>-</u>
<b>Total long-term debt</b>	<b><u>\$4,194,791</u></b>	<b><u>\$3,723,072</u></b>	<b><u>\$(3,670,000)</u></b>	<b><u>\$4,247,863</u></b>	<b><u>\$295,000</u></b>

**NOTE K - INTERFUND ASSETS/LIABILITIES**

*Due to/from other funds:*

<u>Payable Fund</u>	<u>Receivable Fund</u>
Other Governmental Funds	General
	<b><u>\$204,522</u></b>

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

**NOTE L – TRANSFERS**

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

<u>Transfer Out Funds</u>	<u>General</u>	<u>Parks and Beautification Fund</u>	<u>Transportation Grant</u>	<u>Street Improvement</u>	<u>Bay Access</u>	<u>Beach Access</u>	<u>Total</u>
General	\$ -	\$ 15,000	\$ 86,630	\$ 179,578	\$ 23,084	\$ 100,000	\$ 404,292
Beach maintenance	<u>103,091</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>8,255</u>	<u>442,166</u>	<u>553,512</u>
<b>Total transfers</b>	<b><u>\$103,091</u></b>	<b><u>\$ 15,000</u></b>	<b><u>\$ 86,630</u></b>	<b><u>\$ 179,578</u></b>	<b><u>\$ 31,339</u></b>	<b><u>\$542,166</u></b>	<b><u>\$957,804</u></b>

Transfer between funds within the Component Units

<u>Transfer Out Funds</u>	<u>Transfer in Funds</u>
	EDC
	<u>Debt Service Fund</u>
Economic Development Corporation	<b><u>\$465,335</u></b>

**NOTE M - COMMITMENTS AND CONTINGENT LIABILITIES**

1. *Litigation*

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

2. *Grant Programs*

The City and component unit participate in a number of grant programs funded by State and Federal Agencies. These programs are subject to compliance audits by the grantor agencies or their representatives. The amount, if any, of expenditures which may be disallowed by the grantor agencies cannot be determined at this time, although the City expects such amounts, if any, to be immaterial.

**NOTE N - RISK MANAGEMENT**

The City is exposed to various uncertainties for losses related to intentional and unintentional torts; theft of, damage to and destruction of real and personal property; errors and omissions; catastrophes, medical and dental claims by employees; employee illnesses and injuries and pollution claims for which the City carries commercial insurance coverage. There have been no significant reductions in insurance coverage from the previous year. No negotiated settlements or jury awards have exceeded policy limits in any of the past three years. The City is a member of an intergovernmental risk pool. The risk pool is an interlocal non-assessable agency with present unreserved resources in excess of \$392,000,000 (as of September 30, 2016, the most recently audited financial statements completed for the risk pool). Reinsurance is provided by several A and A++ rated companies in amounts ranging from \$10,000,000 to \$100,000,000 depending on the type of insurance coverage. The City must promptly pay contributions to the risk pool as outlined by the coverage contracts, comply with underwriting standards and implement loss control recommendations deemed necessary by a risk pool representative due to an eminent high risk of loss situation. City management is not aware of any pending or alleged claims that could exceed the policy limits of the present insurance coverage.

**NOTE O – DEFINED BENEFIT PENSION PLANS**

*Plan Description*

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

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

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

**A. Plan Description**

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

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

**B. Benefits Provided**

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

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

***Employees covered by benefit terms***

At the December 31, 2015 valuation and measurement date, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefits	43
Inactive employees entitled to but not yet receiving benefits	83
Active employees	<u>166</u>
	292

**C. Contributions**

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



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

**C. Contributions - Continued**

Employees for the City of South Padre Island were required to contribute 7% of their annual gross earnings during the fiscal year. The contribution rates for the City of South Padre Island were 12.64% and 12.46% in calendar year 2015 and 2016, respectively. The city's contributions to TMRS for the year ended September 30, 2016 were \$952,539, and were equal to the required contributions.

**D. Net Pension Liability**

The City's Net Pension Liability (NPL) was measured as of December 31, 2015, and the Total Pension Liability (TPL) used to calculate the Net Pension Liability was determined by an actuarial valuation as of that date.

***Actuarial assumptions:***

The Total Pension Liability in the December 31, 2015 actuarial valuation was determined using the following actuarial assumptions:

Inflation	2.5% per year
Overall payroll growth	3.0% per year
Investment Rate of Return	6.75%, net of pension plan investment expense, including inflation

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

Actuarial assumptions used in the December 31, 2015, valuation were based on the results of actuarial experience studies. The experience study in TMRS was for the period December 31, 2010 through December 31, 2014. Healthy post-retirement mortality rates and annuity purchase rates were updated based on a Mortality Experience Investigation Study covering 2009 through 2011, and dated December 31, 2013. These assumptions were first used in the December 31, 2013 valuation, along with a change to the Entry Age Normal (EAN) actuarial cost method. Assumptions are reviewed annually. No additional changes were made for the 2014 valuation. After the Asset Allocation Study analysis and experience investigation study, the Board amended the long-term expected rate of return on pension plan investments from 7% to 6.75%. Plan assets are managed on a total return basis with an emphasis on both capital appreciation as well as the production of income, in order to satisfy the short-term and long-term funding needs of TMRS.

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

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. In determining their best estimate of a recommended investment return assumption under the various alternative asset allocation portfolios, GRS focused on the area between (1) arithmetic mean (aggressive) without an adjustment for time (conservative) and (2) the geometric mean (conservative) with an adjustment for time (aggressive). At its meeting on July 30, 2015, the TMRS Board approved a new portfolio target allocation. The target allocation and best estimates of real rates of return for each major asset class are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-term Expected Real Rate of Return (Arithmetic)</u>
Domestic Equity	17.5%	4.55%
International Equity	17.5%	6.10%
Core Fixed Income	10.0%	1.00%
Non-Core Fixed Income	20.0%	3.65%
Real Return	10.0%	4.03%
Real Estate	10.0%	5.00%
Absolute Return	10.0%	4.00%
Private Equity	<u>5.0%</u>	8.00%
 Total	 <u>100.0%</u>	

***Discount Rate***

The discount rate used to measure the Total Pension Liability was 6.75%. The projection of cash flows used to determine the discount rate assumed that employee and employer contributions will be made at the rates specified in statute. Based on that assumption, the pension plan's Fiduciary Net Position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the Total Pension Liability.

**City of South Padre Island, Texas**  
**Notes to Financial Statements**  
**September 30, 2016**

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

***Net Pension Liability***

	City Increase (Decrease)			EDC Increase (Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a) – (b)	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a) – (b)
Balance at December 31, 2014	\$26,679,649	\$25,481,929	\$1,197,720	\$212,490	\$202,950	\$9,540
Changes for the year:						
Service cost	1,318,214	-	1,318,214	10,499	-	10,499
Interest	1,889,181	-	1,889,181	15,047	-	15,047
Change in benefit terms	-	-	-	-	-	-
Difference between expected/actual experience	(252,638)	-	(252,638)	(2,012)	-	(2,012)
Changes of assumptions	135,404	-	135,404	1,078	-	1,078
Contributions – employer	-	934,504	(934,504)	-	7,443	(7,443)
Contributions – employee	-	517,526	(517,526)	-	4,122	(4,122)
Net investment income	-	37,606	(37,606)	-	300	(300)
Benefit payments, including refunds of employee Contributions	(700,900)	(700,900)	-	(5,582)	(5,582)	-
Administrative expenses	-	(22,903)	22,903	-	(182)	182
Other charges	-	(1,131)	1,131	-	(9)	9
Net changes	<u>2,389,261</u>	<u>2,389,261</u>	<u>1,624,559</u>	<u>19,030</u>	<u>6,092</u>	<u>12,938</u>
Balance at December 31, 2015	<u>\$ 29,068,910</u>	<u>\$26,246,631</u>	<u>\$2,822,279</u>	<u>\$ 231,520</u>	<u>\$209,042</u>	<u>\$22,478</u>

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

The following presents the net pension liability of the City, calculated using the discount rate of 6.75%, as well as what the City's net pension liability would have been if it were calculated using a discount rate that is 1 percentage point lower (5.75%) or 1 percentage point higher (7.75%) than the current rate.

	1% Decrease in Discount Rate (5.75%)	Discount Rate (6.75%)	1% Increase in Discount Rate (7.75%)
City's net pension liability	\$7,679,005	\$2,822,279	\$(1,093,780)
EDC (component unit) net pension liability	<u>61,159</u>	<u>22,478</u>	<u>(8,711)</u>
Total net pension liability	<u>\$7,740,164</u>	<u>\$2,844,757</u>	<u>\$(1,102,491)</u>

**City of South Padre Island, Texas**  
**Notes to Financial Statements**  
**September 30, 2016**

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

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

For the year ended September 30, 2016 the City and the EDC recognized combined pension expense in the amounts of \$1,297,785 and \$2,696, respectively. At September 30, 2016 the City and the EDC reported combined deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	City		EDC	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual Economic experience (net of current year amortization)	\$ -	\$322,480	\$ -	\$2,571
Changes in actuarial assumptions Differences between projected and actual investment earnings (net of current year amortization)	111,896	-	891	-
	1,576,828	-	12,525	-
Contributions subsequent to the measurement date	<u>684,801</u>	<u>-</u>	<u>5,454</u>	<u>-</u>
Total	<u>\$2,375,525</u>	<u>\$322,480</u>	<u>\$18,870</u>	<u>\$2,571</u>

The \$684,801 and \$5,454 in the City and EDC which are reported as deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability for the year ending September 30, 2016. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

	City	EDC	Total
Year ended September 30,			
2016	\$360,037	\$ 2,868	\$362,905
2017	360,037	2,868	362,905
2018	360,038	2,868	362,906
2019	301,564	2,402	303,966
2020	(15,470)	(123)	(15,593)
Thereafter	-	-	-

**NOTE P - OTHER POST EMPLOYMENT BENEFITS**

***Plan Description***

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

***Benefits***

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

**City of South Padre Island, Texas**  
**Notes to Financial Statements**  
**September 30, 2016**

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

**Contributions**

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

The City's contributions to the TMRS SDBF for the years ended 2014, 2015 and 2016 were \$1,395, \$1,448 and \$1,523, respectively, which equaled the required contributions each year.

