

**CITY OF SOUTH PADRE ISLAND, TEXAS**

COMPREHENSIVE ANNUAL  
FINANCIAL REPORT

September 30, 2012

City of South Padre Island, Texas  
**COMPREHENSIVE ANNUAL FINANCIAL REPORT**  
 For The Fiscal Year Ended September 30, 2012

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March 20, 2013

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

We are pleased to submit to you the Comprehensive Annual Financial Report (CAFR) of the City of South Padre Island (City), Texas for the fiscal year ended September 30, 2012. This report was prepared from the books and records of the City of South Padre Island, Texas. 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 City's financial statements have been audited by Long Chilton LLP, Independent Certified Public Accountants. The goal of the independent audit was to provide reasonable assurance that the financial statements of the City for the fiscal year ended September 30, 2012, were free of material misstatement. The independent audit involved examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; assessing the accounting principles used and significant estimates made by management; and evaluating the overall financial statement presentation. The independent auditor's report is included in this document.

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

## **THE REPORT**

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

## **PROFILE OF THE CITY**

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

*"A Certified Retirement Community"*

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

## **MAJOR INITIATIVES**

In December of 2012 the City finished the construction of a new Emergency Services Building. Major road repairs were completed on Gulf Boulevard and West Retama in September 2012.

## **FACTORS AFFECTING FINANCIAL CONDITION**

### *Local Economy*

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

### *Long Term Financial Planning*

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

## **POLICIES AND PRACTICES**

### *Internal control*

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

### *Single Audit*

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

As part of the City's single audit, tests are made to determine the adequacy of the internal control structure, including that portion related to federal financial assistance programs, as well as to determine that the City has complied with applicable laws and regulations. The results of the City's single audit for the fiscal year ended September 30, 2012, identified no material weaknesses of the internal control or violations of applicable laws and regulations.

**OTHER INFORMATION**

*Independent Audit*

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

*Awards*

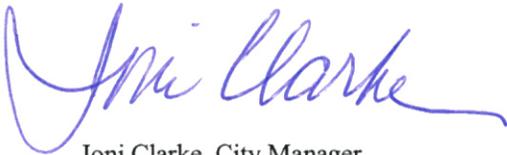
The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the City of South Padre Island for its comprehensive annual financial report for the fiscal year ended September 30, 2011. This was the twenty second consecutive year the City has achieved this prestigious award. In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

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

*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,



Joni Clarke, City Manager



Rodrigo Gimenez, Finance Director

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# Certificate of Achievement for Excellence in Financial Reporting

Presented to

City of South Padre Island  
Texas

For its Comprehensive Annual  
Financial Report  
for the Fiscal Year Ended  
September 30, 2011

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



*Christopher P. Morill*

President

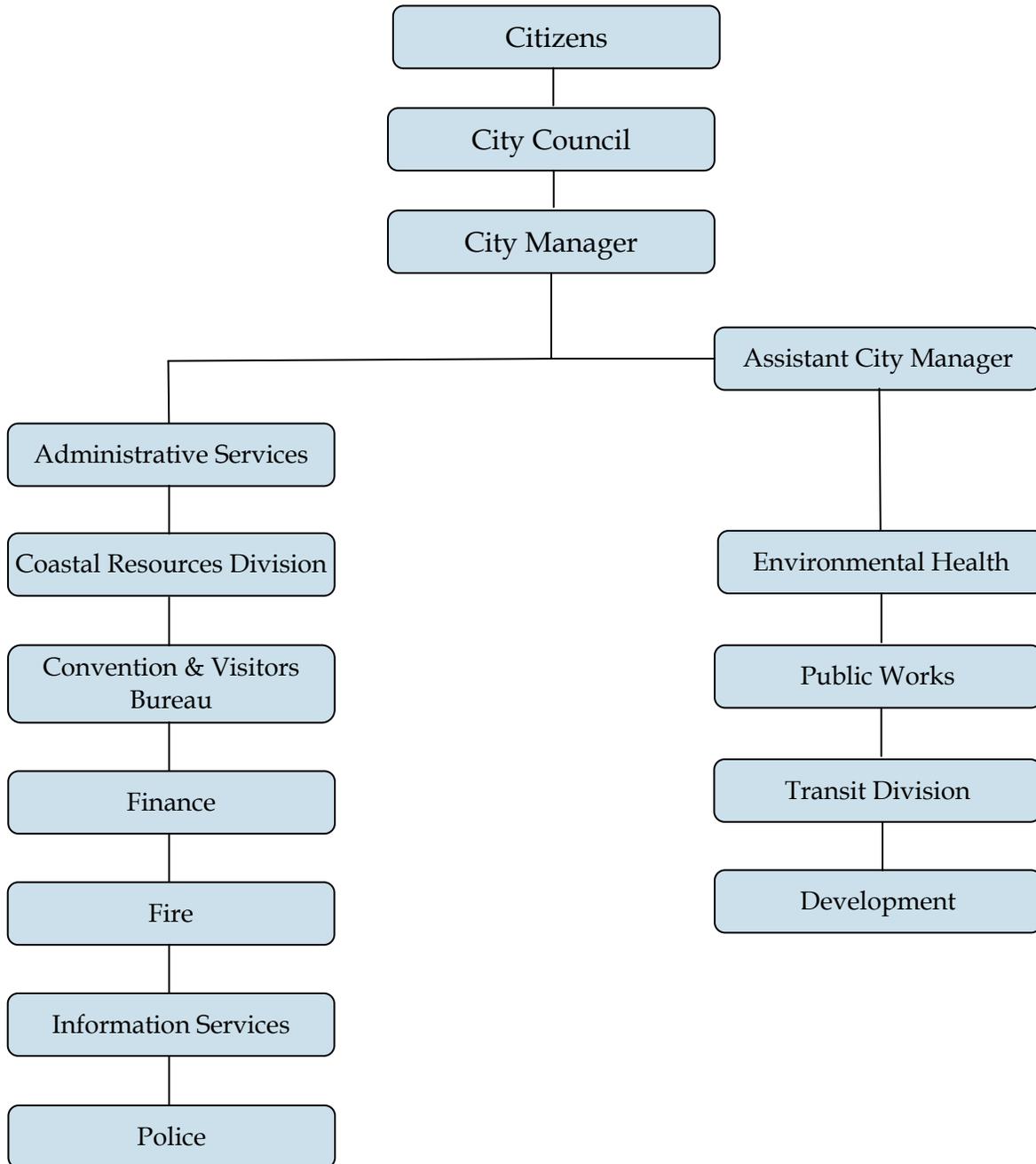
*Jeffrey R. Emer*

Executive Director



# City of South Padre Island

## Organizational Chart



City of South Padre Island, Texas  
**LIST OF PRINCIPAL OFFICIALS**

**ELECTED OFFICIALS**

<u>NAME</u>	<u>TITLE</u>
ROBERT N. PINKERTON JR.	<b><i>MAYOR</i></b> , COUNCIL MEMBER
JO ANN EVANS	MAYOR PRO TEM, COUNCIL MEMBER
SAM A. LISTI	COUNCIL MEMBER
ALITA BAGLEY	COUNCIL MEMBER
ROBERT FUDGE	COUNCIL MEMBER
COURTNEY HAYDEN	COUNCIL MEMBER

**APPOINTED OFFICIALS**

<u>NAME</u>	<u>TITLE</u>
JONI CLARKE	<b><i>CITY MANAGER</i></b>
DARLA JONES	ASSISTANT CITY MANAGER
BETH FREE	CHIEF FINANCIAL OFFICER
(VACANT)	FINANCE DEPARTMENT SENIOR ACCOUNTANT
LACEY ECKBERG	DIRECTOR OF CONVENTION AND VISITOR BUREAU
RANDY SMITH	POLICE CHIEF
BURNEY BASKETT	FIRE CHIEF
RAY MOYA	INTERIM DIRECTOR OF PUBLIC WORKS
TIM HOWELL	INFORMATION SERVICES DIRECTOR
WENDI DELGADO	ADMINISTRATIVE SERVICES DIRECTOR
VICTOR BALDOVINOS	ENVIRONMENTAL HEALTH SERVICES DIRECTOR
SUSAN HILL	CITY SECRETARY
PAUL Y. CUNNINGHAM, JR.	CITY ATTORNEY
DAVID COLWELL	MUNICIPAL COURT JUDGE

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**INDEPENDENT AUDITORS' REPORT**

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

We have audited the accompanying financial statements of the governmental activities, the aggregate discretely presented component unit, each major fund and the aggregate remaining fund information of the City of South Padre Island ("the City") as of and for the year ended September 30, 2012, which collectively comprise the City's basic financial statements as listed in the Table of Contents. These basic financial statements are the responsibility of the City of South Padre Island, Texas' management. Our responsibility is to express an opinion 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 United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the aggregate discretely presented component unit, each major fund and the aggregate remaining fund information of the City of South Padre Island, Texas at September 30, 2012, and the respective changes in financial position for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated March 11, 2013 on our consideration of the City of South Padre Island, Texas' internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and required supplementary information on pages 17 through 24 and 60 through 66 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.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of South Padre Islands' basic financial statements. The introductory section, the other supplementary information, and the statistical section, as listed in the table of contents, are presented for purposes of additional analysis and are not a required part of the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the U.S. Office of Management and Budget Circular A-133, and *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements of the City. The other supplementary information and the schedule of expenditures of federal awards have 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 financial statements or to the financial statements themselves and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, other supplemental information and the schedule of expenditures of federal awards are fairly stated in all material respects, in relation to the basic financial statements taken 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 express no opinion on them.



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

Harlingen, Texas  
March 11, 2013

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## Management's Discussion and Analysis

As management of the City of South Padre Island (the City), we offer readers of the City's financial statements this narrative overview and analysis as of September 30, 2012. We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in our letter of transmittal, which can be found on pages 5-7 of this report.

### Financial Highlights

- The assets of the City of South Padre Island exceeded its liabilities at the close of the most recent fiscal year by \$30,089,674 (net assets). Of this amount, \$5,697,496 (unrestricted net assets) may be used to meet the government's ongoing obligations to citizens and creditors.
- Total net assets for the City of South Padre Island increased by \$1,794,533 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 \$12,494,597. Approximately 10% of this amount, \$1,246,932 is available for spending at the government's discretion (unassigned fund balance). In addition 40% of this amount or \$4,937,269 is assigned (the six month reserve established by the city charter).
- At the end of the current fiscal year 49%, \$6,139,964 of the governmental funds fund balance was restricted and 1 %, \$170,432 was nonspendable.
- The City of South Padre Island's total debt decreased by \$690,000 during the current fiscal year. This the result of the retirement of debt during the fiscal year.

### Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the 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 Assets 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 assets 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 assets. Over time, increases or decreases in net assets 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 assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

Both of the government-wide financial statements distinguish functions of the 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, and community service. There are no business-type activities of the City of South Padre Island.

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

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

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

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

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

The City of South Padre Island maintains 18 individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the General Fund, the Hotel/Motel Fund, the Convention Centre Fund and the Construction in Progress 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 is effective for the fiscal year ending September 30, 2011. This statement is 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 changed how fund balance is reported. The City adopted GASB 54 for the fiscal year ending September 30, 2011 and subsequent years. The hierarchy of five possible classifications is as follows.

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

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

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

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

## Government-wide Financial Analysis

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

**Table 1**  
**NET ASSETS**  
**September 30**  
**(in thousands)**

	<b>Total Governmental Activities 2012</b>	<b>Total Governmental Activities 2011</b>	<b>Total Governmental Activities 2010</b>
<b><u>ASSETS</u></b>			
Current and other assets	\$15,100	\$16,486	\$12,957
Capital assets	26,714	23,525	23,554
Total assets	<u>41,814</u>	<u>40,011</u>	<u>36,511</u>
<b><u>LIABILITIES</u></b>			
Long-term liabilities outstanding	9,841	10,504	6,576
Other liabilities	1,883	1,212	1,249
	<u>11,724</u>	<u>11,716</u>	<u>7,825</u>
<b><u>NET ASSETS</u></b>			
Invested in capital assets, net of related debt	18,312	17,421	17,883
Restricted	6,080	4,700	5,034
Unrestricted	5,698	6,174	5,769
Total net assets	<u>\$30,090</u>	<u>\$28,295</u>	<u>\$28,686</u>

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the City of South Padre Island, assets exceeded liabilities by \$30,089,674 at the close of the most recent fiscal year.