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

Plan/ Calendar Year	Annual Required Contribution (Rate)	Actual Contribution Made (Rate)	Percentage of ARC Contributed
2014	0.02%	0.02%	100.0%
2015	0.02%	0.02%	100.0%
2016	0.02%	0.02%	100.0%

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

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

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

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

	<u>General Fund</u>	<u>Hotel/Motel Fund</u>	<u>Padre Blvd. Improvement Fund</u>	<u>Other Governmental Funds</u>	<u>Total Government Funds</u>
Fund balance (deficit)					
Non-spendable					
Prepaid	\$ 58,086	\$ 5,910	\$ -	\$ 31,580	\$ 95,576
Restricted					
Debt service	-	-	-	413,573	413,573
Capital projects	-	-	3,504,100	2,858,126	6,362,226
Beach nourishment	-	-	-	1,872,911	1,872,911
Transportation	-	-	-	231,280	231,280
Beach maintenance	-	-	-	2,260,996	2,260,996
Municipal court	-	-	-	61,026	61,026
Criminal justice	113,072	-	-	3,644	116,716
Parks and recreation	-	-	-	3,884	3,884
Hotel/Motel tax	-	4,273,515	-	2,357,317	6,630,832
Unassigned	<u>6,685,288</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>6,685,288</u>
	<u>\$6,856,446</u>	<u>\$4,279,425</u>	<u>\$3,504,100</u>	<u>\$10,094,337</u>	<u>\$24,734,308</u>

**City of South Padre Island, Texas**  
**Notes to Financial Statements**  
**September 30, 2016**

**NOTE R – NET POSITION**

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

	Governmental Activities	Component Units
Net investment in capital assets:		
Capital assets, net of accumulated depreciation	\$30,101,564	\$6,395,466
Deferred outflows of resources – deferred amount on refunding	210,208	196,308
Less related liabilities (bonds, net of premium, and capital leases)	(14,005,071)	(4,235,176)
Restricted cash (unexpended bond proceeds)	<u>3,504,100</u>	<u>          -</u>
Net investment in capital assets – total	19,810,801	2,356,598
Restricted net position consists of the following:		
Restricted for debt service	361,774	427,412
Restricted for capital projects	2,858,126	-
Restricted for beach nourishment	1,872,911	-
Transportation	231,280	-
Restricted for beach maintenance	2,260,996	-
Restricted for municipal court	61,026	-
Restricted for criminal justice	116,716	-
Restricted for parks and recreation	3,884	-
Restricted for hotel/motel taxes	<u>6,630,832</u>	<u>          -</u>
Restricted net position – total	14,397,545	427,412
Unrestricted net position	<u>5,485,644</u>	<u>1,264,267</u>
Total net position	<u>\$39,693,990</u>	<u>\$4,048,277</u>

**NOTE S – PRIOR PERIOD ADJUSTMENT**

*Correction of an Error*

During 2016, management corrected an error pertaining to the valuation of capital leases in the amount of \$5,775. This difference is recorded as an increase in the beginning net position and a decrease in beginning balance of outstanding capital leases.

**REQUIRED SUPPLEMENTARY  
INFORMATION**

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

For the Year Ended September 30, 2016

	Budget		Actual	Variance
	Original	Final		Final Budget
				Positive (Negative)
<b>REVENUES</b>				
Property taxes - including penalty and interest	\$ 5,970,866	\$ 5,970,866	\$ 5,801,539	\$ (169,327)
Nonproperty taxes	3,503,197	3,503,197	3,536,909	33,712
Fees and services	705,569	705,569	749,698	44,129
Fines and forfeitures	410,000	410,000	606,743	196,743
Licenses and permits	161,000	161,000	264,933	103,933
Intergovernmental	46,000	457,452	617,244	159,792
Miscellaneous and program revenues	45,800	47,800	80,530	32,730
Total revenues	10,842,432	11,255,884	11,657,596	401,712
<b>EXPENDITURES</b>				
Current				
General government				
City council	20,000	20,000	1,242	18,758
City administration	683,824	800,779	693,640	107,139
Finance	345,118	345,118	327,253	17,865
Planning	166,354	172,375	167,689	4,686
Information services	446,217	448,382	436,309	12,073
Environmental health services	410,146	419,863	403,003	16,860
General services	858,801	858,801	849,234	9,567
Special projects	236,940	443,704	325,444	118,260
Total general government	3,167,400	3,509,022	3,203,814	305,208
Public safety				
Municipal court	198,952	198,952	189,789	9,163
Police	2,786,018	2,786,018	2,633,021	152,997
Fire	2,114,494	2,120,319	2,079,412	40,907
Emergency management	16,280	16,280	5,522	10,758
Total public safety	5,115,744	5,121,569	4,907,744	213,825
Public works				
Building maintenance	203,357	203,357	196,329	7,028
Inspections	193,506	193,506	193,209	297
Fleet Management	509,655	503,479	371,133	132,346
Public works	1,069,624	1,179,152	1,007,347	171,805
Total public works	1,976,142	2,079,494	1,768,018	311,476
Capital outlay	164,000	1,201,018	1,350,909	(149,891)
Debt service				
Principal retirement - capital lease	287,217	287,217	287,137	80
Interest and fees	40,226	40,226	40,226	-
Total debt service	327,443	327,443	327,363	80
Total expenditures	10,750,729	12,238,546	11,557,848	680,698
EXCESS OF REVENUES OVER EXPENDITURES	91,703	(982,662)	99,748	1,082,410



City of South Padre Island, Texas  
**GENERAL FUND**  
**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE**  
**BUDGET AND ACTUAL - CONTINUED**  
For the Year Ended September 30, 2016

	Budget		Actual	Variance
	Original	Final		Final Budget
				Positive (Negative)
<b>OTHER FINANCING SOURCES (USES)</b>				
Sale of fixed asset	-	\$ -	\$ 21,557	\$ 21,557
Lease proceeds	-		\$ 144,335	\$ 144,335
Transfers in	200,000	198,560	103,091	(95,469)
Transfers out	<u>(116,210)</u>	<u>(404,292)</u>	<u>(404,292)</u>	-
Total other financing sources (uses)	<u>83,790</u>	<u>(205,732)</u>	<u>(135,309)</u>	<u>70,423</u>
NET CHANGE IN FUND BALANCE	<u>\$ 175,493</u>	<u>\$ (1,188,394)</u>	(35,561)	<u>\$ 1,152,833</u>
Fund balance -- beginning			<u>6,892,007</u>	
Fund balance -- ending			<u>\$ 6,856,446</u>	

City of South Padre Island, Texas  
HOTEL/MOTEL TAX FUND

**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL**  
For the Year Ended September 30, 2016

	Budget		Actual	Variance Final Budget
	Original	Final		Positive (Negative)
<b>REVENUES</b>				
Nonproperty taxes	\$ 5,632,983	\$ 5,632,983	\$ 5,653,243	\$ 20,260
Fees and services	7,000	7,000	8,675	1,675
Miscellaneous and program revenues	<u>51,000</u>	<u>51,000</u>	<u>81,964</u>	<u>30,964</u>
Total revenues	5,690,983	5,690,983	5,743,882	52,899
<b>EXPENDITURES</b>				
Current				
Convention and visitors bureau				
Visitors bureau	215,273	215,273	193,813	21,460
Sales and marketing	1,412,946	1,442,446	1,253,040	189,406
Events marketing	800,000	835,000	568,693	266,307
Marketing	<u>2,800,000</u>	<u>2,800,000</u>	<u>2,598,711</u>	<u>201,289</u>
Total community service	5,228,219	5,292,719	4,614,257	678,462
Total expenditures	<u>5,228,219</u>	<u>5,292,719</u>	<u>4,614,257</u>	<u>678,462</u>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>	<u>462,764</u>	<u>398,264</u>	<u>1,129,625</u>	<u>731,361</u>
<b>NET CHANGE IN FUND BALANCE</b>	<u>\$ 462,764</u>	<u>\$ 398,264</u>	1,129,625	<u>\$ 731,361</u>
Fund balance -- beginning			<u>3,149,800</u>	
Fund balance -- ending			<u>\$ 4,279,425</u>	

City of South Padre Island, Texas  
**PADRE BOULEVARD IMPROVEMENT FUND**  
**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL**  
For the Year Ended September 30, 2016

	Budget		Actual	Variance
	Original	Final		Final Budget
				Positive (Negative)
<b>REVENUES</b>				
Miscellaneous and program revenues	\$ -	\$ -	\$ 5,198	\$ 5,198
Total revenues	-	-	5,198	5,198
<b>EXPENDITURES</b>				
<b>Current</b>				
General government				
Special projects	-	333,102	34,144	298,958
Total general government	-	333,102	34,144	298,958
Debt service				
Bond issue costs	-	-	89,736	(89,736)
Total debt service	-	-	89,736	(89,736)
Capital outlay	-	1,414,325	477,647	936,678
Total expenditures	-	1,747,427	601,527	1,145,900
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>	-	(1,747,427)	(596,329)	1,151,098
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers in	-	145,846	-	(145,846)
Issuance of debt	-	-	3,890,000	3,890,000
Premium on issuance of debt	-	-	210,429	210,429
Total other financing sources (uses)	-	-	4,100,429	4,100,429
<b>NET CHANGE IN FUND BALANCE</b>	<b>\$ -</b>	<b>\$ (1,747,427)</b>	3,504,100	<b>\$ 5,251,527</b>
Fund balance -- beginning			-	
Fund balance -- ending			<u>\$ 3,504,100</u>	

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**City of South Padre Island, Texas**  
**Schedule of Changes in Net Pension Liability and Related Ratios**  
**For Agent Multiple Employer Pension Plan**  
**Texas Municipal Retirement System**  
**For the Years Ended September 30,**

	<u>2016</u>	<u>2015</u>
<b>Total Pension Liability</b>		
Service cost	\$ 1,328,713	\$ 1,221,450
Interest (on the total pension liability)	1,904,228	1,754,638
Changes of benefit terms	-	-
Difference between expected and actual experience	(254,650)	(172,667)
Changes of assumptions	136,482	-
Benefit payments, including refunds of employee contributions	<u>(706,482)</u>	<u>(733,635)</u>
Net change in total pension liability	2,408,291	2,069,786
Total pension liability – beginning	<u>26,892,139</u>	<u>24,822,353</u>
Total pension liability – ending (a)	<u>\$29,300,430</u>	<u>\$26,892,139</u>
<b>Plan Fiduciary Net Position</b>		
Contributions – employer	\$ 941,947	\$ 920,340
Contributions – employee	521,648	516,630
Net investment income	37,906	1,352,871
Benefit payments, including refunds of employee contributions	(706,482)	(733,635)
Administrative expense	(23,085)	(14,122)
Other	<u>(1,140)</u>	<u>(1,161)</u>
Net change in plan fiduciary net position	770,794	2,040,923
Plan fiduciary net position – beginning	<u>25,684,879</u>	<u>23,643,956</u>
Plan fiduciary net position – ending (b)	<u>\$26,455,673</u>	<u>\$25,684,879</u>
Net pension liability – ending (a) – (b)	<u>\$ 2,844,757</u>	<u>\$ 1,207,260</u>
Plan fiduciary net position as a percentage of total pension liability	90.29%	95.51%
Covered employee payroll	\$ 7,452,122	\$ 7,380,428
Net pension liability as a percentage of covered employee payroll	38.17%	16.36%

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

**City of South Padre Island, Texas**  
**Schedule of Contributions**  
**For Agent Multiple Employer Pension Plan**  
**Texas Municipal Retirement System**  
**For the Years Ended September 30,**

	<u>2016</u>	<u>2015</u>
Actuarially determined contribution	\$ 952,539	\$ 926,892
Contributions in relation to actuarially determined contribution	<u>(952,539)</u>	<u>(926,892)</u>
Contribution deficiency (excess)	\$ <u>          -</u>	\$ <u>          -</u>
Covered employee payroll	\$7,614,798	\$7,359,671
Contributions as a percentage of covered employee payroll	12.51%	12.59%

**City of South Padre Island, Texas  
Notes to Schedule of Contributions  
For Agent Multiple Employer Pension Plan  
Texas Municipal Retirement System  
For the Year Ended September 30, 2016**

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

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

Actuarial Cost Method	Entry Age Normal
Amortization Method	Level Percentage of Payroll, Closed
Remaining Amortization Period	25 Years
Asset Valuation Method	10 Year Smoothed Market; 15% Soft Corridor
Inflation	2.5%
Salary Increases	3.50% to 10.5% including inflation
Investment Rate of Return	6.75%
Retirement Age	Experience – based table based on rates that are specific to the City’s plan of benefits. Last updated for the 2015 valuation pursuant to an experience study of the period 2010 – 2014.
Mortality	RP2000 Combined Mortality Table with Blue Collar Adjustment with male rates multiplied by 109% and female rates multiplied by 103% and projected on a fully generational basis with scale BB.