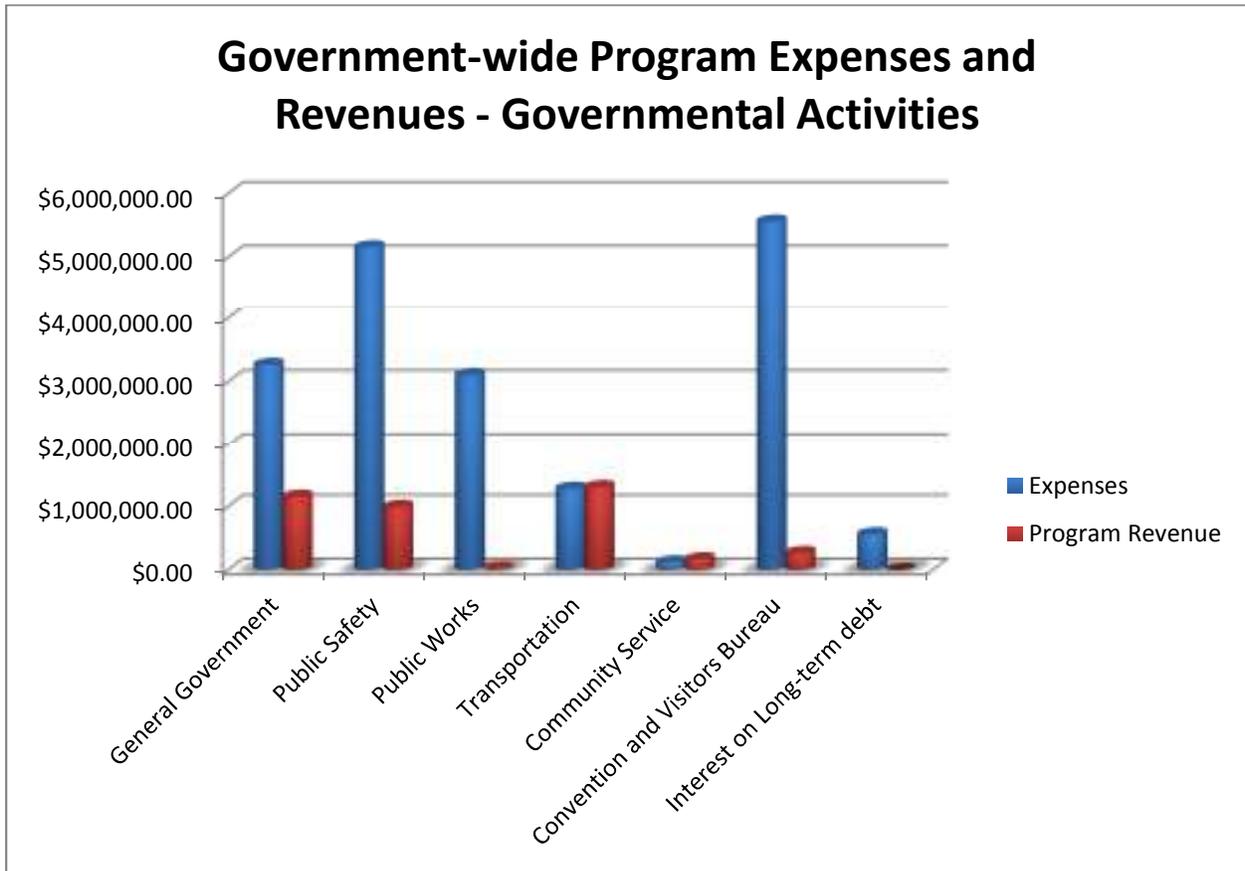
A large portion of the City's net assets (61%) reflects its investment in capital assets (e.g., land, buildings, machinery, and equipment), less any related debt used to acquire those assets that is still outstanding. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

**Changes in Net Assets.** Governmental activities increased the City's net assets by \$1,794,533. Revenues increased approximately \$1.7 million. The increase of program revenues (42.41% or \$1,161,251) sales tax (2.57% or \$54,407) property tax (1.80% or 120,198) and hotel motel tax (9% or \$508,439) Expenses during the fiscal period decreased by 464,504.

**Table 2**  
**Changes in Net Assets**

	<b>Total Governmental Activities</b>	<b>Total Governmental Activities</b>	<b>Total Governmental Activities</b>
	<b>2012</b>	<b>2011</b>	<b>2010</b>
<b>Program Revenues:</b>			
Charges for Services	\$1,528,332	\$1,058,188	\$1,466,992
Operating Grants & Contributions	1,074,032	996,779	714,938
Capital Grants & Contributions	1,296,789	682,935	190,604
<b>General Revenues:</b>			
Property Tax	6,512,050	6,391,852	6,098,437
Sales Tax	2,171,134	2,116,727	2,001,606
Franchise Tax	806,646	821,796	802,819
Hotel Motel Tax	6,166,994	5,658,555	5,238,745
Hotel Motel Beach Mtn. Tax	1,086,920	988,132	945,050
Gain (loss) on Sale of Capital Assets	4,545	(17,050)	16,810
Insurance Recoveries	-	-	16,510
Interest & Other	179,855	408,343	361,596
<b>Total Revenues</b>	<b>20,827,297</b>	<b>19,106,257</b>	<b>17,854,107</b>
<b>Program Expenses:</b>			
General Government	3,262,899	3,916,708	4,244,372
Public Safety	5,154,019	4,639,591	4,675,136
Public Works	3,104,579	2,842,168	2,818,149
Transportation	1,275,542	1,103,616	899,298
Community Service	119,300	820,784	40,494
Convention and Visitors Bureau	5,556,513	5,846,869	5,834,572
Interest on long-term debt	559,912	327,532	310,207
<b>Total Expenses</b>	<b>19,032,764</b>	<b>19,497,268</b>	<b>18,822,228</b>
Increase (decrease) in net assets	1,794,533	(391,011)	(968,121)
Beginning Net Assets	28,295,141	28,686,152	29,654,273
Ending Net Assets	\$30,089,674	\$28,295,141	\$28,686,152

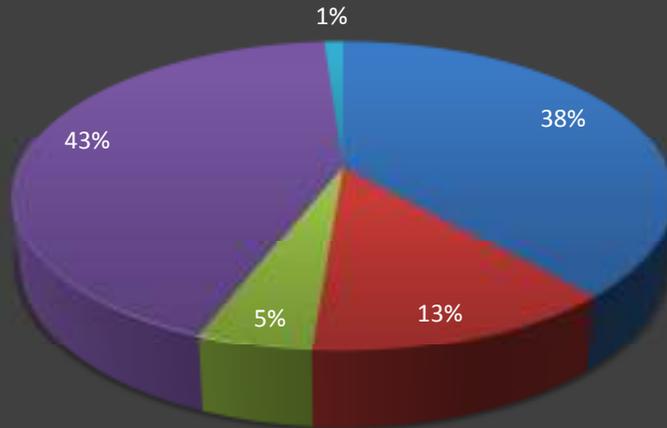
The chart below illustrates the City’s governmental expense and revenues by function: general government; public safety; public works; transportation; community service and interest on long-term debt.



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 Tax.

## Government-wide Revenues by Source - Governmental Activities

■ Property Taxes 38%     ■ Sales Tax 13%     ■ Franchise Fees 5%  
■ Hotel/Motel Taxes 43%     ■ Investments & Other 1%



### 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 \$12,494,597 a decrease of \$2,226,600 in comparison with the prior year. Approximately 10%, or \$1,246,932, constitutes unassigned fund balance, which is available for spending at the government's discretion. 40% or \$4,937,269 constitutes assigned fund balance. This portion is the six month reserved required by City Charter. 49% or \$6,139,964 of the total fund balance is restricted. This portion is the amount of the fund that is subject to externally enforceable legal restrictions such as imposed by creditors, grantors, laws or regulations or imposed by law through constitutional provisions or enabling legislation. 1% or \$170,432 of the fund balance is nonspendable; in this case all of the \$170,432 consists of prepaid expenses.

The General Fund is the chief operating fund of the City. At the end of the current fiscal year, unassigned fund balance of the General Fund was \$1,419,824, while total fund balance reached \$6,378,635. As a measure of the general fund's liquidity, it may be useful to compare both unassigned fund balance and total fund balance to total fund expenditures. Unassigned fund balance represents 14.38% of total general fund expenditures, while total fund balance represents 64.60% of that same amount.

The fund balance of the City General Fund increased by \$88,912 during the current fiscal year:

- In comparison with last year, the total actual expenditures decreased by \$807,327 mainly due to the purchase of a ladder truck for the fire department in the prior fiscal year.

- Revenues increased \$578,171 primarily due to an increase of \$388,579 in fines and forfeitures and \$171,921 increase in property tax.

**General Fund budgetary highlights**

The original budget of the General Fund was amended four times during fiscal year 2012 by a net of \$227,145. Expenditures were increased by \$227,145. Of this amount, \$18,913 was for ordering additional safety equipment for the Gulf Boulevard parking project; \$521,560 was to fund the Gulf Boulevard Parking Project and the repaving and curbs and gutters on West Retama. In addition \$35,342 was taken out of fund balance to payout employees who retired during fiscal year 2011-2012. \$6,500 was also allocated for City Council members to be able to do more travel. Other department budgeted expenditures were reduced to make up for the large increase.

**General Fund budget variances**

During the year, revenues were \$224,108 higher than budgeted. This was primarily due to an increase of \$163,515 of fines and forfeitures over budget and an increase of \$58,993 in property taxes over what was budgeted.

Total expenditures were \$265,017 less than what was budgeted. All of the general fund departments came in under budget with the exception of the Emergency Management. They were over \$922 primarily due to an emergency repair on the AWOS system (Aviation Weather Observation System). The capital outlay was over budget by \$79,687 primarily due to the purchase of vehicles for the beach patrol.

**Capital Asset and Debt Administration**

**Capital Assets.** The City’s investment in capital assets for its governmental activities as of September 30, 2012 amounts to \$26,714,337 (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 2012</b>	<b>Total Governmental Activities 2011</b>
Land	\$1,497,793	\$1,497,793
Construction in progress	4,766,421	419,187
Buildings	12,718,020	13,766,348
Improvements	2,350,415	2,598,412
Furniture and equipment	2,781,985	3,012,382
Infrastructure	2,599,703	2,230,541
Total net assets	\$26,714,337	\$23,524,663

**Long-term debt.** At the end of the current fiscal year, the City had total bonded debt outstanding of \$7,900,000. The table below reflects the outstanding debt at September 30. Additional information can be found in Note I. The City’s outstanding bonds underlying rating is “A+” by Standard and Poor’s Rating Service and Aa3 Moody’s rating.

**Outstanding Debt  
September 30**

	<b>Total Governmental Activities</b>	<b>Total Governmental Activities</b>
	<b>2012</b>	<b>2011</b>
General Obligation Bonds	\$7,640,000	\$7,665,000
Revenue Bonds	0	420,000
Tax Anticipation Notes	260,000	505,000
Other Obligations	-	-
	<b>\$7,900,000</b>	<b>\$8,590,000</b>

The City of South Padre Island's total debt decreased by \$690,000 during the current fiscal year. This decrease is the result of paying off the General Obligation 2009 refunding series and paying \$245,000 principal on the 2006 Tax note series. There is one final payment due in 2013 for the 2006 Tax notes of \$260,000.