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

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

**City of South Padre Island, Texas**  
**Notes to the Required Supplementary Information**  
**For the Year Ended September 30, 2016**

**Stewardship, compliance, and accountability**

**1. Budgetary information**

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

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

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

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

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

**2. Expenditures over Appropriations**

None noted.



**City of South Padre Island, Texas**  
**Non-Major Governmental Fund Statements and Schedules**  
**September 30, 2016**

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

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

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

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

*Special revenue fund:* **Tax Increment Reinvestment Zone (TIRZ)** fund was established by City Council to finance the cost of redevelopment and encourage development in an area that would otherwise not attract sufficient market development.

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

*Special revenue fund:* **Beach Nourishment Fund** was established to account for nourishment efforts on the beach and is primarily funded by Hotel Motel tax revenue.

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

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

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

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

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

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

City of South Padre Island, Texas  
**NON MAJOR GOVERNMENTAL FUNDS**  
**COMBINING BALANCE SHEETS**  
September 30, 2016

	Special Revenue Funds						
	Convention Centre Fund	Municipal Court Technology Fund	Municipal Court Security Fund	Transportation Grant Fund	Criminal Justice Grant	Parks and Recreation Fund	
<b>ASSETS</b>							
Cash and cash equivalents	\$ 2,280,716	\$ 16,570	\$ 44,456	\$ -	\$ 3,644	\$ 3,884	\$ 157,042
Investments	-	-	-	-	-	-	-
Receivables (net of allowance)							
Taxes	-	-	-	-	-	-	-
Accounts	121,682	-	-	-	-	-	-
Due from other governments	-	-	-	436,679	-	-	-
Prepaid items	29,208	-	-	2,307	-	-	-
<b>TOTAL ASSETS</b>	<b><u>\$ 2,431,606</u></b>	<b><u>\$ 16,570</u></b>	<b><u>\$ 44,456</u></b>	<b><u>\$ 438,986</u></b>	<b><u>\$ 3,644</u></b>	<b><u>\$ 3,884</u></b>	<b><u>\$ 157,042</u></b>
<b>LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCE</b>							
Accounts payable	\$ 31	\$ -	\$ -	\$ 877	\$ -	\$ -	\$ -
Due to other funds	-	-	-	204,522	-	-	-
Unearned revenues	45,050	-	-	-	-	-	-
<b>TOTAL LIABILITIES</b>	<b>45,081</b>	<b>-</b>	<b>-</b>	<b>205,399</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>DEFERRED INFLOWS OF RESOURCES</b>							
Unavailable revenue - property taxes	-	-	-	-	-	-	-
<b>TOTAL DEFERRED INFLOWS OF RESOURCES</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>FUND BALANCE</b>							
Nonspendable	29,208	-	-	2,307	-	-	-
Restricted	2,357,317	16,570	44,456	231,280	3,644	3,884	157,042
Unassigned	-	-	-	-	-	-	-
<b>TOTAL FUND BALANCE</b>	<b><u>2,386,525</u></b>	<b><u>16,570</u></b>	<b><u>44,456</u></b>	<b><u>233,587</u></b>	<b><u>3,644</u></b>	<b><u>3,884</u></b>	<b><u>157,042</u></b>
<b>TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCE</b>	<b><u>\$ 2,431,606</u></b>	<b><u>\$ 16,570</u></b>	<b><u>\$ 44,456</u></b>	<b><u>\$ 438,986</u></b>	<b><u>\$ 3,644</u></b>	<b><u>\$ 3,884</u></b>	<b><u>\$ 157,042</u></b>



Capital Projects Funds									Total Non Major Governmental Funds
Beach Maintenance Fund	Beach Nourishment Fund	Street Improvement Fund	Gulf Boulevard Rebuild Fund	Capital Replacement Fund	Beach Access Fund	Bay Access Fund	Total	Debt Service	
\$ 1,380,716	\$ 1,840,145	\$ 147,013	\$ 218,016	\$ 1,097	\$ 298,971	\$ 29,136	\$ 6,421,406	\$ 405,950	\$ 6,827,356
-	-	-	2,006,851	-	-	-	2,006,851	-	2,006,851
-	-	-	-	-	-	-	-	30,238	30,238
-	32,766	-	-	-	-	-	154,448	1,931	156,379
880,280	-	-	-	-	-	-	1,316,959	-	1,316,959
65	-	-	-	-	-	-	31,580	-	31,580
<u>\$ 2,261,061</u>	<u>\$ 1,872,911</u>	<u>\$ 147,013</u>	<u>\$ 2,224,867</u>	<u>\$ 1,097</u>	<u>\$ 298,971</u>	<u>\$ 29,136</u>	<u>\$ 9,931,244</u>	<u>\$ 438,119</u>	<u>\$ 10,369,363</u>
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 908	\$ -	\$ 908
-	-	-	-	-	-	-	204,522	-	204,522
-	-	-	-	-	-	-	45,050	-	45,050
-	-	-	-	-	-	-	250,480	-	250,480
-	-	-	-	-	-	-	-	24,546	24,546
-	-	-	-	-	-	-	-	24,546	24,546
65	-	-	-	-	-	-	31,580	-	31,580
2,260,996	1,872,911	147,013	2,224,867	1,097	298,971	29,136	9,649,184	413,573	10,062,757
-	-	-	-	-	-	-	-	-	-
<u>2,261,061</u>	<u>1,872,911</u>	<u>147,013</u>	<u>2,224,867</u>	<u>1,097</u>	<u>298,971</u>	<u>29,136</u>	<u>9,680,764</u>	<u>413,573</u>	<u>10,094,337</u>
<u>\$ 2,261,061</u>	<u>\$ 1,872,911</u>	<u>\$ 147,013</u>	<u>\$ 2,224,867</u>	<u>\$ 1,097</u>	<u>\$ 298,971</u>	<u>\$ 29,136</u>	<u>\$ 9,931,244</u>	<u>\$ 438,119</u>	<u>\$ 10,369,363</u>

City of South Padre Island, Texas  
**NON MAJOR GOVERNMENTAL FUNDS**  
**COMBINING STATEMENT OF REVENUES, EXPENDITURES AND**  
**CHANGES IN FUND BALANCES**  
For the Year Ended September 30, 2016

	Special Revenue Funds						
	Convention Centre Fund	Municipal Court Technology Fund	Municipal Court Security Fund	Transportation Fund	Criminal Justice Grant	Parks and Recreation Fund	
<b>Revenues</b>							
Property taxes	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 156,584
Nonproperty taxes	1,706,840	-	-	-	-	-	-
Fees and services	248,691	-	-	-	-	-	-
Fines and forfeitures	-	12,047	9,035	-	-	-	-
Intergovernmental	-	-	-	2,036,814	-	-	-
Miscellaneous	8,030	47	129	58,021	-	-	458
<b>Total revenues</b>	<b>1,963,561</b>	<b>12,094</b>	<b>9,164</b>	<b>2,094,835</b>	<b>-</b>	<b>-</b>	<b>157,042</b>
<b>Expenditures</b>							
<b>Current</b>							
General government	-	-	-	-	-	-	-
Public safety	-	10,940	-	-	-	-	-
Public works	-	-	-	-	-	-	-
Transportation	-	-	-	1,513,709	-	-	-
Community service	-	-	-	-	-	14,233	-
Convention and visitors bureau	1,253,283	-	-	-	-	-	-
Capital outlay	1,233,382	-	21,677	773,903	-	-	-
<b>Debt service</b>							
Principal - bonds	-	-	-	-	-	-	-
Principal - capital lease	5,249	-	-	-	-	-	-
Interest	522	-	-	-	-	-	-
Administrative charges	142	-	-	-	-	-	-
<b>Total expenditures</b>	<b>2,492,578</b>	<b>10,940</b>	<b>21,677</b>	<b>2,287,612</b>	<b>-</b>	<b>14,233</b>	<b>-</b>
<b>EXCESS (DEFICIENCY) REVENUES OVER (UNDER) EXPENDITURES</b>	<b>(529,017)</b>	<b>1,154</b>	<b>(12,513)</b>	<b>(192,777)</b>	<b>-</b>	<b>(14,233)</b>	<b>157,042</b>
<b>Other financing sources (uses)</b>							
Sale of capital assets	16,410	-	-	15,949	-	-	-
Transfers in	-	-	-	86,630	-	15,000	-
Transfers (out)	-	-	-	-	-	-	-
<b>Total other financing sources (uses)</b>	<b>16,410</b>	<b>-</b>	<b>-</b>	<b>102,579</b>	<b>-</b>	<b>15,000</b>	<b>-</b>
<b>NET CHANGE IN FUND BALANCES</b>	<b>(512,607)</b>	<b>1,154</b>	<b>(12,513)</b>	<b>(90,198)</b>	<b>-</b>	<b>767</b>	<b>157,042</b>
<b>Fund balance, beginning of year</b>	<b>2,899,132</b>	<b>15,416</b>	<b>56,969</b>	<b>323,785</b>	<b>3,644</b>	<b>3,117</b>	<b>-</b>
<b>Fund balance, end of year</b>	<b>\$ 2,386,525</b>	<b>\$ 16,570</b>	<b>\$ 44,456</b>	<b>\$ 233,587</b>	<b>\$ 3,644</b>	<b>\$ 3,884</b>	<b>\$ 157,042</b>



**Capital Projects Funds**

Beach Maintenance Fund	Beach Nourishment Fund	Street Improvement Fund	Gulf Boulevard Rebuild Fund	Capital Replacement Fund	Beach Access Fund	Bay Access Fund	Total	Debt Service	Total Non Major Governmental Funds
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 156,584	\$ 1,145,374	\$ 1,301,958
1,757,169	460,026	-	-	-	-	-	3,924,035	-	3,924,035
-	-	-	-	-	-	-	248,691	-	248,691
-	-	-	-	-	-	-	21,082	-	21,082
-	-	-	-	-	-	-	2,036,814	-	2,036,814
4,681	4,468	-	13,201	-	1,089	85	90,209	1,745	91,954
1,761,850	464,494	-	13,201	-	1,089	85	6,477,415	1,147,119	7,624,534
70,870	-	-	-	-	-	-	70,870	-	70,870
254,453	-	-	-	-	-	-	265,393	-	265,393
610,092	-	-	-	-	-	24,211	634,303	-	634,303
-	-	-	-	-	-	-	1,513,709	-	1,513,709
-	1,442,152	-	-	-	-	-	1,456,385	-	1,456,385
60,519	-	534,735	743,810	31,297	358,161	-	3,757,484	-	3,757,484
-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	785,000	785,000
5,701	-	-	-	-	-	-	10,950	-	10,950
567	-	-	-	-	-	-	1,089	332,982	334,071
154	-	-	-	-	-	-	296	2,000	2,296
1,002,356	1,442,152	534,735	743,810	31,297	358,161	24,211	8,963,762	1,119,982	10,083,744
759,494	(977,658)	(534,735)	(730,609)	(31,297)	(357,072)	(24,126)	(2,486,347)	27,137	(2,459,210)
-	-	-	-	504	-	-	32,863	-	32,863
-	-	179,578	-	-	542,166	31,339	854,713	-	854,713
(553,512)	-	-	-	-	-	-	(553,512)	-	(553,512)
(553,512)	-	179,578	-	504	542,166	31,339	334,064	-	334,064
205,982	(977,658)	(355,157)	(730,609)	(30,793)	185,094	7,213	(2,152,283)	27,137	(2,125,146)
2,055,079	2,850,569	502,170	2,955,476	31,890	113,877	21,923	11,833,047	386,436	12,219,483
\$ 2,261,061	\$ 1,872,911	\$ 147,013	\$ 2,224,867	\$ 1,097	\$ 298,971	\$ 29,136	\$ 9,680,764	\$ 413,573	\$ 10,094,337

City of South Padre Island, Texas

**DEBT SERVICE FUND**

**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES**

**IN FUND BALANCE - BUDGET AND ACTUAL**

For the Year Ended September 30, 2016

	Budget		Actual	Variance
	Original	Final		Final Budget
				Positive (Negative)
<b>REVENUES</b>				
Property taxes	\$ 1,092,745	\$ 1,092,745	\$ 1,145,374	\$ 52,629
Miscellaneous and program revenues	-	-	1,745	1,745
Total revenues	1,092,745	1,092,745	1,147,119	54,374
<b>EXPENDITURES</b>				
Debt service				
Principal retirement	785,000	785,000	785,000	-
Interest	306,245	332,982	332,982	-
Administrative charges	1,500	1,500	2,000	(500)
Total expenditures	1,092,745	1,119,482	1,119,982	(500)
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>	-	(26,737)	27,137	53,874
<b>NET CHANGE IN FUND BALANCE</b>	\$ -	\$ (26,737)	27,137	\$ 53,874
Fund balance -- beginning			386,436	
Fund balance -- ending			\$ 413,573	



**City of South Padre Island, Texas  
Component Unit  
September 30, 2016**

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

City of South Padre Island, Texas  
**SOUTH PADRE ISLAND ECONOMIC DEVELOPMENT CORPORATION**  
**DISCRETELY PRESENTED COMPONENT UNIT**  
**COMBINING BALANCE SHEET**  
September 30, 2016

<b>ASSETS</b>	Economic Development Corporation General Fund	EDC Debt Service Reserve Fund	EDC Debt Service Fund	Total Component Unit
Cash and cash equivalents	\$ 793,313	\$ 398,458	\$ 28,954	\$ 1,220,725
Receivables	84,768	-	-	84,768
Prepaid items	615	-	336,930	337,545
Loans receivable	<u>56,935</u>	<u>-</u>	<u>-</u>	<u>56,935</u>
<b>TOTAL ASSETS</b>	<u><b>\$ 935,631</b></u>	<u><b>\$ 398,458</b></u>	<u><b>\$ 365,884</b></u>	<u><b>\$ 1,699,973</b></u>
 <b>LIABILITIES</b>				
Other liabilities	<u>\$ 2,269</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,269</u>
<b>TOTAL LIABILITIES</b>	2,269	-	-	2,269
 <b>DEFERRED INFLOWS OF RESOURCES</b>				
Unavailable revenue - noncurrent receivables	<u>56,935</u>	<u>-</u>	<u>-</u>	<u>56,935</u>
<b>TOTAL DEFERRED INFLOWS OF RESOURCES</b>	56,935	-	-	56,935
 <b>FUND BALANCE</b>				
Nonspendable	615	-	336,930	337,545
Restricted	-	398,458	28,954	427,412
Unassigned	<u>875,812</u>	<u>-</u>	<u>-</u>	<u>875,812</u>
<b>TOTAL FUND BALANCES</b>	<u><b>876,427</b></u>	<u><b>398,458</b></u>	<u><b>365,884</b></u>	<u><b>1,640,769</b></u>
<b>TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCE</b>	<u><b>\$ 935,631</b></u>	<u><b>\$ 398,458</b></u>	<u><b>\$ 365,884</b></u>	<u><b>\$ 1,699,973</b></u>



City of South Padre Island, Texas  
**SOUTH PADRE ISLAND ECONOMIC DEVELOPMENT CORPORATION**  
**RECONCILIATION OF THE COMBINING BALANCE SHEET OF THE**  
**COMPONENT UNIT TO THE STATEMENT OF NET POSITION**  
September 30, 2016

Fund balances of the component unit funds	\$	1,640,769
Amounts reported for <i>governmental type activities</i> in the statement of net position		
Capital assets used in governmental type activities are not financial resources and therefore are not reported in the		6,395,466
Other long-term assets are not available to pay for current period expenditures and therefore are deferred in the funds.		56,935
Long term liabilities, including bonds payable, are not due in the current period and therefore not reported in the funds.		(4,225,385)
Deferred outflows of resources related to amounts deferred on refundings of long term debt and are not reported in the funds.		196,308
Included in the statement of net position non-current liabilities is the recognition of the EDC's portion of net pension liability required by GASB 68 in the amount of (\$22,478), a deferred resource inflow in the amount of (\$2,571), and a deferred resource outflow in the amount of \$18,870. This resulted in a decrease in net position of \$6,179.		<u>(6,179)</u>
Net position of governmental type activities	\$	<u><u>4,057,914</u></u>

City of South Padre Island, Texas

**SOUTH PADRE ISLAND ECONOMIC DEVELOPMENT CORPORATION**  
**DISCRETELY PRESENTED COMPONENT UNIT**  
**COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE**  
For the Year Ended September 30, 2016

	Economic Development Corporation	EDC Debt Service Reserve	EDC Debt Service	Total Component
	<u>General Fund</u>	<u>Fund</u>	<u>Fund</u>	<u>Unit</u>
<b>REVENUES</b>				
Sales taxes	\$ 772,990	\$ -	\$ -	\$ 772,990
Loan revenue	8,589	-	-	8,589
Miscellaneous and program revenues	<u>4,096</u>	<u>1,201</u>	<u>417</u>	<u>5,714</u>
 Total revenues	 785,675	 1,201	 417	 787,293
<b>EXPENDITURES</b>				
Current				
Community service	244,588	-	-	244,588
Debt service				
Principal retirement	-	-	230,000	230,000
Interest expense	-	-	177,775	177,775
Bond issuance costs	-	-	114,138	114,138
Advance refunding escrow	-	-	42,501	42,501
Total expenditures	<u>244,588</u>	<u>-</u>	<u>564,414</u>	<u>809,002</u>
 EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	 541,087	 1,201	 (563,997)	 (21,709)
 Other financing sources (uses)				
Bond proceeds	-	-	3,485,000	3,485,000
Premium on bond issue	-	-	225,384	225,384
Payment to bond escrow agent	-	-	(3,593,807)	(3,593,807)
Transfers out	(422,834)	(42,501)	-	(465,335)
Transfers in	-	-	465,335	465,335
Total other financing sources (uses)	<u>(422,834)</u>	<u>(42,501)</u>	<u>581,912</u>	<u>116,577</u>
 Net change in fund balances	 118,253	 (41,300)	 17,915	 94,868
 Fund balance -- beginning	 <u>758,174</u>	 <u>439,758</u>	 <u>347,969</u>	 <u>1,545,901</u>
 Fund balance -- ending	 <u>\$ 876,427</u>	 <u>\$ 398,458</u>	 <u>\$ 365,884</u>	 <u>\$ 1,640,769</u>

City of South Padre Island, Texas  
**SOUTH PADRE ISLAND ECONOMIC DEVELOPMENT CORPORATION**  
**RECONCILIATION OF THE COMBINING STATEMENT OF REVENUES, EXPENDITURES**  
**AND CHANGES IN FUND BALANCE OF THE COMPONENT UNIT FUNDS**  
**TO THE STATEMENT OF ACTIVITIES**  
For the Year Ended September 30, 2016

Net change in fund balances --total component unit funds \$ 94,868

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

Governmental type funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which current period depreciation (\$161,632) exceeded capital outlay of \$-0-. (161,632)

GASB 68 requires that certain expenditures be de-expended and recorded as deferred resource outflows. Contributions made after the measurement date of 12/31/15 caused the change in the ending net position to increase in the amount of \$5,348. Contributions made before the measurement date but after the previous measurement date were reversed from deferred resource outflows and recorded as a current year expense. This caused a decrease in the change in net position totaling (\$5,266). The City's reported TMRS net pension expense had to be recorded. The pension expense decreased the change in net position by \$2,696. The result of these changes is to decrease net position. (2,696)

Governmental funds report the issuance of debt as an other financing source, but in governmental activities the issuance of debt is recorded as a long term liability. The effect of removing the bond proceeds of \$(3,485,000), the bond premium of \$(225,385), and recording the deferred outflow on the bond refunding of \$196,308 from the statement of activities change in net position is to decrease the overall change in net position. (3,514,077)

Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position. 3,670,000

Governmental type funds report loans made to outside parties as expenditures. However, in government wide statements, it has no effect on the change in net position. (8,589)

Change in net position of governmental activities \$ 77,874

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

## CONTENTS

### **Financial Trends**

**Schedules 1-4**

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

### **Revenue Capacity**

**Schedules 5-9**

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

### **Debt Capacity**

**Schedules 10-13**

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

### **Demographic and Economic Information**

**Schedules 14-15**

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

### **Operating Information**

**Schedules 16-19**

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

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

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Schedule 1  
 City of South Padre Island, Texas  
 NET POSITION BY COMPONENT  
 Last Ten Fiscal Years  
 (accrual basis of accounting)