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

All of these factors were considered in preparing the City's budget for the 2012-2013 fiscal year.

Certified property tax values for the City decreased by \$14,460,452 or .569% from the preceding year and council adopted the effective tax rate of 0.252701 cents per hundred. The tax rate has been split with .223631 per hundred for maintenance and operations and .02907 per hundred for the debt service fund for the retirement of the tax anticipation note and the general obligation bond.

Overall, the General Fund is budgeted to end fiscal year 2012-2013 with an estimated fund balance of \$5,819,814. This is approximately 55.92% of General Fund budgeted expenditures.

**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, TX, 78597.

City of South Padre Island, Texas  
**STATEMENT OF NET ASSETS**  
September 30, 2012

	Primary Government Total	Component Unit
<b>ASSETS</b>	Governmental Activities	
Cash and cash equivalents	\$ 8,898,646	\$ 701,408
Investments	3,505,208	-
Receivables, net	1,394,961	76,647
Due from other governments	854,722	-
Prepaid expenses	170,432	299,717
Loans receivable	-	97,445
Bond issue costs	275,541	49,577
Capital assets, net		
Non-depreciable assets	6,264,214	657,236
Depreciable assets	20,450,123	5,979,123
 TOTAL ASSETS	 \$ 41,813,847	 \$ 7,861,153
<b>LIABILITIES AND NET ASSETS</b>		
Liabilities		
Accounts payable	\$ 1,558,429	\$ -
Other liabilities	237,093	1,291
Unearned revenues	87,963	-
Non-current liabilities		
Due within one year	993,172	165,000
Due in more than one year	8,847,516	4,586,965
Total liabilities	11,724,173	4,753,256
Net assets		
Invested in capital assets, net of related debt	18,312,199	1,886,359
Restricted		
Debt service	213,148	464,306
Capital projects	1,502,659	-
Transportation	235,999	-
Beach maintenance	264,745	-
Municipal court	48,913	-
Criminal justice	3,644	-
Hurricane recovery	204,938	-
Parks and recreation	2,372	-
Hotel/motel taxes	3,603,561	-
Unrestricted	5,697,496	757,232
Total net assets	30,089,674	3,107,897
 TOTAL LIABILITIES AND NET ASSETS	 \$ 41,813,847	 \$ 7,861,153

*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, 2012

<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	\$ 3,262,899	\$ 218,276	\$ 84,839
Public safety	5,154,019	990,410	211
Public works	3,104,579	22,646	-
Transportation	1,275,542	52,250	906,131
Community service	119,300	-	60,733
Convention and visitors bureau	5,556,513	244,750	22,118
Interest on long-term debt	<u>559,912</u>	<u>-</u>	<u>-</u>
Total governmental activities	<u>19,032,764</u>	<u>1,528,332</u>	<u>1,074,032</u>
<b>Component unit:</b>			
Economic development services	325,372	-	-
Interest expense	<u>214,267</u>	<u>-</u>	<u>-</u>
Total component unit	<u>\$ 539,639</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 sale of capital assets
- Miscellaneous
- Total general revenues, special items, and transfers
- Change in net assets

Net assets - beginning

Net assets - ending

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

Program Revenues	Net (Expense) Revenue and Changes in Net Assets	
	Primary Government Total	Component Unit
Capital Grants and Contributions	Governmental Activities	
\$ 846,559	\$ (2,113,225)	\$ -
-	(4,163,398)	-
-	(3,081,933)	-
343,030	25,869	-
107,200	48,633	-
-	(5,289,645)	-
-	(559,912)	-
<u>1,296,789</u>	<u>(15,133,611)</u>	<u>-</u>
-	-	(325,372)
-	-	(214,267)
<u>\$ -</u>	<u>\$ -</u>	<u>\$ (539,639)</u>
	5,870,900	-
	641,150	-
	1,965,572	655,191
	806,646	-
	6,166,994	-
	1,086,920	-
	205,562	-
	49,345	4,149
	4,545	-
	<u>130,510</u>	<u>8,929</u>
	<u>16,928,144</u>	<u>668,269</u>
	1,794,533	128,630
	<u>28,295,141</u>	<u>2,979,267</u>
	<u>\$ 30,089,674</u>	<u>\$ 3,107,897</u>

City of South Padre Island, Texas  
**BALANCE SHEET**  
**GOVERNMENTAL FUNDS**  
September 30, 2012

	General Fund	Hotel Motel Fund	Convention Centre Fund	Construction In Progress Fund	Other Governmental Funds	Total Governmental Funds
<b>ASSETS</b>						
Cash and cash equivalents	\$ 3,161,504	\$ 847,113	\$ 2,397,079	\$ 509,178	\$ 1,983,772	\$ 8,898,646
Investments	3,505,208	-	-	-	-	3,505,208
Receivables (net of allowance for uncollectibles)						
Taxes	384,197	-	-	-	43,358	427,555
Accounts	539,541	251,579	150,491	-	25,795	967,406
Due from other governments	-	-	-	-	854,722	854,722
Due from other funds	527,220	-	-	-	-	527,220
Prepaid items	21,542	120,613	26,925	-	1,352	170,432
<b>TOTAL ASSETS</b>	<b>\$ 8,139,212</b>	<b>\$ 1,219,305</b>	<b>\$ 2,574,495</b>	<b>\$ 509,178</b>	<b>\$ 2,908,999</b>	<b>\$ 15,351,189</b>
<b>LIABILITIES AND FUND BALANCES</b>						
Liabilities						
Accounts payable	\$ 1,110,021	\$ 3	\$ 53	\$ 448,352	\$ -	\$ 1,558,429
Due to other funds	-	-	-	-	527,220	527,220
Other liabilities	176,306	-	-	-	-	176,306
Deferred revenues	474,250	165	42,480	-	77,742	594,637
Total liabilities	1,760,577	168	42,533	448,352	604,962	2,856,592
Fund balance						
Nonspendable	21,542	120,613	26,925	-	1,352	170,432
Restricted	-	1,098,524	2,505,037	60,826	2,475,577	6,139,964
Assigned	4,937,269	-	-	-	-	4,937,269
Unassigned	1,419,824	-	-	-	(172,892)	1,246,932
Total fund balances	6,378,635	1,219,137	2,531,962	60,826	2,304,037	12,494,597
<b>TOTAL LIABILITIES AND FUND BALANCE</b>	<b>\$ 8,139,212</b>	<b>\$ 1,219,305</b>	<b>\$ 2,574,495</b>	<b>\$ 509,178</b>	<b>\$ 2,908,999</b>	<b>\$ 15,351,189</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 ASSETS**  
 September 30, 2012

Fund balances of governmental funds	\$ 12,494,597
Amounts reported for <i>governmental activities</i> in the statement of net assets are different because:	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	26,714,337
Some liabilities, including bonds payable (\$8,084,479) and capital leases (\$826,837) are not due in the current period and therefore not reported in the funds.	(8,911,316)
Liabilities for compensated absences are not due in the current period and therefore are not reported in the funds.	(811,432)
Bond issue costs are expensed during the period incurred in the funds, but are amortized as an adjustment to interest expense in the statement of activities over the remaining life of the debt.	275,541
Other long-term assets are not available to pay for current period expenditures and therefore are deferred in the funds.	506,674
Liabilities for accrued interest on long-term debt are not due in the current period and therefore are not reported in the funds.	(60,787)
Liabilities for net pension obligations are not due in the current period and therefore are not reported in the funds.	<u>(117,940)</u>
Net assets of governmental activities	<u>\$ 30,089,674</u>

*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, 2012

	General Fund	Hotel Motel Fund	Convention Centre Fund	Construction In Progress Fund	Other Governmental Funds	Total Governmental Funds
<b>REVENUES</b>						
Property taxes	\$ 5,925,185	\$ -	\$ -	\$ -	\$ 646,850	\$ 6,572,035
Nonproperty taxes	2,977,779	4,106,114	2,060,880	-	1,086,921	10,231,694
Fees and services	434,845	51,722	193,028	-	167,933	847,528
Fines and forfeitures	503,515	-	-	-	14,261	517,776
Licenses and permits	191,105	-	-	-	-	191,105
Intergovernmental	84,839	-	22,118	846,559	1,249,372	2,202,888
Miscellaneous	102,082	931	8,120	-	68,723	179,856
Total revenues	<u>10,219,350</u>	<u>4,158,767</u>	<u>2,284,146</u>	<u>846,559</u>	<u>3,234,060</u>	<u>20,742,882</u>
<b>EXPENDITURES</b>						
Current						
General government	2,912,655	-	-	-	-	2,912,655
Public safety	4,789,542	-	-	8,312	8,910	4,806,764
Public works	1,701,830	-	-	-	722,593	2,424,423
Transportation	-	-	-	-	1,078,641	1,078,641
Community service	-	-	-	-	119,300	119,300
Convention and visitors bureau	-	3,419,958	1,320,451	-	-	4,740,409
Capital outlay	316,891	-	29,688	4,394,785	886,707	5,628,071
Debt service						
Principal retirement	112,225	-	-	-	870,000	982,225
Interest	41,395	-	-	-	358,770	400,165
Administrative charges	-	-	-	-	800	800
Total expenditures	<u>9,874,538</u>	<u>3,419,958</u>	<u>1,350,139</u>	<u>4,403,097</u>	<u>4,045,721</u>	<u>23,093,453</u>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES</b>						
	344,812	738,809	934,007	(3,556,538)	(811,661)	(2,350,571)
<b>Other financing sources (uses)</b>						
Sale of capital assets	-	-	-	-	4,771	4,771
Lease proceeds	119,200	-	-	-	-	119,200
Issuance of debt	-	-	-	-	3,165,000	3,165,000
Premium on issuance of debt	-	-	-	-	289,990	289,990
Uses of debt refunding	-	-	-	-	(3,351,703)	(3,351,703)
Bond issue costs	-	-	-	-	(103,287)	(103,287)
Transfers in	174,460	-	-	-	1,025,629	1,200,089
Transfers out	(549,560)	(50,000)	(426,069)	-	(174,460)	(1,200,089)
Total other financing sources (uses)	<u>(255,900)</u>	<u>(50,000)</u>	<u>(426,069)</u>	<u>-</u>	<u>855,940</u>	<u>123,971</u>
Net change in fund balances	88,912	688,809	507,938	(3,556,538)	44,279	(2,226,600)
Fund balance -- beginning	<u>6,289,723</u>	<u>530,328</u>	<u>2,024,024</u>	<u>3,617,364</u>	<u>2,259,758</u>	<u>14,721,197</u>
Fund balance -- ending	<u>\$ 6,378,635</u>	<u>\$ 1,219,137</u>	<u>\$ 2,531,962</u>	<u>\$ 60,826</u>	<u>\$ 2,304,037</u>	<u>\$ 12,494,597</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, 2012

Net change in fund balances --total governmental funds	\$ (2,226,600)
Amounts reported for <i>governmental activities</i> in the statement of activities	
Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays (\$5,628,071) exceeded depreciation (\$2,438,171), in the current period.	3,189,900
In the statement of activities, only the gain (loss) on the sale of assets is reported, whereas in the funds, the proceeds from the sale increase financial resources. Thus, the change in net assets differs from the change in fund balance by the book value of the assets sold.	(226)
Bond issue costs reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds. This is the amount by which current year bond issue costs incurred (\$103,287) exceed current year amortization of bond issue costs (\$28,648).	74,639
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 assets.	982,225
The change in compensated absences payable (\$55,739) during the year is reported as an increase or decrease to expenditures in the statement of activities but not in the governmental funds. The amortization of the gain/loss on the bond refunding (\$15,818) as well as the amortization of the bond premium (\$5,073) are expenditures in the statement of activities but not in the governmental funds.	76,630
The change in Net Pension Obligation during the year is reported as an increase or decrease to expenditures in the statement of activities but not in the governmental funds.	(8,228)
Some expenses (\$79,870 change in deferred revenue) reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds. Interest expense (\$13,613) in the statement of activities differs from the amount reported in governmental funds due to the change in accrued interest.	93,483
Capital lease proceeds are recorded as other financing sources in the governmental funds while they are recorded as a long term debt in the statement of net assets.	(119,200)
Debt proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net assets.	<u>(268,090)</u>
Change in net assets of governmental activities	<u>\$ 1,794,533</u>

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

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City of South Padre Island, Texas  
**NOTES TO FINANCIAL STATEMENTS**  
September 30, 2012

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

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

1. *Reporting Entity*

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

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

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

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

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

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

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

City of South Padre Island, Texas  
**NOTES TO FINANCIAL STATEMENTS – CONTINUED**  
September 30, 2012

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

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

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

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

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

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

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

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.