	2007	2008	2009	2010	2011	2012	2013*	2014**	2015	2016
<b>Governmental activities</b>										
Net investment in capital assets	\$ 13,855,905	\$ 15,236,797	\$ 19,257,279	\$ 17,882,812	\$ 17,420,780	\$ 18,312,199	\$ 15,534,981	\$ 16,203,813	\$ 16,920,738	\$ 19,810,801
Restricted	1,535,329	1,000,669	308,130	5,034,471	4,700,307	6,079,979	9,364,342	11,858,921	13,800,147	14,397,545
Unrestricted	11,440,132	10,159,970	10,088,864	5,768,869	6,174,054	5,697,496	6,588,837	6,025,603	7,484,310	5,485,644
Total governmental activities net assets	\$ 26,831,366	\$ 26,397,436	\$ 29,654,273	\$ 28,686,152	\$ 28,295,141	\$ 30,089,674	\$ 31,488,160	\$ 34,088,337	\$ 38,205,195	\$ 39,693,990

Note: \* The City of South Padre Island first applied GASB Statement No. 63 and 65 in 2013, resulting in an adjustment to the beginning net position. None of the years prior to fiscal year end 2013 have been restated to reflect implementation of those standards.  
 \*\*The City of South Padre Island implemented GASB Statement No. 68 in 2015, resulting in an adjustment to the beginning net position for fiscal year ended September 30, 2015; the effect of this prior period adjustment is reflected in the 2014 balance of net position in this schedule, but no other prior years have been adjusted to reflect implementation of this standard. A prior period adjustment made in 2015 affecting the 2014 balance of net investment in capital assets is also reflected in the 2014 amount.

Schedule 2  
City of South Padre Island, Texas  
CHANGES IN NET POSITION  
Last Ten Fiscal Years  
(accrual basis of accounting)

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
<b>Expenses</b>										
Governmental activities:										
General government	\$ 3,412,111	\$ 3,668,745	\$ 3,680,425	\$ 4,244,372	\$ 3,916,708	\$ 3,262,899	\$ 3,616,084	\$ 3,403,281	\$ 3,549,479	\$ 3,693,337
Public safety	3,408,818	4,106,050	4,358,811	4,675,136	4,639,591	5,154,019	5,617,282	5,635,589	5,534,493	5,871,489
Public works	1,833,529	2,090,705	2,761,388	2,818,149	2,842,168	3,104,579	2,778,620	2,778,620	3,033,574	3,287,013
Transportation	474,087	1,129,802	647,664	899,298	1,103,616	1,275,542	1,898,136	1,547,923	1,639,747	1,698,124
Community service	365,753	528,546	832,168	40,494	820,784	119,300	621,086	135,357	47,101	1,519,768
Convention and visitors bureau	4,255,478	6,324,100	6,160,287	5,834,572	5,846,869	5,556,513	5,313,518	6,121,250	7,083,205	7,083,205
Interest and fees on long-term debt	383,137	340,220	295,920	310,207	327,532	559,912	306,808	297,596	382,782	434,901
<b>Total primary governmental activities expenses</b>	<b>14,132,913</b>	<b>18,188,168</b>	<b>18,736,663</b>	<b>18,822,228</b>	<b>19,497,268</b>	<b>19,032,764</b>	<b>20,139,025</b>	<b>19,919,616</b>	<b>20,020,586</b>	<b>23,587,837</b>
Program Revenues										
Governmental activities:										
Charges for services:										
General government	35,585	30,642	28,222	27,973	222,573	218,276	156,108	277,881	453,066	472,715
Public safety	295,561	219,209	410,295	424,681	497,934	990,410	881,900	1,108,781	878,790	1,188,668
Public works	399,519	529,974	280,498	639,148	36,843	22,646	31,246	39,717	44,853	45,623
Transportation	32,050	27,302	30,000	74,500	30,000	52,250	30,000	-	-	-
Community service	271,693	275,347	337,470	300,690	-	-	-	-	-	-
Convention and Visitors Bureau	-	-	-	-	270,838	244,750	286,963	226,391	249,927	256,369
Operating grants and contributions	777,984	843,668	1,373,380	714,938	996,779	1,074,032	954,301	1,220,114	2,160,260	1,765,405
Capital grants and contributions	123,767	234,310	249,808	190,604	682,935	1,296,789	1,277,434	439,114	662,306	893,030
Total governmental activities program revenues	<b>1,936,159</b>	<b>2,160,452</b>	<b>2,709,673</b>	<b>2,372,534</b>	<b>2,737,902</b>	<b>3,899,153</b>	<b>3,617,952</b>	<b>3,311,998</b>	<b>4,449,202</b>	<b>4,621,810</b>
<b>Net (Expense)/Revenue</b>	<b>(12,196,754)</b>	<b>(16,027,716)</b>	<b>(16,026,990)</b>	<b>(16,449,694)</b>	<b>(16,759,366)</b>	<b>(15,133,611)</b>	<b>(16,521,073)</b>	<b>(16,607,618)</b>	<b>(15,571,384)</b>	<b>(18,966,027)</b>
<b>Total primary government net expense</b>										
General revenues										
Property taxes	4,780,512	5,483,386	6,089,968	6,098,437	6,391,852	6,512,050	6,598,351	6,520,967	6,551,645	7,075,139
Sales & Mixed Beverage taxes	1,897,938	1,965,363	2,295,465	2,001,606	2,116,727	2,171,134	2,335,306	2,604,925	2,663,089	2,650,546
Franchise taxes	748,363	792,992	792,501	802,819	821,796	806,646	819,865	851,056	862,253	886,363
Hotel motel taxes	5,334,627	4,610,239	4,638,099	5,238,745	5,658,555	6,166,994	6,534,215	7,083,965	7,160,795	7,360,083
Hotel motel padre Blvd. taxes	-	-	-	-	-	-	-	-	-	-
Hotel motel beach mtn. taxes	741,411	630,474	751,950	945,050	988,132	1,086,920	1,644,572	2,144,126	2,171,319	2,217,195
Unrestricted investment earnings	796,864	546,491	198,941	143,463	97,265	49,345	38,830	31,373	31,952	82,464
Sale of fixed assets	-	1,485,785	14,234	16,810	(17,050)	4,545	-	56,072	58	48,779
Insurance recoveries	-	-	4,401,118	16,510	-	-	-	-	-	-
Miscellaneous	425,776	79,056	101,551	218,133	311,078	130,510	59,156	293,168	247,131	128,478
Total general revenues	<b>14,725,491</b>	<b>15,593,786</b>	<b>19,283,827</b>	<b>15,481,573</b>	<b>16,368,335</b>	<b>16,828,144</b>	<b>18,030,295</b>	<b>19,585,652</b>	<b>19,688,242</b>	<b>20,449,047</b>
<b>Changes in Net Position</b>										
<b>Total governmental activities</b>	<b>\$ 2,528,737</b>	<b>\$ (433,930)</b>	<b>\$ 3,256,837</b>	<b>\$ (968,121)</b>	<b>\$ (391,011)</b>	<b>\$ 1,794,533</b>	<b>\$ 1,509,222</b>	<b>\$ 2,978,034</b>	<b>\$ 4,116,858</b>	<b>\$ 1,483,020</b>

Source: Statement of Activities

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



City of South Padre Island, Texas

FUND BALANCES OF GOVERNMENTAL FUNDS

Last Ten Fiscal Years

(modified accrual basis of accounting)

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
<b>General fund</b>										
Pre GASB 54										
Reserved	\$ 54,073	\$ 37,321	\$ 35,092	\$ 31,623	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Unreserved	5,095,575	5,768,180	6,477,049	6,144,362	-	-	-	-	-	-
Total pre GASB 54	\$ 5,149,648	\$ 5,805,501	\$ 6,512,141	\$ 6,175,985	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Post GASB 54										
Nonspendable	\$ -	\$ -	\$ -	\$ -	\$ 45,959	\$ 21,542	\$ 55,701	\$ 57,868	\$ 56,321	\$ 58,086
Restricted	-	-	-	-	-	-	-	-	-	113,072
Unassigned	-	-	-	-	6,243,764	6,357,093	6,158,124	6,848,537	6,835,686	6,685,288
Total post GASB 54	\$ -	\$ -	\$ -	\$ -	\$ 6,289,723	\$ 6,378,635	\$ 6,213,825	\$ 6,906,405	\$ 6,892,007	\$ 6,856,446
<b>All Other Governmental Funds</b>										
Pre GASB 54										
Reserved	\$ 568,453	\$ 766,366	\$ 729,340	\$ 696,464	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Unreserved, reported in:										
Special revenue funds	5,857,458	681,831	3,040,415	2,590,794	-	-	-	-	-	-
Capital projects funds	1,609,091	4,048,185	478,262	1,691,350	-	-	-	-	-	-
Total pre GASB 54	\$ 8,035,002	\$ 5,496,382	\$ 4,248,017	\$ 4,978,608	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Post GASB 54										
Nonspendable	\$ -	\$ -	\$ -	\$ -	\$ 114,554	\$ 148,890	\$ 54,786	\$ 42,639	\$ 1,504,355	\$ 37,490
Restricted:										
Debt service	-	-	-	-	429,784	273,133	309,533	346,602	386,436	413,573
Capital projects	-	-	-	-	4,914,411	1,502,659	2,636,575	700,897	3,603,413	6,362,226
Beach nourishment	-	-	-	-	-	-	-	2,435,967	1,416,745	1,872,911
Transportation	-	-	-	-	154,277	235,999	287,934	301,277	320,366	231,280
Beach maintenance	-	-	-	-	78,887	264,395	790,655	1,382,753	2,050,584	2,260,996
Municipal court	-	-	-	-	43,562	48,913	53,594	63,068	72,385	61,026
Criminal justice	-	-	-	-	3,433	3,644	3,644	3,644	3,644	3,644
Hurricane recovery	-	-	-	-	248,227	205,288	181,185	-	-	-
Parks and recreation	-	-	-	-	2,185	2,372	3,920	1,837	3,117	3,884
Hotel/motel tax	-	-	-	-	2,442,154	3,603,561	5,068,679	6,596,864	5,986,315	6,630,832
Unassigned	-	-	-	-	-	(172,892)	(7167,00)	22,303	21,923	-
Total post GASB 54	\$ -	\$ -	\$ -	\$ -	\$ 8,431,474	\$ 6,115,962	\$ 9,383,338	\$ 11,897,851	\$ 15,369,283	\$ 17,877,862

Schedule 4  
City of South Padre Island, Texas  
**CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS**  
Last Ten Fiscal Years  
(modified accrual basis of accounting)

	2007	2008	2009	2010
<b>REVENUES</b>				
Property taxes	\$4,719,773	\$5,393,449	\$6,115,209	\$6,042,754
Nonproperty taxes	8,722,337	7,999,068	8,478,004	8,988,221
Fees and services	287,475	298,189	353,545	529,702
Fines and forfeitures	295,560	219,209	295,990	379,684
Licenses and permits	451,372	573,866	322,645	557,605
Intergovernmental	920,629	1,077,978	1,056,767	905,542
Miscellaneous and program	1,203,760	616,757	981,229	361,596
<b>Total revenues</b>	<b>16,600,906</b>	<b>16,178,516</b>	<b>17,603,389</b>	<b>17,765,104</b>
<b>EXPENDITURES</b>				
General	2,179,937	4,084,721	3,124,195	3,801,677
Public safety	3,256,352	3,822,108	4,101,247	4,478,384
Public works	1,346,075	1,484,580	2,156,348	2,158,644
Transportation	430,979	1,063,572	552,966	782,525
Community service	616,566	326,736	832,168	40,494
Convention and visitors	4,423,112	5,114,147	5,532,594	4,653,373
Debt service				
Principal retirement	1,065,000	1,110,000	1,160,000	1,205,000
Interest	372,160	329,243	285,443	275,612
Bond Issue Costs	-	-	-	-
Administrative charges	500	500	-	-
Capital outlay	8,110,027	3,211,465	4,816,260	906,820
<b>Total expenditures</b>	<b>21,800,708</b>	<b>20,547,072</b>	<b>22,561,221</b>	<b>18,302,529</b>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES</b>	<b>(5,199,802)</b>	<b>(4,368,556)</b>	<b>(4,957,832)</b>	<b>(537,425)</b>
<b>Other financing sources (uses)</b>				
Sale of fixed assets	-	1,485,785	14,989	85,350
Lease Proceeds	-	-	-	-
Proceeds from issuance of bonds	-	1,000,000	-	830,000
Premium on issuance of bonds	-	-	-	-
Uses of debt refunding				
Bond issue costs	-	-	-	-
Insurance Proceeds	-	-	4,401,118	16,510
Transfers out	(2,031,131)	(2,209,420)	(2,371,184)	(1,587,679)
Transfers in	2,031,131	2,209,420	2,371,184	1,587,679
<b>Total other financing sources and</b>	<b>-</b>	<b>2,485,785</b>	<b>4,416,107</b>	<b>931,860</b>
<b>Net change in fund balances</b>	<b>(\$5,199,802)</b>	<b>(\$1,882,771)</b>	<b>(\$541,725)</b>	<b>\$394,435</b>
<b>Debt service as a percentage of noncapital expenditures</b>	<b>10.50%</b>	<b>8.31%</b>	<b>8.15%</b>	<b>8.51%</b>

Schedule 4  
City of South Padre Island, Texas  
**CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS**  
Last Ten Fiscal Years  
(modified accrual basis of accounting)

2011	2012	2013	2014	2015	2016
\$6,407,899	\$6,572,035	\$6,666,348	\$6,554,043	\$6,606,286	\$7,103,497
9,585,210	10,231,694	11,333,958	12,684,073	12,857,456	13,114,187
411,771	847,528	786,089	879,384	970,681	1,007,064
424,124	517,776	455,300	576,361	447,666	627,825
222,292	191,105	150,583	137,367	257,990	264,933
1,679,714	2,202,888	2,231,734	1,609,228	2,772,565	2,654,058
408,344	179,856	158,989	374,541	329,088	259,646
<u>19,139,354</u>	<u>20,742,882</u>	<u>21,783,001</u>	<u>22,814,997</u>	<u>24,241,732</u>	<u>25,031,210</u>
3,441,451	2,912,655	3,204,508	3,022,645	3,184,592	3,308,828
4,313,528	4,806,764	4,954,525	5,079,755	5,042,426	5,173,137
2,188,234	2,424,423	2,079,739	2,115,599	2,360,877	2,402,321
957,492	1,078,641	1,104,987	1,336,549	1,491,095	1,513,709
820,784	119,300	418,152	131,262	50,810	1,456,385
4,972,074	4,740,409	5,313,518	5,319,014	4,975,850	5,867,540
932,358	982,225	634,920	696,201	750,543	1,083,087
261,642	400,165	301,716	297,548	275,741	372,256
94,968	103,287	-	-	103,079	89,736
2,736	800	(900)	4,308	4,245	4,337
2,417,098	5,628,071	1,591,360	1,676,803	5,690,771	5,586,040
<u>20,402,365</u>	<u>23,196,740</u>	<u>19,602,525</u>	<u>19,679,684</u>	<u>23,930,029</u>	<u>26,857,376</u>
(1,263,011)	(2,453,858)	2,180,476	3,135,313	311,703	(1,826,166)
25,933	4,771	22,777	71,780	38,068	54,420
902,220	119,200	899,313	-	-	144,335
3,800,000	3,165,000	-	-	2,905,000	3,890,000
101,462	289,990	-	-	202,263	210,429
-	(3,351,703)	-	-	-	-
-	-	-	-	-	-
(853,568)	(1,200,089)	(1,155,679)	(1,362,784)	(4,075,166)	(957,804)
853,568	1,200,089	1,155,679	1,362,784	4,075,166	957,804
<u>4,829,615</u>	<u>227,258</u>	<u>922,090</u>	<u>71,780</u>	<u>3,145,331</u>	<u>4,299,184</u>
<u>\$3,566,604</u>	<u>(\$2,226,600)</u>	<u>\$3,102,566</u>	<u>\$3,207,093</u>	<u>\$3,457,034</u>	<u>\$2,473,018</u>
7.18%	8.46%	5.20%	5.54%	6.22%	7.28%

Schedule 5  
City of South Padre Island, Texas  
**ASSESSED VALUE AND ACTUAL VALUE OF TAXABLE PROPERTY**  
Last Ten Fiscal Years

Fiscal Year Ended September 30,	Net Taxable Assessed Value		Less: Exempt Property	Total Taxable Assessed Value	Total Direct Tax Rate
	Real Property	Personal Property			
2007	\$ 1,941,204,388	\$ 32,472,880	\$ 61,850,862	\$ 1,911,826,406	0.25311
2008	2,305,658,543	34,289,547	71,535,213	2,268,412,877	0.24561
2009	2,545,047,287	33,419,535	78,289,018	2,500,177,804	0.24561
2010	2,539,540,899	29,230,095	76,526,864	2,492,244,130	0.24561
2011	2,635,413,859	30,316,814	84,535,004	2,581,195,669	0.24561
2012	2,656,625,431	29,055,461	77,035,264	2,608,645,628	0.25040
2013	2,653,041,784	28,324,135	75,246,646	2,606,119,273	0.25270
2014	2,629,536,569	31,256,298	77,229,580	2,583,563,287	0.25438
2015	2,574,041,045	32,621,783	90,276,002	2,516,386,826	0.26275
2016	2,535,461,500	34,181,366	91,123,668	2,478,519,198	0.28564

Source: Cameron County Appraisal District

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

Schedule 6  
 City of South Padre Island, Texas  
**DIRECT AND OVERLAPPING PROPERTY TAX RATES**  
 Last Ten Fiscal Years

Fiscal Period	City of South Padre Island Direct Rates			Water Supply District No. 1	Point Isabel Cons. ISD	Cameron County	Texas Southmost College	South Texas ISD
	Maintenance & Operations Rate	Debt Service	Total Direct					
2007	0.219598	0.033512	0.253110	0.080820	1.300185	0.343191	0.162772	0.049200
2008	0.216810	0.028800	0.245610	0.080820	1.061634	0.353191	0.161089	0.049200
2009	0.218400	0.027210	0.245610	0.080820	1.061634	0.363191	0.161089	0.049200
2010	0.220310	0.025300	0.245610	0.080820	1.081634	0.364291	0.161924	0.049200
2011	0.220310	0.025300	0.245610	0.080820	1.081634	0.384291	0.162423	0.049200
2012	0.224355	0.026045	0.250400	0.080820	1.081634	0.384291	0.164026	0.049200
2013	0.223631	0.029070	0.252701	0.080820	1.081634	0.384291	0.162935	0.049200
2014	0.227828	0.026556	0.254384	0.080820	1.081634	0.384291	0.162935	0.049200
2015	0.235468	0.027286	0.262754	0.039260	1.081634	0.399291	0.164094	0.049200
2016	0.239110	0.046530	0.285640	0.044643	1.081634	0.399291	0.164094	0.049200

Source: Cameron County Appraisal District.

Schedule 7  
City of South Padre Island, Texas  
**PRINCIPAL PROPERTY TAXPAYERS**  
Current Year and Ten Years Ago

Taxpayer	2016			2007		
	Taxable Assessed Valuation	Rank	Percentage of Total Assessed Valuation	Taxable Assessed Valuation	Rank	Percentage of Total Assessed Valuation
SPI Beach Water Resort Waterpark LLC	\$ 10,882,174	1	0.44%			
Agora USA LP	10,312,156	2	0.42%			
Sapphire VP LP	9,000,000	3	0.36%			
Peninsula Island Resort & Spa LLC	8,797,934	4	0.35%	10,171,290	3	0.45%
Bahia Mar Tower LLC	8,156,073	5	0.33%			
ICS Management Company	7,500,570	6	0.30%	11,424,719	2	0.51%
SkipJack Properties LLC	7,376,575	7	0.30%			
Affiliated Hospitality LLC	6,689,867	8	0.27%			
SPI Management Co.	6,677,242	9	0.27%			
SPI La Copa Ltd.	6,294,771	10	0.25%	6,384,946	7	0.29%
Playa Bonita Properties Ltd						
Laguna Bay Trust				5,759,176	10	0.26%
SSPIBR, Ltd				14,737,195	1	0.66%
AEP Texas Central Co.				6,384,998	6	0.29%
Saida Royale Corporation				6,531,728	5	0.29%
HISPI, Ltd.				6,007,920	9	0.27%
Alma Investments Inc.				6,554,013	4	0.29%
SPI Oleander Ltd.				6,147,894	8	0.27%
<b>Total</b>	<b>\$ 81,687,362</b>		<b>3.29%</b>	<b>\$ 80,103,879</b>		<b>3.58%</b>

Source: Cameron County Appraisal District

Schedule 8  
 City of South Padre Island, Texas  
**PROPERTY TAX LEVIES AND COLLECTIONS**  
 Last Ten Fiscal Years  
 (Unaudited)