City of South Padre Island, Texas  
**NOTES TO FINANCIAL STATEMENTS – CONTINUED**  
September 30, 2012

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

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

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

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

The *capital projects funds* are used to account for financial resources to be used for the acquisition of capital assets or construction of major capital facilities. The capital projects funds reported as major funds are:

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

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

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

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

City of South Padre Island, Texas  
**NOTES TO FINANCIAL STATEMENTS – CONTINUED**  
September 30, 2012

**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 deferred/unearned revenue on its balance sheet/statement of net assets. Deferred revenues arise when a potential revenue does not meet both the “*measurable*” and “*available*” criteria for recognition in the current period.

Unearned revenues arise when resources are received by the 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 deferred/unearned revenue is removed from the balance sheet/statement of net assets and revenue is recognized.

4. *Assets, Liabilities, Net Assets and/or Equity*

**a. Cash and Cash Equivalents**

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

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

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

**c. Inventories**

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

**d. Prepaid Items**

Expenditures made to third party vendors for goods and services that will benefit periods beyond September 30, 2012 are recorded as prepaid items, in both governmental and fund financial statements.

**e. Capital Assets**

Capital assets, which includes property, plant, equipment and infrastructure assets (e.g., roads, bridges, sidewalks and similar items), are reported in the governmental activities column in the government-wide financial statements. 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.

City of South Padre Island, Texas  
**NOTES TO FINANCIAL STATEMENTS – CONTINUED**  
September 30, 2012

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

4. *Assets, Liabilities, Net Assets and/or Equity - Continued*

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

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

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

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

**f. Compensated Absences**

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

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

City of South Padre Island, Texas  
**NOTES TO FINANCIAL STATEMENTS - CONTINUED**  
September 30, 2012

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

4. *Assets, Liabilities, Net Assets and/or Equity - Continued*

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, as well as issuance costs, are deferred and amortized over the life of the bonds. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

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

**h. Bond Discounts/Issue Costs**

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

**i. Comparative Data**

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

**j. Estimates**

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

City of South Padre Island, Texas  
**NOTES TO FINANCIAL STATEMENTS - CONTINUED**  
September 30, 2012

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

4. *Assets, Liabilities, Net Assets and/or Equity - Continued*

**k. Income Taxes**

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

**l. Interfund Transfers**

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

**m. Fund Balance Reporting**

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

In addition to the nonspendable fund balance, GASB 54 has provided a hierarchy of spendable fund balances, based on a hierarchy of spending constraints.

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

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

City of South Padre Island, Texas  
**NOTES TO FINANCIAL STATEMENTS - CONTINUED**  
September 30, 2012

**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 2012, various transfers of appropriations were made for the Governmental Funds. The original and final amended budget are presented in the Required Supplementary Information for the General Fund and major Special Revenue Funds (Hotel/Motel, Convention Centre and Transportation Grant Funds), that have adopted a budget.

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

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

City of South Padre Island, Texas  
**NOTES TO FINANCIAL STATEMENTS - CONTINUED**  
September 30, 2012

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

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

2. *Expenditures over Appropriations*

None noted.

3. *Net Assets Deficit*

A deficit balance in unrestricted net assets/fund balance occurred in the following funds for the year ended September 30, 2012 by the indicated amounts:

Bay Access Fund	\$( <u>172,892</u> )
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**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, 2012, 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, 2012 are as follows:

	<u>Investment Maturities (in years)</u>		Greater than 1 year
	<u>Fair Value</u>	<u>1 or less</u>	
<b>Primary Government</b>			
Cash and cash equivalents	\$ 8,107,987	\$ 8,107,987	\$ -
TexPool	676,822	676,822	-
Texas Term	<u>113,837</u>	<u>113,837</u>	-
	8,898,646	8,898,646	-
Investments			
Certificates of deposit	<u>3,505,208</u>	<u>3,505,208</u>	-
	<u>\$12,403,854</u>	<u>\$12,403,854</u>	\$ -
<b>Component Unit</b>			
Cash and cash equivalents	\$ 679,189	\$ 679,189	\$ -
Tex Pool	<u>22,219</u>	<u>22,219</u>	-
	<u>\$ 701,408</u>	<u>\$ 701,408</u>	\$ -

City of South Padre Island, Texas  
**NOTES TO FINANCIAL STATEMENTS - CONTINUED**  
September 30, 2012

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

A reconciliation of cash and investments follows:

	<u>Primary Governmental Activities</u>	<u>Component Units</u>	<u>Total</u>
Cash	\$ 8,107,987	\$ 679,189	\$ 8,787,176
Cash equivalents			
Texas Term	113,837	22,219	136,056
TexPool	<u>676,822</u>	<u>-</u>	<u>676,822</u>
	790,659	22,219	812,878
Investments			
Certificates of deposit	<u>3,505,208</u>	<u>-</u>	<u>3,505,208</u>
	<u>\$12,403,854</u>	<u>\$ 701,408</u>	<u>\$13,105,262</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	0.59%	\$3,505,208	December 16, 2013

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

***Credit Risk***

As of September 30, 2012, 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.

City of South Padre Island, Texas  
**NOTES TO FINANCIAL STATEMENTS - CONTINUED**  
September 30, 2012

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

***Public Funds Investment Pools***

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

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

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

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

**NOTE D - PROPERTY TAXES**

The assessed value for the tax roll as of January 1, 2011 upon which the 2011 levy was based, was \$2,687,872,738. State statutes require that all assessments be made on one hundred percent (100%) of fair market value.

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

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

City of South Padre Island, Texas  
**NOTES TO FINANCIAL STATEMENTS - CONTINUED**  
September 30, 2012

**NOTE D - PROPERTY TAXES - Continued**

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

The 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, 2012, was \$.2504 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, 2012, were 95.9 percent of the tax levy.

**NOTE E - RECEIVABLES**

Receivables at September 30, 2012, consist of the following:

	Primary Government					Component Unit
	General	Hotel/Motel Fund	Convention Center Fund	Other Governmental Funds	Total Governmental Funds	
Receivables						
Taxes	\$433,287	\$ -	\$ -	\$ 48,154	\$ 481,441	\$ -
Accounts	<u>539,541</u>	<u>251,579</u>	<u>150,491</u>	<u>25,795</u>	<u>967,406</u>	<u>76,647</u>
Gross receivables	972,828	251,579	150,491	73,949	1,448,847	76,647
Less allowance for uncollectibles	<u>(49,090)</u>	<u>-</u>	<u>-</u>	<u>(4,796)</u>	<u>(53,886)</u>	<u>-</u>
Total receivables, net	<u>\$923,738</u>	<u>\$251,579</u>	<u>\$150,491</u>	<u>\$ 69,153</u>	<u>\$1,394,961</u>	<u>\$ 76,647</u>

**NOTE F - DUE FROM OTHER GOVERNMENTS**

Due from other governments at September 30, 2012 consist of the following:

	Primary Government		Total
	Transportation	Beach Maintenance	
Texas State Comptroller – occupancy taxes	\$ -	\$366,161	\$366,161
State of Texas – Department of Transportation	<u>488,561</u>	<u>-</u>	<u>488,561</u>
Net total receivables	<u>\$488,561</u>	<u>\$366,161</u>	<u>\$854,722</u>

City of South Padre Island, Texas  
**NOTES TO FINANCIAL STATEMENTS - CONTINUED**  
September 30, 2012

**NOTE G - CAPITAL ASSETS**

Capital asset activity for the year ended September 30, 2012 is as follows:

**Governmental Activities**

	Beginning Balance October 1, 2011	Additions	Transfers	Retirements	Ending Balance September 30, 2012
<b>Capital assets, not being depreciated:</b>					
Land	\$ 1,497,793	\$ -	\$ -	\$ -	\$ 1,497,793
Construction in progress	<u>419,187</u>	<u>4,347,234</u>	<u>-</u>	<u>-</u>	<u>4,766,421</u>
	1,916,980	4,347,234	-	-	6,264,214
<b>Capital assets, being depreciated:</b>					
Buildings	24,454,268	-	-	-	24,454,268
Improvements	4,515,138	29,328	-	-	4,544,466
Furniture and equipment	6,682,033	628,007	-	(118,144)	7,191,896
Infrastructure	<u>7,125,428</u>	<u>623,502</u>	<u>-</u>	<u>-</u>	<u>7,748,930</u>
	42,776,867	1,280,837	-	(118,144)	43,939,560
Less accumulated depreciation for:					
Buildings	(10,687,920)	(1,048,328)	-	-	(11,736,248)
Improvements	(1,916,726)	(277,325)	-	-	(2,194,051)
Furniture and equipment	(3,669,651)	(858,178)	-	117,918	(4,409,911)
Infrastructure	<u>(4,894,887)</u>	<u>(254,340)</u>	<u>-</u>	<u>-</u>	<u>(5,149,227)</u>
Total accumulated depreciation	<u>(21,169,184)</u>	<u>(2,438,171)</u>	<u>-</u>	<u>117,918</u>	<u>(23,489,437)</u>
Total capital assets, being depreciated, net	<u>21,607,683</u>	<u>(1,157,334)</u>	<u>-</u>	<u>(226)</u>	<u>20,450,123</u>
Governmental activities, capital assets, net	<u>\$23,524,663</u>	<u>\$ 3,189,900</u>	<u>\$ -</u>	<u>\$ (226)</u>	<u>\$26,714,337</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	\$ 397,755
Public safety	347,255
Public works	680,156
Community service	816,104
Transportation	<u>196,901</u>
Total depreciation - governmental activities	<u>\$2,438,171</u>

City of South Padre Island, Texas  
**NOTES TO FINANCIAL STATEMENTS - CONTINUED**  
September 30, 2012

**NOTE G - CAPITAL ASSETS - Continued**

**Component Unit:**

Activity for Economic Development Corporation is as follows:

	Beginning Balance October 1, 2011	Additions	Transfers	Retirements	Ending Balance September 30, 2012
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
Furniture and equipment	<u>21,604</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>21,604</u>
	6,590,619	-	-	-	6,590,619
Less accumulated depreciation					
Buildings	(453,745)	(136,147)	-	-	(589,892)
Furniture and equipment	<u>(21,604)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(21,604)</u>
Total accumulated depreciation	(475,349)	(136,147)	-	-	(611,496)
Total capital assets being depreciated, net	<u>6,115,270</u>	<u>(136,147)</u>	<u>-</u>	<u>-</u>	<u>5,979,123</u>
Governmental activities, capital assets, net	<u>\$6,772,506</u>	<u>\$(136,147)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$6,636,359</u>

**NOTE H - DEFERRED REVENUE**

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

	2012		2011	
	Unavailable	Unearned	Unavailable	Unearned
Governmental funds				
Delinquent property taxes receivable	\$366,819	\$ -	\$426,804	\$ -
Grants and other	<u>139,855</u>	<u>87,963</u>	<u>-</u>	<u>88,732</u>
Total deferred/unearned revenue for governmental funds	<u>\$506,674</u>	<u>\$ 87,963</u>	<u>\$426,804</u>	<u>\$ 88,732</u>