Fiscal Year	Tax Roll Year	Taxes Levied for the Fiscal Year	Collected within the Fiscal Year of the Levy		Collections in Subsequent Years		Percentage of Levy
			Amount	Percentage of Levy	Amount	Years	
2007	2006	\$ 4,772,418	\$ 4,564,448	95.64%	\$ 200,822	\$ 4,765,270	99.85%
2008	2007	5,479,052	5,215,751	95.19%	248,041	5,463,792	99.72%
2009	2008	6,072,211	5,804,355	95.59%	257,744	6,062,099	99.83%
2010	2009	6,073,653	5,804,071	95.56%	262,844	6,066,915	99.89%
2011	2010	6,310,281	6,123,665	97.04%	176,236	6,299,901	99.84%
2012	2011	6,520,822	6,294,365	96.53%	205,242	6,499,607	99.67%
2013	2012	6,521,119	6,384,778	97.91%	128,510	6,513,288	99.88%
2014	2013	6,512,667	6,374,024	97.87%	121,845	6,495,869	99.74%
2015	2014	6,565,849	6,450,296	98.24%	87,225	6,537,521	99.57%
2016	2015	7,100,989	6,984,635	98.36%	-	6,984,635	98.36%

Source: Cameron County Tax Office

Schedule 9  
City of South Padre Island, Texas  
**TAX REVENUES BY SOURCE - GOVERNMENTAL FUNDS**  
Last Ten Fiscal Years  
(modified accrual basis of accounting)

Fiscal Year	Property Taxes	General Fund Sales & Mixed Beverage Tax	Franchise Tax	Local and State Hotel/Motel Tax	Total
2007	\$ 4,719,773	\$ 1,897,938	\$ 748,363	\$ 6,076,037	\$ 13,442,111
2008	5,393,449	1,965,363	792,992	5,240,713	13,392,517
2009	6,115,209	2,295,465	792,501	5,390,038	14,593,213
2010	6,042,754	2,001,606	802,819	6,183,796	15,030,975
2011	6,407,899	2,116,728	821,796	6,646,687	15,993,110
2012	6,572,035	2,171,133	806,646	7,253,914	16,803,728
2013	6,666,348	2,335,306	819,865	8,178,787	18,000,306
2014	6,554,043	2,604,925	851,056	9,228,091	19,238,115
2015	6,606,286	2,663,089	862,253	9,332,114	19,463,742
2016	7,103,497	2,650,546	886,363	9,577,278	20,217,684



Schedule 10  
 City of South Padre Island, Texas  
**RATIO OF OUTSTANDING DEBT BY TYPE**  
 Last Ten Fiscal Years  
 (modified accrual basis of accounting)

Fiscal Year	Governmental Activities							Total Primary Government	Percentage of Personal Income	Per Capita <sup>1</sup>
	General Obligation Bonds	Combination Tax & Revenue Refunding Bonds	Tax Anticipation Notes	Capital Leases						
2007	\$ 4,615,000	\$ 2,265,000	\$ 1,405,000				\$ 8,285,000	3.77%	1,452	
2008	4,440,000	1,540,000	1,195,000				7,175,000	3.49%	1,258	
2009	4,255,000	785,000	975,000				6,015,000	2.77%	1,019	
2010	4,065,000	830,000	745,000				5,640,000	2.57%	956	
2011	7,766,462	420,000	505,000	819,862			9,511,324	4.29%	1,612	
2012	7,963,312	-	260,000	826,837			9,050,149	4.08%	1,534	
2013	7,725,783	-	-	1,566,230			9,292,013	4.19%	1,575	
2014	7,298,254	-	-	1,275,029			8,573,283	3.29%	1,453	
2015	6,855,725	-	2,905,000	957,451			10,718,176	4.12%	1,817	
2016	6,165,000	-	6,445,000	797,924			13,407,924	12.46%	4,643	

Note: Details regarding the City's outstanding debt can be found in the notes to the financial statements EDC not included.

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

Schedule 11  
City of South Padre Island, Texas  
**RATIO OF GENERAL GONDED DEBT OUTSTANDING**  
Last Ten Fiscal Years

Fiscal Year	General Obligation Bonds	Debt Service Restricted Net Assets	Net Bonded Debt	Actual Taxable Value of Property (1)	Per Capita (2)
2007	\$ 4,615,000	\$ 330,961	\$ 4,284,039	0.22%	809
2008	4,440,000	364,509	4,075,491	0.18%	778
2009	4,255,000	372,222	3,882,778	0.16%	721
2010	4,065,000	413,918	3,651,082	0.15%	689
2011	7,766,462	430,535	7,335,927	0.28%	1,316
2012	7,963,312	266,563	7,696,749	0.30%	1,350
2013	7,725,783	339,434	7,386,349	0.28%	1,309
2014	7,298,254	346,603	6,951,651	0.27%	1,237
2015	6,855,725	386,438	6,469,287	0.26%	1,162
2016	6,165,000	361,774	5,803,226	0.23%	2,135

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

1 See Schedule 5 for property value data

2 See Schedule 14 for population data

Schedule 12  
City of South Padre Island, Texas  
**DIRECT AND OVERLAPPING GOVERNMENTAL ACTIVITIES DEBT**  
Last Ten Fiscal Years

<u>Governmental Unit</u>	<u>Debt Outstanding</u>	<u>Estimated Percentage Applicable</u>	<u>Estimated Share of Overlapping Debt</u>
Debt repaid with property taxes			
Cameron County	\$ 162,735,000	13.92%	\$ 22,652,712
Point Isabel Independent School District	17,339,904	67.95%	11,782,465
Laguna Madre Water District #1	16,010,000	73.90%	11,831,390
Texas Southmost College	52,725,000	21.03%	<u>11,088,068</u>
Subtotal, overlapping debt			57,354,635
City direct debt	14,005,071	100.00%	<u>14,005,071</u>
Total direct and overlapping debt			<u>\$ 71,359,706</u>

**Methodology for Deriving Overlapping Percentages:**

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

Source: The Municipal Advisory of Texas

Schedule 13  
 City of South Padre Island, Texas  
**PLEDGED REVENUE COVERAGE**  
 Last Ten Fiscal Years

Fiscal Year	Gross Revenue (1)	Operating Expenditures (2)	Net Revenue Available For Debt Service	Debt Service Requirements			Coverage
				Principal	Interest	Total	
2007	\$ 2,172,451	\$ 899,167	\$ 1,273,284	\$ 700,000	\$ 105,650	\$ 805,650	1.58
2008	1,881,284	1,045,290	835,994	725,000	82,025	807,025	1.04
2009	1,867,690	1,099,504	768,186	755,000	52,822	807,822	0.95
2010	1,191,421	1,212,721	(21,300)	830,000	41,122	871,122	(0.02)
2011	2,077,689	1,332,802	744,887	420,000	6,069	426,069	1.75
2012	2,284,146	1,320,451	963,695	-	-	-	-
2013	2,551,906	1,860,510	691,396	-	-	-	-
2014	3,208,757	1,939,326	1,269,431	-	-	-	-
2015	2,919,053	1,106,674	1,812,379	-	-	-	-
2016	1,979,972	1,253,283	726,689	-	-	-	-

(1) Convention Center Fund revenues, including interest.

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

Schedule 14  
 City of South Padre Island, Texas  
**DEMOGRAPHIC AND ECONOMIC STATISTICS**  
 Last Ten Calendar Years

Year	Estimated Population <sup>1</sup>	Personal Income	Per Capita Personal Income <sup>2</sup>	Median Age <sup>2</sup>	School Enrollment <sup>3</sup>	Unemployment Rate <sup>4</sup>
2007	5,705	219,693,845	38,509	52.3	2,593	6.0%
2008	5,705	205,665,250	36,050	57.2	2,418	8.2%
2009	5,900	217,090,500	36,795	57.7	2,520	8.3%
2010	5,900	219,780,900	37,251	58	2,507	10.9%
2011	5,900	221,592,200	37,558	58.1	2,544	12.4%
2012	5,900	221,592,200	37,558	58.3	2,574	10.2%
2013	5,900	221,592,200	37,558	58.7	2,588	10.1%
2014	5,900	260,809,500	44,205	59.2	2,480	8.0%
2015	5,900	260,048,400	44,076	60	2,518	6.6%
2016	2,888	107,650,200	37,275	58.7	2,463	7.5%

Source:

1 George Wm. Berry, Ph. D. Analysis 2008 was used for population data from 2009 until 2015. In 2016, the population data was obtained using the U.S. Census Bureau.

2 U.S. Census Bureau

3 Point Isabel Independent School District

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

\* 2012 and 2013 Personal Income is not available

Schedule 15  
 City of South Padre Island, Texas  
**PRINCIPAL EMPLOYERS**  
 Current Year and Ten Years Ago

Employer	2016			2007		
	Number of Employees (Peak)	Rank	Percent of Total City Employment	Number of Employees	Rank	Percent of Total City Employment
Schitterbahn Beach Water Park	1,028	1	23.13%	350	1	4.93%
City of South Padre Island	297	2	6.68%	287	2	4.04%
The Pearl Beach Resort	208	3	4.68%			
Louie's Backyard	180	4	4.05%	150	7	2.11%
Isla Grand Resort	177	5	3.98%			
Sea Ranch Enterprises *	171	6	3.85%	75	9	1.06%
Hilton Garden Inn	150	7	3.37%			
Blackbeard's Restaurant	138	8	3.10%	212	5	2.99%
La Quinta Inn & Suites	120	9	2.70%			
Origins Recovery Center	112	10	2.52%			
Sheraton Fiesta Beach Resort				225	4	3.17%
Radisson Resort				230	3	3.24%
Bahia Mar Resort				150	6	2.11%
Holiday Inn Sunspree Resort				125	8	1.76%
Cameron Parks				63	10	0.89%
<b>Total</b>	<b>2,581</b>		<b>58.06%</b>	<b>1,867</b>		<b>26.30%</b>

Source: South Padre Island Economic Development Corporation  
 \* Includes Sea Ranch, Pier 19, and Laguna Bob's

Schedule 16  
City of South Padre Island, Texas  
**FULL-TIME EQUIVALENT CITY GOVERNMENT EMPLOYEES BY FUNCTIONS/PROGRAM**  
Last Ten Fiscal Years

General Fund	Function	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
	City Administration	5	5	6	6	4	4	4	4.4	4.25	4.25
	Finance	5	5	4	5	5	5	5	5	4.9	4.9
	Development Services *	2	2	2	2	1.75	1.75	2	2	2	2
	Technology	2	2	2	2	3	3	3.25	3	2.95	2.8
	Human Resources	0	0	1	2	3	3	3	3	3	3
	Municipal Court	2	2	2	3	2	2	2	2	2	3
	Police	34	34	39	39	39	38	38	38	37.95	37.75
	Fire	18	18	21	21	21	27	27	27	26.75	26
	Environmental Health Serv.	4	4	6	6	5	5	6	6	5.85	5.85
	Fleet Management	0	0	2	2	2	2	2	2	2	2
	Building Maintenance	0	0	3	3	3	3	3	3	3	3
	Inspections	4	4	4	4	3	3	3	3	3	3
	Public Works	22	22	18	18	19	19	18	19	18.85	17.85
	Hotel Motel Fund										
	Visitor's Center	2	2	2	2	2	2	2	3	3	3
	Hotel Motel	13.5	13	13	9.5	9.5	9.5	8.75	9.5	9.5	9.5
	Events Marketing	2	2	2	1	1	1	2	1	1	0.5
	Convention Centre										
	Convention Centre	13.5	13	13	13.5	11.5	10.5	12	10	11.2	10.35
	Transportation										
	Island Metro	7	7	7	9	9.25	15.25	15	16.1	16.2	14.2
	Metro Connect	0	0	0	0	0	0	0	4	3	4
	Shoreline**										
	Police	0	0	0	0	0	0	0	0	0.05	0.05
	Fire	0	0	0	0	0	0	0	0	0.25	0
	Environmental Health Serv.	0	0	0	0	0	0	0	0	0.15	0
	Public Works	0	0	0	0	0	0	0	0	0.15	0
	Beach Maintenance	0	0	0	4	4	4	4	4	6	7
	Bay Access	0	0	0	0	0	0	0	0	0	0
	Total Operating Budget FTE's	136	135	147	152	148	158	160	165	167	164