**NOTE I - LONG-TERM DEBT**

**Primary Government**

*General Obligation Bonds*

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

City of South Padre Island, Texas  
**NOTES TO FINANCIAL STATEMENTS - CONTINUED**  
September 30, 2012

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

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

*1. Bonds*

	Beginning Balance <u>10-1-11</u>	<u>Additions</u>	<u>Reductions</u>	Ending Balance <u>9-30-12</u>	Due In <u>One Year</u>
<i>General Government:</i>					
2005 Series, General Obligation Bonds	\$3,865,000	\$ -	\$(3,190,000)	\$ 675,000	\$ 215,000
2006 Series, Tax Anticipation Notes	505,000	-	(245,000)	260,000	260,000
2009 Series, General Obligation Refunding Bonds	420,000	-	(420,000)	-	-
2011 Series, General Obligation Bonds	3,800,000	-	-	3,800,000	-
2012 Series, General Obligation Refunding Bonds	<u>-</u>	<u>3,165,000</u>	<u>-</u>	<u>3,165,000</u>	<u>-</u>
Total bonds	<u>\$8,590,000</u>	<u>\$3,165,000</u>	<u>\$(3,855,000)</u>	<u>\$7,900,000</u>	<u>\$ 475,000</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>	
2013	\$ 215,000	\$ 259,272	\$260,000	\$ 5,330	\$ 475,000	\$ 264,602	\$ 739,602
2014	405,000	240,738	-	-	405,000	240,738	645,738
2015	420,000	225,163	-	-	420,000	225,163	645,163
2016	435,000	210,700	-	-	435,000	210,700	645,700
2017	450,000	197,425	-	-	450,000	197,425	647,425
2018-2022	2,475,000	758,575	-	-	2,475,000	758,575	3,233,575
2023-2027	2,160,000	364,688	-	-	2,160,000	364,688	2,524,688
2028-2033	<u>1,080,000</u>	<u>88,400</u>	<u>-</u>	<u>-</u>	<u>1,080,000</u>	<u>88,400</u>	<u>1,168,400</u>
	<u>\$7,640,000</u>	<u>\$2,344,961</u>	<u>\$260,000</u>	<u>\$ 5,330</u>	<u>\$7,900,000</u>	<u>\$2,350,291</u>	<u>\$10,250,291</u>

**Component Unit**

*2. Revenue Bond*

	Beginning Balance October 1, <u>2011</u>	<u>Additions</u>	<u>Reductions</u>	Ending Balance September 30, <u>2012</u>	Amount Due In <u>One Year</u>
2007 Series, Sales Tax Bond	<u>\$4,895,000</u>	<u>\$ -</u>	<u>\$(145,000)</u>	<u>\$4,750,000</u>	<u>\$165,000</u>

City of South Padre Island, Texas  
**NOTES TO FINANCIAL STATEMENTS - CONTINUED**  
September 30, 2012

**NOTE 1 - LONG-TERM DEBT - Continued**

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

<u>Year Ending</u> <u>September 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2013	\$ 165,000	\$ 203,970	\$ 368,970
2014	190,000	196,213	386,213
2015	210,000	187,473	397,473
2016	230,000	177,859	407,859
2017	250,000	167,371	417,371
2018-2022	1,455,000	656,046	2,111,046
2023-2027	1,830,000	298,690	2,128,690
2028-2031	<u>420,000</u>	<u>9,177</u>	<u>429,177</u>
	<u>\$4,750,000</u>	<u>\$1,896,799</u>	<u>\$6,646,799</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, which will consist of a new City Hall, improvements to and renovations of the existing fire department and public works facilities, and related parking and pay costs of issuance. The bonds are collateralized by the levy and collection of ad valorem taxes and will be repaid over 20 years beginning in 2006. The bonds carry interest rates ranging from 3.5% to 4.625% with interest payment dates of March 1 and September 1.

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

On December 16, 2009 the City issued General Obligation Refunding Bonds, Series 2009 in order to advance refund all of the 2002 Series, Combination Tax and Revenue Refunding Bonds as discussed above. The bonds are collateralized by the levy and collection of ad valorem taxes and will be repaid over 2 years which will begin on March 1, 2011. The bonds carry an interest rate of 2.89% 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. The first principal payment does not start until March 1, 2014.

City of South Padre Island, Texas  
**NOTES TO FINANCIAL STATEMENTS - CONTINUED**  
September 30, 2012

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

*Advance Refunding*

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

The advance refunding was undertaken to reduce the City's interest payments. An economic gain (difference between the present value of the debt service payment of the refunded and refunding bonds) of \$201,901 was recognized. At September 30, 2012, the defeased portion of the 2005 Series General Obligation bonds had a balance of \$2,985,000. The amount of the 2005 Series General Obligation bonds that are still on the City's books is \$675,000.

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

**Capital Lease Obligations**

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

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

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

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

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, 2012:

	<u>Pickup Truck</u>	<u>Fire Ladder Truck</u>	<u>Fire Quick Attack Truck</u>	<u>Ambulance</u>	<u>Total</u>
Year ending September 30,					
2013	\$ 6,317	\$106,439	\$ 15,163	\$ 25,700	\$153,619
2014	6,317	106,439	15,163	25,700	153,619
2015	6,317	106,439	38,514	25,700	176,970
2016	-	106,439	-	25,700	132,139
2017	-	<u>349,228</u>	-	-	<u>349,228</u>
Total minimum lease payments	18,951	774,984	68,840	102,800	965,575
Less the amount representing interest	<u>(3,053)</u>	<u>(120,769)</u>	<u>(6,800)</u>	<u>(8,116)</u>	<u>(138,738)</u>
Present value of net minimum lease payments	<u>\$ 15,898</u>	<u>\$654,215</u>	<u>\$ 62,040</u>	<u>\$ 94,684</u>	<u>\$826,837</u>

City of South Padre Island, Texas  
**NOTES TO FINANCIAL STATEMENTS - CONTINUED**  
September 30, 2012

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

*Changes in Long-term Liabilities for Governmental Activities*

During the year ended September 30, 2012, the following changes occurred in liabilities reported as non-current liabilities.

	October 1, <u>2011</u>	<u>Additions</u>	<u>Reductions</u>	September 30, <u>2012</u>	Amount Due Within <u>One Year</u>
Compensated absences*	\$ 867,171	\$ 456,554	\$ (512,293)	\$ 811,432	\$ 391,717
Bonds payable	8,590,000	3,165,000	(3,855,000)	7,900,000	475,000
Deferred loss on defeasance of bonds	15,818	-	(15,818)	-	-
Deferred gain on defeasance of bonds	-	(201,901)	-	(201,901)	(15,531)
Premium on bond issuances	101,462	289,991	(5,073)	386,380	27,380
Capital leases	819,862	119,200	(112,225)	826,837	114,606
Net pension obligation*	<u>109,712</u>	<u>8,228</u>	<u>-</u>	<u>117,940</u>	<u>-</u>
Total long-term debt	<u>\$10,504,025</u>	<u>\$3,837,072</u>	<u>\$(4,500,409)</u>	<u>\$9,840,688</u>	<u>\$993,172</u>

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

**Component Unit**

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

*Changes in Long-term Liabilities for Component Units*

	October 1, <u>2011</u>	<u>Additions</u>	<u>Reductions</u>	September 30, <u>2012</u>	Amount Due Within <u>One Year</u>
2007 Series, Sales Tax Bond	\$4,895,000	\$ -	\$(145,000)	\$4,750,000	\$165,000
Net pension obligation	<u>1,828</u>	<u>137</u>	<u>-</u>	<u>1,965</u>	<u>-</u>
Total long-term debt	<u>\$4,896,828</u>	<u>\$ 137</u>	<u>\$(145,000)</u>	<u>\$4,751,965</u>	<u>\$165,000</u>

City of South Padre Island, Texas  
**NOTES TO FINANCIAL STATEMENTS - CONTINUED**  
September 30, 2012

**NOTE J - INTERFUND ASSETS/LIABILITIES**

*Due to/from other funds:*

<u>Payable Fund</u>	<u>Receivable Fund</u>
	<u>General</u>
Transportation Grant	\$252,562
Beach Maintenance	101,766
Bay Access	<u>172,892</u>
	<u>\$527,220</u>

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

**NOTE K - TRANSFERS**

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

	Transfer in Funds						Total
	General	Parks, Recreation and Beautification Fund	Transportation Grant	Debt Service	Street Improvement	Bay Access	
<u>Transfer Out Funds</u>							
General	\$ -	\$ 11,000	\$ -	\$ -	\$21,560	\$ 17,000	\$ 549,560
Hotel/Motel	-	-	50,000	-	-	-	50,000
Convention Center	-	-	-	426,069	-	-	426,069
Beach Maintenance	<u>174,460</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>174,460</u>
	<u>\$174,460</u>	<u>\$ 11,000</u>	<u>\$ 50,000</u>	<u>\$426,069</u>	<u>\$21,560</u>	<u>\$ 17,000</u>	<u>\$1,200,089</u>

Transfer between Component Units

	Transfer in Funds
	EDC
<u>Transfer Out Funds</u>	Debt Service
Economic Development Corporation	<u>\$372,575</u>

City of South Padre Island, Texas  
**NOTES TO FINANCIAL STATEMENTS - CONTINUED**  
September 30, 2012

**NOTE L - COMMITMENTS AND CONTINGENT LIABILITIES**

1. *Litigation*

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

2. *Grant Programs*

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

**NOTE M - RISK MANAGEMENT**

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

The risk pool is an interlocal non-assessable agency with present unreserved resources in excess of \$392,687,606 (as of September 30, 2012, 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 N - PENSION PLAN**

*Plan Description*

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

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

City of South Padre Island, Texas  
**NOTES TO FINANCIAL STATEMENTS - CONTINUED**  
September 30, 2012

**NOTE N - PENSION PLAN - Continued**

***Plan Description - Continued***

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

	<u>Plan Year 2011</u>	<u>Plan Year 2012</u>
Employee deposit rate	7.0%	7.0%
Matching ratio (City to employee)	2 to 1	2 to 1
Years required for vesting	5	5
Service retirement eligibility (expressed as age/ years of service)	60/5,0/20	60/5,0/20
Updated service credit	100% repeating transfers	100% repeating transfers
Annuity increase (to retirees)	70% of CPI	70% of CPI

***Contributions***

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

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

	<u>Primary Government</u>	<u>Component Unit</u>
Annual Required Contribution (ARC)	\$850,866	\$ 7,609
Interest on net pension obligation	8,228	137
Adjustment to the ARC	-	-
Annual Pension Cost (APC)	859,094	7,746
Contributions made	<u>(850,866)</u>	<u>(7,609)</u>
Increase (decrease) in net pension obligation	8,228	137
Net pension obligation/(asset), beginning of year	<u>109,712</u>	<u>1,828</u>
Net pension obligation/(asset), end of year	<u>\$117,940</u>	<u>\$ 1,965</u>

City of South Padre Island, Texas  
**NOTES TO FINANCIAL STATEMENTS - CONTINUED**  
September 30, 2012

**NOTE N - PENSION PLAN - Continued**

Three year trend information is as follows:

	<u>Primary Government</u>	<u>Component Unit</u>
City's Annual Pension Cost (APC)		
2010	\$781,911	\$12,917
2011	808,926	16,347
2012	859,094	7,746
Percentage of APC Contributed		
2010	97%	97%
2011	98%	99%
2012	99%	99%
Net Pension Obligation		
2010	97,044	1,617
2011	109,712	1,828
2012	117,940	1,965

The required contribution rates for fiscal year 2012 were determined as part of the December 31, 2009 and 2010 actuarial valuations. Additional information as of the latest actuarial valuation, December 31, 2011, also follows:

<u>Valuation Date</u>	<u>December 31, 2009</u>	<u>December 31, 2010</u>	<u>December 31, 2011</u>
Actuarial Cost Method	Projected Unit Credit	Projected Unit Credit	Projected Unit Credit
Amortization Method	Level Percent of Payroll	Level Percent of Payroll	Level Percent of Payroll
GASB 25 Equivalent Single Amortization Period	28.3 years; closed period	27.3 years; closed period	26.5 years; closed period
Amortization Period for New Gains/Losses	30 years	30 years	30 years
Asset Valuation Method	10-year Smoothed Market	10-year Smoothed Market	10-year Smoothed Market
Actuarial Assumptions:			
Investment Rate of Return*	7.5%	7.0%	7.0%
Projected Salary Increases*	Varies by age and service	Varies by age and service	Varies by age and service
*Includes Inflation at	3.00%	3.00%	3.00%
Cost of Living Adjustments	2.1%	2.1%	2.1%

City of South Padre Island, Texas  
**NOTES TO FINANCIAL STATEMENTS - CONTINUED**  
September 30, 2012

**NOTE N - PENSION PLAN - Continued**

The funded status as of December 31, 2011, the most recent actuarial valuation date, is as follows:

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets</u> (1)	<u>Actuarial Accrued Liability (AAL)</u> (2)	<u>Funded Ratio</u> (3)	<u>Unfunded AAL (UAAL)</u> (4)	<u>Covered Payroll</u> (5)	<u>UAAL as a Percentage of Covered Payroll</u> (6)
			(1)/(2)	(2)-(1)		(4)/(5)
12/31/2011	<u>\$17,787,878</u>	<u>\$19,875,154</u>	89.5%	<u>\$(2,087,276)</u>	<u>\$6,572,549</u>	(31.8)%

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

**NOTE O - OTHER POST EMPLOYMENT BENEFITS**

***Plan Description***

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

***Benefits***

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

***Contributions***

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

City of South Padre Island, Texas  
**NOTES TO FINANCIAL STATEMENTS - CONTINUED**  
 September 30, 2012

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

The City’s contributions to the TMRS SDBF for the years ended 2010, 2011 and 2012 were \$1,266, \$1,272 and \$1,340, 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
2010	0.02%	0.02%	100.0%
2011	0.02%	0.02%	100.0%
2012	0.02%	0.02%	100.0%

**NOTE P - ADDITIONAL HOTEL/MOTEL OCCUPANCY TAX**

Senate Bill No. 550 was passed which entitles certain small coastal municipalities to receive an additional 1% hotel/motel occupancy tax allocation from the State beginning September 1, 1999. Under this law, the money must be used to clean and maintain public beaches within the City. The City received \$701,412 as a result of this additional allocation and expended \$623,757 of it and reserved funds during the fiscal year ended September 30, 2012. The City accounts for this activity in the Beach Maintenance Fund. The balance of the unexpended funds at the beginning of the year, \$79,890, together with interest earned on these funds of \$-0-, is decreased by the current year expenditure amount being larger than current year revenue amount, leaving \$264,745 legally restricted in the fund equity portion of the balance sheet at year end.

City of South Padre Island, Texas  
**NOTES TO FINANCIAL STATEMENTS - CONTINUED**  
September 30, 2012

**NOTE Q –FUND BALANCE**

Nonspendable – These funds were used for prepaid items.

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

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

Unassigned – The unassigned fund balance has no constraints.

	<u>General Fund</u>	<u>Hotel Motel/ Fund</u>	<u>Convention Centre Fund</u>	<u>Construction in Progress Fund</u>	<u>Other Governmental Funds</u>	<u>Total Government Funds</u>
Fund balance (deficit)						
Non-spendable						
Prepaid	\$ 21,542	\$ 120,613	\$ 26,925	\$ -	\$ 1,352	\$ 170,432
Assigned						
Six month operating reserve	4,937,269	-	-	-	-	4,937,269
Restricted						
Debt service	-	-	-	-	273,133	273,133
Capital projects	-	-	-	60,826	1,441,833	1,502,659
Transportation	-	-	-	-	235,999	235,999
Beach maintenance	-	-	-	-	264,395	264,395
Municipal court	-	-	-	-	48,913	48,913
Criminal justice	-	-	-	-	3,644	3,644
Hurricane recovery	-	-	-	-	205,288	205,288
Parks and recreation	-	-	-	-	2,372	2,372
Hotel/motel tax	-	1,098,524	2,505,037	-	-	3,603,561
Unassigned	<u>1,419,824</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(172,892)</u>	<u>1,246,932</u>
	<u>\$6,378,635</u>	<u>\$1,219,137</u>	<u>\$2,531,962</u>	<u>\$ 60,826</u>	<u>\$2,304,037</u>	<u>\$12,494,597</u>

City of South Padre Island, Texas  
**NOTES TO FINANCIAL STATEMENTS - CONTINUED**  
September 30, 2012

**NOTE R – NET ASSETS**

Net assets are composed of three categories: Invested in Capital Assets Net of Related Debt, Restricted and Unrestricted.

	<u>Governmental Activities</u>	<u>Component Units</u>
Invested in capital assets net of related debt:		
Capital assets, net of accumulated depreciation	\$26,714,337	\$ 6,636,359
Less related liabilities (bonds and capital leases)	(8,911,316)	(4,750,000)
Restricted cash (unexpended bond proceeds)	<u>509,178</u>	<u>-</u>
Invested in capital assets net of related debt – total	18,312,199	1,886,359
Restricted net assets consist of the following:		
Restricted for debt service	213,148	464,306
Restricted for capital projects	1,502,659	-
Transportation	235,999	-
Restricted for beach maintenance	264,745	-
Restricted for municipal court	48,913	-
Restricted for criminal justice	3,644	-
Restricted for hurricane recovery	204,938	-
Restricted for parks and recreation	2,372	-
Restricted for hotel/motel taxes	<u>3,603,561</u>	<u>-</u>
Restricted net assets – total	6,079,979	464,306
Unrestricted net assets	<u>5,697,496</u>	<u>757,232</u>
Total net assets	<u>\$30,089,674</u>	<u>\$ 3,107,897</u>

**REQUIRED SUPPLEMENTARY  
INFORMATION**

City of South Padre Island, Texas  
**GENERAL FUND**  
**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL**  
For the Year Ended September 30, 2012

	Budget		Actual	Variance
	Original	Final		Final Budget Positive (Negative)
<b>REVENUES</b>				
Property taxes - including penalty and interest	\$ 5,866,192	\$ 5,866,192	\$ 5,925,185	\$ 58,993
Nonproperty taxes	2,777,919	2,777,919	2,977,779	199,860
Fees and services	468,435	481,035	434,845	(46,190)
Fines and forfeitures	340,000	340,000	503,515	163,515
Licenses and permits	259,550	259,550	191,105	(68,445)
Intergovernmental	16,545	144,459	84,839	(59,620)
Miscellaneous and program revenues	100,500	126,087	102,082	(24,005)
Total revenues	9,829,141	9,995,242	10,219,350	224,108
<b>EXPENDITURES</b>				
Current				
General government				
City council	20,000	27,000	20,441	6,559
City administration	626,184	615,354	591,015	24,339
Finance	331,922	332,620	321,516	11,104
Planning	134,227	156,026	152,518	3,508
Information services	455,188	455,188	418,323	36,865
Environmental health services	363,761	369,367	357,320	12,047
General services	870,042	873,629	801,884	71,745
Special projects	251,000	251,000	249,638	1,362
Total general government	3,052,324	3,080,184	2,912,655	167,529
Public safety				
Municipal court	176,634	176,634	163,547	13,087
Police	2,476,010	2,559,796	2,552,085	7,711
Fire	2,009,597	2,025,636	2,021,238	4,398
Emergency management	51,750	51,750	52,672	(922)
Total public safety	4,713,991	4,813,816	4,789,542	24,274
Public works				
Building maintenance	165,904	167,004	153,533	13,471
Inspections	187,442	187,442	186,447	995
Fleet Management	452,110	466,550	442,750	23,800
Public works	1,036,481	1,033,735	919,100	114,635
Total public works	1,841,937	1,854,731	1,701,830	152,901
Capital outlay	304,158	237,204	316,891	(79,687)
Debt service				
Principal retirement	-	112,225	112,225	-
Interest	-	41,395	41,395	-
Total debt service	-	153,620	153,620	-
Total expenditures	9,912,410	10,139,555	9,874,538	265,017
<b>EXCESS OF REVENUES OVER EXPENDITURES</b>	(83,269)	(144,313)	344,812	489,125

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, 2012

	Budget		Actual	Variance
	Original	Final		Final Budget Positive (Negative)
OTHER FINANCING SOURCES (USES)				
Lease proceeds	\$ -		\$ 119,200	\$ 119,200
Transfers in	225,000	225,000	174,460	(50,540)
Transfers out	<u>(28,000)</u>	<u>(28,000)</u>	<u>(549,560)</u>	<u>(521,560)</u>
Total other financing sources (uses)	<u>197,000</u>	<u>197,000</u>	<u>(255,900)</u>	<u>(452,900)</u>
 NET CHANGE IN FUND BALANCE	 <u>\$ 113,731</u>	 <u>\$ 52,687</u>	 88,912	 <u>\$ 36,225</u>
 Fund balance -- beginning			 <u>6,289,723</u>	
 Fund balance -- ending			 <u>\$ 6,378,635</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, 2012

	Budget		Actual	Variance
	Original	Final		Final Budget Positive (Negative)
<b>REVENUES</b>				
Nonproperty taxes	3,774,540	3,774,540	\$ 4,106,114	\$ 331,574
Fees and services	16,000	41,000	51,722	10,722
Miscellaneous and program revenues	<u>355</u>	<u>355</u>	<u>931</u>	<u>576</u>
Total revenues	3,790,895	3,815,895	4,158,767	342,872
<b>EXPENDITURES</b>				
Current				
Convention and visitors bureau				
Visitors bureau	306,536	331,112	327,162	3,950
Sales and marketing	2,787,990	2,827,414	2,665,424	161,990
Events marketing	<u>475,449</u>	<u>436,866</u>	<u>427,372</u>	<u>9,494</u>
Total expenditures	<u>3,569,975</u>	<u>3,595,392</u>	<u>3,419,958</u>	<u>175,434</u>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>	220,920	220,503	738,809	518,306
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers out	<u>(50,000)</u>	<u>(50,000)</u>	<u>(50,000)</u>	<u>-</u>
<b>NET CHANGE IN FUND BALANCE</b>	<u>\$ 170,920</u>	<u>\$ 170,503</u>	688,809	<u>\$ 518,306</u>
Fund balance -- beginning			<u>530,328</u>	
Fund balance -- ending			<u>\$ 1,219,137</u>	

City of South Padre Island, Texas  
**CONVENTION CENTRE FUND**  
**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL**  
For the Year Ended September 30, 2012

	Budget		Actual	Variance
	Original	Final		Final Budget Positive (Negative)
<b>REVENUES</b>				
Nonproperty taxes	1,898,460	1,898,460	\$ 2,060,880	\$ 162,420
Convention center revenue	201,000	201,000	193,028	(7,972)
Intergovernmental	-	-	22,118	22,118
Miscellaneous and program revenues	<u>10,000</u>	<u>10,000</u>	<u>8,120</u>	<u>(1,880)</u>
Total revenues	2,109,460	2,109,460	2,284,146	174,686
<b>EXPENDITURES</b>				
Current				
Convention and visitors bureau				
Convention centre	<u>1,269,630</u>	<u>1,352,004</u>	<u>1,320,451</u>	<u>31,553</u>
Total community service	1,269,630	1,352,004	1,320,451	31,553
Capital outlay	<u>-</u>	<u>-</u>	<u>29,688</u>	<u>(29,688)</u>
Total expenditures	<u>1,269,630</u>	<u>1,352,004</u>	<u>1,350,139</u>	<u>1,865</u>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>	839,830	757,456	934,007	176,551
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers out	<u>(426,069)</u>	<u>(426,069)</u>	<u>(426,069)</u>	<u>-</u>
<b>NET CHANGE IN FUND BALANCE</b>	<u>\$ 413,761</u>	<u>\$ 331,387</u>	507,938	<u>\$ 176,551</u>
Fund balance -- beginning			<u>2,024,024</u>	
Fund balance -- ending			<u>\$ 2,531,962</u>	

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City of South Padre Island, Texas  
**Pension Plan (TMRS) Schedule of Funding Progress**  
September 30, 2012

Funding Progress - An analysis of funding progress for the entity as of September 30, 2012, follows.