Source: City of South Padre Island Annual Budget  
 Note: Full-time budgeted positions are shown  
 \*Formerly Planning  
 \*\*Formerly Beach Maintenance

Schedule 17  
 City of South Padre Island, Texas  
**OPERATING INDICATORS BY FUNCTION**  
 Last Ten Fiscal Years

Function	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
<b>Police</b>										
Physical arrests	896	727	952	1,002	1,199	1,454	1,258	1,246	1,246	1,403
Parking violations	306	514	1,643	2,123	1,897	1,138	724	1,435	793	647
Traffic violations	3,100	942	995	1,204	1,038	748	481	658	245	242
Number of commissioned police officers	25	26	29	28	28	28	29	28	28	27
Number of employees - police officers & civilians	35	36	40	39	38	38	39	38	38	37
<b>Fire</b>										
Number of calls answered	1,194	1,420	1,667	1,783	1,858	1,964	2,107	2,243	2,105	2,410
EMS calls	712	838	816	1,082	1,172	1,415	1,377	1,486	1,543	1,542
Inspections	355	219	475	369	490	327	288	150	166	76
Number of firefighters	17	18	18	18	20	26	26	26	25	25
Number of employees - firefighters & civilians	18	21	21	21	21	27	27	27	26	26
<b>Streets</b>										
Street resurfacing (square yards)	7,040	16,837	6,956	8,611	9,032	7,867	12,050	-	8,891	32,314
Sidewalk construction (square yards)	647	220	693	-	73	2,069	440	368	1,540	3,523

Source: City Departments



Schedule 18  
 City of South Padre Island, Texas  
**CAPITAL ASSET STATISTICS BY FUNCTION/PROGRAM**  
 Last Ten Fiscal Years

Function/Program	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Public Safety										
Police Stations	1	1	1	1	1	1	1	1	1	1
Fire Stations	1	1	1	1	1	1	1	1	1	1
Development Services										
Streets (miles)	47.09	47.09	47.09	47.39	47.39	47.39	47.39	47.39	47.39	47.39
City area (acres)	1589	1640	1640	1640	1640	1527	1901	1901	1905	2371
Parks and recreation										
Playground	1	1	1	2	2	2	2	2	2	2
Parks	2	2	2	2	3	3	3	3	3	3
Municipal Beach (miles)	4.5	4.5	4.5	4.5	4.5	4.5	4.5	4.5	4.5	4.5
Beach accesses (developed)	18	18	18	18	19	19	19	19	20	23
Beach accesses (undeveloped)	6	6	6	6	5	5	5	5	4	1
Transportation										
Transit - minibuses	6	8	12	10	9	10	11	10	11	10

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

Source: City Departments



Schedule 19  
City of South Padre Island, Texas  
**MISCELLANESOUS STATISTICAL DATA**

Date of incorporation	1973
Fiscal year begins	October 1st
Number of budgeted City employees	164

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

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

Source: City Staff  
Source: [www.weatherbase.com](http://www.weatherbase.com)

## **COMPLIANCE SECTION**

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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the aggregate discretely presented component unit, each major fund, and the aggregate remaining fund information of City of South Padre Island, Texas, as of and for the year ended September 30, 2016, and the related notes to the financial statements, which collectively comprise City of South Padre Island's basic financial statements, and have issued our report thereon dated February 21, 2017.

**Internal Control Over Financial Reporting**

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

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

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

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## Compliance and Other Matters

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

## Purpose of this Report

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

*Caru, Riggs & Ingram, L.L.C.*

Harlingen, Texas  
February 21, 2017

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**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE  
FOR THE MAJOR PROGRAM AND ON INTERNAL CONTROL  
OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE**

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

**Report on Compliance for Each Major Federal Program**

We have audited City of South Padre Island, Texas' compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of City of South Padre Island, Texas' major federal programs for the year ended September 30, 2016. City of South Padre Island, Texas' major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

***Management's Responsibility***

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

***Auditors' Responsibility***

Our responsibility is to express an opinion on compliance for each of City of South Padre Island, Texas' major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. Code of *Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about City of South Padre Island, Texas' compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

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### ***Opinion on Each Major Federal Program***

In our opinion, City of South Padre Island, Texas, complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended September 30, 2016.

### **Report on Internal Control Over Compliance**

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

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

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

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

*Carly Riggs & Ingram, L.L.C.*

Harlingen, Texas  
February 21, 2017

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

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

**Report on Compliance for Each Major State Program**

We have audited City of South Padre Island, Texas' compliance with the types of compliance requirements described in the State Of Texas Uniform Grant Management Standards Chapter IV *Texas Single Audit Circular* that could have a direct and material effect on each of City of South Padre Island, Texas' major state programs for the year ended September 30, 2016. City of South Padre Island, Texas' major state programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

***Management's Responsibility***

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

***Auditors' Responsibility***

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

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

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### ***Opinion on Each Major State Program***

In our opinion, City of South Padre Island, Texas, complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major state programs for the year ended September 30, 2016.

### **Report on Internal Control Over Compliance**

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

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

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

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of State Of Texas Uniform Grant Management Standards Chapter IV *Texas Single Audit Circular*. Accordingly, this report is not suitable for any other purpose.

*Carly Riggs & Ingram, L.L.C.*

Harlingen, Texas  
February 21, 2017

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**City of South Padre Island, Texas**  
**Schedule of Findings and Questioned Costs**  
**September 30, 2016**

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

*Financial Statements*

Type of auditors' report issued: Unmodified

Internal control over financial reporting:

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

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

Noncompliance material to financial statements  
 noted?                           yes                      X   no

*Federal Awards*

Internal control over major programs:

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

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

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

Any audit findings disclosed that are required to  
 be reported in accordance with the Uniform  
 Guidance.                           yes                      X   no

Identification of major programs:

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

Dollar threshold used to distinguish between  
 Type A and Type B programs: \$750,000

Auditee qualified as low-risk auditee?                      X   yes                           no

**City of South Padre Island, Texas**  
**Schedule of Findings and Questioned Costs**  
**September 30, 2016**

*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:                    Unmodified

Any audit findings disclosed that are required to be reported in accordance with the State of Texas Uniform Grant Management Standards.                           yes                      X   no

Identification of major programs:

*Grantor Number(s)*

50-000459

*Name of State Program or Cluster*

Texas Park and Wildlife Commission – Texas Recreation and Parks Account

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

Auditee qualified as low-risk auditee?                      X   yes                           no

**City of South Padre Island, Texas**  
**Schedule of Findings and Questioned Costs**  
**September 30, 2016**

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

**A. Significant Deficiencies in Internal Control**

*None reported.*

**B. Compliance Findings**

*None reported.*

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

*None reported.*

**City of South Padre Island, Texas  
Schedule of Findings and Questioned Costs  
Schedule of Status of Prior Audit Findings  
September 30, 2016**

**PROGRAM DESCRIPTION**

Not applicable

**DESCRIPTION**

There were no findings reported in the prior year.

City of South Padre Island, Texas  
**SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS**  
For the Year Ended September 30, 2016

Federal/State Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Expenditures
<b>Federal Awards</b>			
<b>U.S. Department of Transportation</b>			
Passed-through Texas Department of Transportation Transit Services Programs Cluster Enhanced Mobility of Seniors and Individuals with Disabilities	20.513	ED 1602	\$ 53,071
Total Transit Services Programs Cluster			53,071
Federal Transit Cluster Bus and Bus Facilities Program	20.526	VCR 1402 VCR 1602	20,189 9,614
Total Federal Transit Cluster			29,803
Formula Grants for Rural Areas	20.509	RPT 1404 RPT 1502 (21) 39 TX-18-X0136-X038 RPT 1602	655,650 466,821 198,916 47,057
			1,368,444
Total Passed-through Texas Department of Transportation			1,451,318
Total U.S. Department of Transportation			1,451,318
<b>U.S. Department of Homeland Security</b>			
Passed-through Texas Department of Public Safety Homeland Security Grant Program	97.067	2015CO6122	7,851
Total Passed-through Texas Department of Public Safety			7,851
Total U.S. Department of Homeland Security			7,851
<b>U.S. Department of Commerce</b>			
Passed through Texas General Land Office Coastal Zone Management Administration Awards	11.419	NA15-037-000-8381	150,000
Total passed through Texas General Land Office			150,000
Total Department of Commerce			150,000
<b>U.S. Department of Health and Human Services</b>			
Food and Drug Administration Voluntary National Retail Program	93.103	G-SP-1410-01778 G-SP-1509-02653	3,000 2,627
			5,627
<b>Total Expenditures of Federal Awards</b>			<b>\$ 1,614,796</b>

**SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS - Continued**  
 For the Year Ended September 30, 2016

**State Awards**

**Texas A&M Forest Service**

Texas Intrastate Fire Mutual Aid System Grant  
 Assistance Program

\$ 5,825

Total Texas A&M Forest Service

5,825

**Texas Department of Transportation**

WAVE Grant Program  
 WAVE Grant Program

RUR 1701 (21)

57,014

RUR 1602 (21)

491,021

Total Texas Department of Transportation

548,035

**Texas Department of Wildlife**

Texas Recreation and Parks - City Park Grant

50-000459

400,000

Total Texas A&M Forest Service

400,000

**Total Expenditures of State Awards**

953,860

**Total Expenditures of Federal and State Awards**

\$ 2,568,656

**City of South Padre Island, Texas**  
**Notes on Accounting Policies for Federal and State Awards**  
**For the Year Ended September 30, 2016**

**1. General**

The accompanying Schedule of Expenditures of Federal Awards presents the activity of all federal award programs of City of South Padre Island, Texas, for the year ended September 30, 2016. The reporting entity consists of the primary government, organizations for which the primary government is financially accountable, and other organizations for which the primary government is not accountable, but for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete.

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

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

The City does not utilize the de minimus 10% indirect cost rate. Indirect costs, where applicable, are negotiated with the agency providing the grant award to the City.

**2. Measurement Focus and Basis of Accounting**

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

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

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

Rodrigo Gimenez, Finance Director  
Susan Guthrie, City Manager

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