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL) - Unit Credit	Overfunded (Unfunded) AAL (UAAL)	Funded Ratio	Covered Payroll	AAL (UAAL) as a Percentage of Covered Payroll
12/31/00	\$ 4,329,488	\$ 3,988,713	\$ 340,775	108.5%	\$2,615,100	13.03%
12/31/01	4,963,975	4,914,601	49,374	101.0	3,004,274	1.64%
12/31/02	5,847,815	5,931,321	(83,506)	98.6	3,473,974	(2.40%)
12/31/03	6,706,656	7,041,472	(334,816)	95.2	3,645,911	(9.18%)
12/31/04	7,548,520	7,751,625	(203,105)	97.4	3,632,677	(5.59%)
12/31/05	8,454,007	8,728,488	(274,481)	96.9	4,265,760	(6.43%)
12/31/06	9,414,303	9,739,958	(325,655)	96.7	4,604,059	(7.07%)
12/31/07	9,493,921	11,001,566	(1,507,645)	86.3	4,748,977	(31.75%)
12/31/08	10,760,696	12,965,920	(2,205,224)	83.0	5,769,030	(38.23%)
12/31/09	11,621,877	14,279,003	(2,657,126)	81.4	6,483,656	(40.98%)
12/31/10	15,874,558	18,452,536	(2,577,978)	86.0	6,403,565	(40.26%)
12/31/11	17,787,878	19,875,154	(2,087,276)	89.5	6,572,549	(31.76%)

City of South Padre Island, Texas  
**NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION**  
Year Ended September 30, 2012

**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.

3. *Net Assets Deficit*

A deficit balance in unrestricted net assets/fund balance occurred in the following funds for the year ended September 30, 2012 by the indicated amounts:

Bay Access Fund	<u>\$(172,892)</u>
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## NON-MAJOR GOVERNMENTAL FUND STATEMENTS AND SCHEDULES

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

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

*Special revenue fund:* **Transportation Grant Fund** is used to account for the grant proceeds and expenditures that pertain to the Wave bus program.

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

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

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

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

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

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

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

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

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

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

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

City of South Padre Island, Texas  
**NON MAJOR GOVERNMENTAL FUNDS**  
**BALANCE SHEETS**  
September 30, 2012

	Special Revenue Funds						
	Municipal Court Technology Fund	Municipal Court Security Fund	Transportation Grant Fund	Criminal Justice Grant	Hurricane Recovery Fund	Parks and Recreation Fund	Capital Replacement Fund
<b>ASSETS</b>							
Cash and cash equivalents	\$ 13,888	\$ 35,025	\$ -	\$ 3,644	\$ 244,662	\$ 2,372	\$ 31,723
Receivables (net of allowance)							
Taxes	-	-	-	-	-	-	-
Accounts	-	-	-	-	-	-	-
Due from other governments	-	-	488,561	-	-	-	-
Prepaid items	-	-	1,002	-	-	-	-
<b>TOTAL ASSETS</b>	<b><u>\$ 13,888</u></b>	<b><u>\$ 35,025</u></b>	<b><u>\$ 489,563</u></b>	<b><u>\$ 3,644</u></b>	<b><u>\$ 244,662</u></b>	<b><u>\$ 2,372</u></b>	<b><u>\$ 31,723</u></b>
<b>LIABILITIES AND FUND BALANCE</b>							
Due to other funds	\$ -	\$ -	252,562	\$ -	\$ -	\$ -	\$ -
Deferred revenues	-	-	-	-	39,374	-	-
<b>TOTAL LIABILITIES</b>	<b>-</b>	<b>-</b>	<b>252,562</b>	<b>-</b>	<b>39,374</b>	<b>-</b>	<b>-</b>
Fund balance							
Nonspendable	-	-	1,002	-	-	-	-
Restricted	13,888	35,025	235,999	3,644	205,288	2,372	31,723
Unassigned	-	-	-	-	-	-	-
	<u>13,888</u>	<u>35,025</u>	<u>237,001</u>	<u>3,644</u>	<u>205,288</u>	<u>2,372</u>	<u>31,723</u>
<b>TOTAL LIABILITIES AND FUND BALANCE</b>	<b><u>\$ 13,888</u></b>	<b><u>\$ 35,025</u></b>	<b><u>\$ 489,563</u></b>	<b><u>\$ 3,644</u></b>	<b><u>\$ 244,662</u></b>	<b><u>\$ 2,372</u></b>	<b><u>\$ 31,723</u></b>

Special Revenue Funds		Capital Projects Funds				Total	Debt Service	Total Non Major Governmental Funds
Street Improvement Fund	Beach Nourishment Fund	Long Range Planning Fund	Beach Maintenance Fund	Beach Access Fund	Bay Access Fund			
\$ 7,912	\$ 1,375,111	\$ -	\$ -	\$ 4,495	\$ -	\$ 1,718,832	\$ 264,940	\$ 1,983,772
-	-	-	-	-	-	-	43,358	43,358
-	22,592	-	-	-	-	22,592	3,203	25,795
-	-	-	366,161	-	-	854,722	-	854,722
-	-	-	350	-	-	1,352	-	1,352
<u>\$ 7,912</u>	<u>\$ 1,397,703</u>	<u>\$ -</u>	<u>\$ 366,511</u>	<u>\$ 4,495</u>	<u>\$ -</u>	<u>\$ 2,597,498</u>	<u>\$ 311,501</u>	<u>\$ 2,908,999</u>
\$ -	\$ -	\$ -	101,766	-	\$ 172,892	\$ 527,220	\$ -	\$ 527,220
-	-	-	-	-	-	39,374	38,368	77,742
-	-	-	101,766	-	172,892	566,594	38,368	604,962
-	-	-	350	-	-	1,352	-	1,352
7,912	1,397,703	-	264,395	4,495	-	2,202,444	273,133	2,475,577
-	-	-	-	-	(172,892)	(172,892)	-	(172,892)
<u>7,912</u>	<u>1,397,703</u>	<u>-</u>	<u>264,745</u>	<u>4,495</u>	<u>(172,892)</u>	<u>2,030,904</u>	<u>273,133</u>	<u>2,304,037</u>
<u>\$ 7,912</u>	<u>\$ 1,397,703</u>	<u>\$ -</u>	<u>\$ 366,511</u>	<u>\$ 4,495</u>	<u>\$ -</u>	<u>\$ 2,597,498</u>	<u>\$ 311,501</u>	<u>\$ 2,908,999</u>

City of South Padre Island, Texas  
**NON MAJOR GOVERNMENTAL FUNDS**  
**STATEMENT OF REVENUES, EXPENDITURES AND**  
**CHANGES IN FUND BALANCES**  
For the Year Ended September 30, 2012

	Special Revenue Funds						
	Municipal Court Technology Fund	Municipal Court Security Fund	Transportation Grant Fund	Criminal Justice Grant	Hurricane Recovery Fund	Parks and Recreation Fund	Capital Replacement Fund
<b>Revenues</b>							
Property taxes	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Nonproperty taxes	-	-	-	-	-	-	-
Fees and services	-	-	-	-	-	-	-
Fines and forfeitures	8,149	6,112	-	-	-	-	-
Intergovernmental	-	-	1,249,161	211	-	-	-
Miscellaneous	-	-	57,947	-	-	10,648	-
Total revenues	<u>8,149</u>	<u>6,112</u>	<u>1,307,108</u>	<u>211</u>	<u>-</u>	<u>10,648</u>	<u>-</u>
<b>Expenditures</b>							
<b>Current</b>							
Public safety	5,910	3,000	-	-	-	-	-
Public works	-	-	-	-	-	-	-
Transportation	-	-	1,078,641	-	-	-	-
Community service	-	-	-	-	-	21,461	-
Capital outlay	-	-	197,096	-	42,939	-	-
<b>Debt service</b>							
Principal	-	-	-	-	-	-	-
Interest	-	-	-	-	-	-	-
Administrative charges	-	-	-	-	-	-	-
Total expenditures	<u>5,910</u>	<u>3,000</u>	<u>1,275,737</u>	<u>-</u>	<u>42,939</u>	<u>21,461</u>	<u>-</u>
<b>EXCESS (DEFICIENCY) REVENUES OVER (UNDER) EXPENDITURES</b>	<b>2,239</b>	<b>3,112</b>	<b>31,371</b>	<b>211</b>	<b>(42,939)</b>	<b>(10,813)</b>	<b>-</b>
<b>Other financing sources (uses)</b>							
Sale of capital assets	-	-	-	-	-	-	4,771
Proceeds from debt refunding	-	-	-	-	-	-	-
Premium on issuance of bonds	-	-	-	-	-	-	-
Uses of debt refunding	-	-	-	-	-	-	-
Bond issue costs	-	-	-	-	-	-	-
Transfers in	-	-	50,000	-	-	11,000	-
Transfers (out)	-	-	-	-	-	-	-
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>50,000</u>	<u>-</u>	<u>-</u>	<u>11,000</u>	<u>4,771</u>
<b>NET CHANGE IN FUND BALANCES</b>	<b>2,239</b>	<b>3,112</b>	<b>81,371</b>	<b>211</b>	<b>(42,939)</b>	<b>187</b>	<b>4,771</b>
Fund balance, beginning of year	<u>11,649</u>	<u>31,913</u>	<u>155,630</u>	<u>3,433</u>	<u>248,227</u>	<u>2,185</u>	<u>26,952</u>
Fund balance, end of year	<u>\$ 13,888</u>	<u>\$ 35,025</u>	<u>\$ 237,001</u>	<u>\$ 3,644</u>	<u>\$ 205,288</u>	<u>\$ 2,372</u>	<u>\$ 31,723</u>

Special Revenue Funds		Capital Projects Funds				Total	Debt Service	Total Non Major Governmental Funds
Street Improvement Fund	Beach Nourishment Fund	Long Range Planning Fund	Beach Maintenance Fund	Beach Access Fund	Bay Access Fund			
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 646,850	\$ 646,850
-	385,509	-	701,412	-	-	1,086,921	-	1,086,921
-	60,733	-	107,200	-	-	167,933	-	167,933
-	-	-	-	-	-	14,261	-	14,261
-	-	-	-	-	-	1,249,372	-	1,249,372
-	128	-	-	-	-	68,723	-	68,723
-	446,370	-	808,612	-	-	2,587,210	646,850	3,234,060
-	-	-	-	-	-	8,910	-	8,910
-	-	-	426,126	7,937	288,530	722,593	-	722,593
-	-	-	-	-	-	1,078,641	-	1,078,641
-	97,839	-	-	-	-	119,300	-	119,300
575,886	-	-	23,171	47,615	-	886,707	-	886,707
-	-	-	-	-	-	-	870,000	870,000
-	-	-	-	-	-	-	358,770	358,770
-	-	-	-	-	-	-	800	800
<u>575,886</u>	<u>97,839</u>	<u>-</u>	<u>449,297</u>	<u>55,552</u>	<u>288,530</u>	<u>2,816,151</u>	<u>1,229,570</u>	<u>4,045,721</u>
(575,886)	348,531	-	359,315	(55,552)	(288,530)	(228,941)	(582,720)	(811,661)
-	-	-	-	-	-	4,771	-	4,771
-	-	-	-	-	-	-	3,165,000	3,165,000
-	-	-	-	-	-	-	289,990	289,990
-	-	-	-	-	-	-	(3,351,703)	(3,351,703)
-	-	-	-	-	-	-	(103,287)	(103,287)
521,560	-	-	-	-	17,000	599,560	426,069	1,025,629
-	-	-	(174,460)	-	-	(174,460)	-	(174,460)
<u>521,560</u>	<u>-</u>	<u>-</u>	<u>(174,460)</u>	<u>-</u>	<u>17,000</u>	<u>429,871</u>	<u>426,069</u>	<u>855,940</u>
(54,326)	348,531	-	184,855	(55,552)	(271,530)	200,930	(156,651)	44,279
<u>62,238</u>	<u>1,049,172</u>	<u>-</u>	<u>79,890</u>	<u>60,047</u>	<u>98,638</u>	<u>1,829,974</u>	<u>429,784</u>	<u>2,259,758</u>
<u>\$ 7,912</u>	<u>\$ 1,397,703</u>	<u>\$ -</u>	<u>\$ 264,745</u>	<u>\$ 4,495</u>	<u>\$ (172,892)</u>	<u>\$ 2,030,904</u>	<u>\$ 273,133</u>	<u>\$ 2,304,037</u>

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## **COMPONENT UNIT**

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

City of South Padre Island, Texas  
**SOUTH PADRE ISLAND ECONOMIC DEVELOPMENT CORPORATION**  
**DISCRETELY PRESENTED COMPONENT UNIT**  
**COMBINING BALANCE SHEET**  
September 30, 2012

<b>ASSETS</b>	Economic Development Corporation General Fund	Birding Center Construction Fund	EDC Debt Service Reserve Fund	EDC Debt Service Fund	Total Component Unit
Cash and cash equivalents	\$ 237,102	\$ -	\$ 438,190	\$ 26,116	\$ 701,408
Receivables	76,647	-	-	-	76,647
Prepaid expenses	30,929	-	-	268,788	299,717
Loans receivable	<u>97,445</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>97,445</u>
 TOTAL ASSETS	 <u>\$ 442,123</u>	 <u>\$ -</u>	 <u>\$ 438,190</u>	 <u>\$ 294,904</u>	 <u>\$ 1,175,217</u>
 <b>LIABILITIES AND FUND BALANCE</b>					
Liabilities					
Other liabilities	\$ 1,291	\$ -	\$ -	\$ -	\$ 1,291
Deferred revenue	<u>97,445</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>97,445</u>
 Total liabilities	 98,736	 -	 -	 -	 98,736
Fund balance					
Nonspendable	30,929	-	-	268,788	299,717
Restricted	-	-	438,190	26,116	464,306
Unassigned	<u>312,458</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>312,458</u>
Total fund balances	<u>343,387</u>	<u>-</u>	<u>438,190</u>	<u>294,904</u>	<u>1,076,481</u>
 TOTAL LIABILITIES AND FUND BALANCE	 <u>\$ 442,123</u>	 <u>\$ -</u>	 <u>\$ 438,190</u>	 <u>\$ 294,904</u>	 <u>\$ 1,175,217</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 ASSETS**  
September 30, 2012

Fund balances of the component unit funds	\$ 1,076,481
---	--------------

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

Capital assets used in governmental type activities are not financial resources and therefore are not reported in the funds.	6,636,359
Other long-term assets are not available to pay for current period expenditures and therefore are deferred in the funds.	97,445
Some liabilities, including bonds payable, are not due in the current period and therefore not reported in the funds.	(4,751,828)
Bond issue costs are expensed during the period incurred in the funds, but are amortized as an adjustment to interest expense in the statement of activities over the remaining life	49,577
Liabilities for net pension obligations are not due in the current period and therefore are not reported in the funds.	<u>(137)</u>

Net assets of governmental type activities	<u>\$ 3,107,897</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, 2012

	Economic Development Corporation General Fund	Birding Center Construction Fund	EDC Debt Service Reserve Fund	EDC Debt Service Fund	Total Component Unit
<b>REVENUES</b>					
Sales taxes	\$ 655,191	\$ -	\$ -	\$ -	\$ 655,191
Loan revenue	7,063	-	-	-	7,063
Miscellaneous and program revenues	<u>32,113</u>	<u>-</u>	<u>595</u>	<u>25</u>	<u>32,733</u>
Total revenues	694,367	-	595	25	694,987
<b>EXPENDITURES</b>					
Current					
Community service	189,088	-	-	-	189,088
Birding center transfer	19,655	-	-	-	19,655
Debt service					
Principal retirement	-	-	-	145,000	145,000
Interest expense	<u>-</u>	<u>-</u>	<u>-</u>	<u>210,726</u>	<u>210,726</u>
Total expenditures	<u>208,743</u>	<u>-</u>	<u>-</u>	<u>355,726</u>	<u>564,469</u>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES</b>					
	485,624	-	595	(355,701)	130,518
Other financing sources (uses)					
Transfers out	(372,575)	-	-	-	(372,575)
Transfers in	<u>-</u>	<u>-</u>	<u>-</u>	<u>372,575</u>	<u>372,575</u>
Total other financing sources (uses)	<u>(372,575)</u>	<u>-</u>	<u>-</u>	<u>372,575</u>	<u>-</u>
Net change in fund balances	113,049	-	595	16,874	130,518
Fund balance -- beginning	<u>230,338</u>	<u>-</u>	<u>437,595</u>	<u>278,030</u>	<u>945,963</u>
Fund balance -- ending	<u>\$ 343,387</u>	<u>\$ -</u>	<u>\$ 438,190</u>	<u>\$ 294,904</u>	<u>\$ 1,076,481</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, 2012

Net change in fund balances --total component unit funds	\$ 130,518
<p>Amounts reported for <i>governmental type activities</i> in the statement of activities</p>	
<p>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 depreciation, (\$136,147) exceeded in the current period capital outlays (\$0).</p>	(136,147)
<p>Bond issue costs reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental type funds.</p>	(3,541)
<p>The change in Net Pension Obligation during the year is reported as an increase or decrease to expenditures in the statement of activities but not in the governmental funds.</p>	(137)
<p>Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.</p>	145,000
<p>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 assets.</p>	<u>(7,063)</u>
Change in net assets of governmental activities	<u>\$ 128,630</u>

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## STATISTICAL SECTION

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

### CONTENTS

***Financial Trends***

***Schedules 1-4***

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

***Revenue Capacity***

***Schedules 5-9***

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

***Debt Capacity***

***Schedules 10-13***

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

***Demographic and Economic Information***

***Schedules 14-15***

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

***Operating Information***

***Schedules 16-19***

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

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

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City of South Padre Island, Texas  
**NET ASSETS BY COMPONENT**  
 Last nine Fiscal Years  
 (accrual basis of accounting)

Schedule 1

	Fiscal Year								
	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>
Governmental activities									
Invested in capital assets, net of related debt	\$ 9,242,667	\$ 9,506,514	\$ 11,150,821	\$ 13,855,905	\$ 15,236,797	\$ 19,257,279	\$ 17,882,812	\$ 17,420,780	\$ 18,312,199
Restricted	-	-	1,320,614	1,535,329	1,000,669	308,130	5,034,471	4,700,307	6,079,979
Unrestricted	<u>10,454,635</u>	<u>12,393,418</u>	<u>11,831,195</u>	<u>11,440,132</u>	<u>10,159,970</u>	<u>10,088,864</u>	<u>5,768,869</u>	<u>6,174,054</u>	<u>5,697,496</u>
Total governmental activities net assets	<u>\$ 19,697,302</u>	<u>\$ 21,899,932</u>	<u>\$ 24,302,630</u>	<u>\$ 26,831,366</u>	<u>\$ 26,397,436</u>	<u>\$ 29,654,273</u>	<u>\$ 28,686,152</u>	<u>\$ 28,295,141</u>	<u>\$ 30,089,674</u>

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  
**CHANGES IN NET ASSETS**  
 Last nine Fiscal Years  
 (accrual basis of accounting)

Schedule 2

	Fiscal Year								
	2004	2005	2006	2007	2008	2009	2010	2011	2012
<b>Expenses</b>									
Governmental activities:									
General government	\$1,820,340	\$ 2,290,443	\$ 2,077,020	\$ 3,412,111	\$ 3,668,745	\$ 3,680,425	\$ 4,244,372	\$ 3,916,708	\$ 3,262,899
Public safety	2,979,773	3,122,467	3,322,420	3,408,818	4,106,050	4,358,811	4,675,136	4,639,591	5,154,019
Public works	1,466,481	1,565,958	1,640,199	1,833,529	2,090,705	2,761,388	2,818,149	2,842,168	3,104,579
Transportation	330,647	336,807	438,652	474,087	1,129,802	647,664	899,298	1,103,616	1,275,542
Community service	-	-	-	365,753	528,546	832,168	40,494	820,784	119,300
Convention and visitors bureau	3,650,369	6,223,221	5,331,206	4,255,478	6,324,100	6,160,287	5,834,572	5,846,869	5,556,513
Interest on long-term debt	171,308	20,700	336,307	383,137	340,220	295,920	310,207	327,532	559,912
<b>Total primary governmental activities expenses</b>	<b>10,418,918</b>	<b>13,559,596</b>	<b>13,145,804</b>	<b>14,132,913</b>	<b>18,188,168</b>	<b>18,736,663</b>	<b>18,822,228</b>	<b>19,497,268</b>	<b>19,032,764</b>
<b>Program Revenues</b>									
Governmental activities:									
Charges for services:									
General government	33,493	35,720	39,589	35,585	30,642	28,222	27,973	222,573	218,276
Public safety	465,914	430,254	265,699	295,561	219,209	410,295	424,681	497,934	990,410
Public works	314,149	465,949	838,069	399,519	529,974	280,498	639,148	36,843	22,646
Transportation	27,216	27,206	28,945	32,050	27,302	30,000	74,500	30,000	52,250
Convention and visitors bureau	256,112	271,599	316,844	271,693	275,347	337,470	300,690	270,838	244,750
Operating grants and contributions	262,471	2,036,705	618,358	777,984	843,668	1,373,380	714,938	996,779	1,074,032
Capital grants and contributions	89,710	130,064	71,000	123,767	234,310	249,808	190,604	682,935	1,296,789
<b>Total governmental activities program revenues</b>	<b>1,449,065</b>	<b>3,397,497</b>	<b>2,178,504</b>	<b>1,936,159</b>	<b>2,160,452</b>	<b>2,709,673</b>	<b>2,372,534</b>	<b>2,737,902</b>	<b>3,899,153</b>
<b>Net (Expense)/Revenue</b>									
Total primary government net expense	(8,969,853)	(10,162,099)	(10,967,300)	(12,196,754)	(16,027,716)	(16,026,990)	(16,449,694)	(16,759,366)	(15,133,611)
<b>General revenues</b>									
Property taxes	3,126,830	3,732,956	4,165,498	4,780,512	5,483,386	6,089,968	6,098,437	6,391,852	6,512,050
Sales & Mixed Beverage taxes	1,642,306	1,711,622	1,866,426	1,897,938	1,965,363	2,295,465	2,001,606	2,116,727	2,171,134
Franchise taxes	602,821	621,012	644,126	748,363	792,992	792,501	802,819	821,796	806,646
Hotel motel taxes	4,473,153	4,878,739	5,191,304	5,334,627	4,610,239	4,638,099	5,238,745	5,658,555	6,166,994
Hotel motel padre blvd. taxes	331,870	350,414	33,305	-	-	-	-	-	-
Hotel motel beach mtn. taxes	626,481	661,420	704,337	741,411	630,474	751,950	945,050	988,132	1,086,920
Unrestricted investment earnings	92,230	375,354	734,068	796,864	546,491	198,941	143,463	97,265	49,345
Gain (loss) on sale of capital assets	-	10,365	(5,767)	-	1,485,785	14,234	16,810	(17,050)	4,545
Insurance recoveries	-	-	-	-	-	4,401,118	16,510	-	-
Miscellaneous	10,718	22,847	36,701	425,776	79,056	101,551	218,133	311,078	130,510
<b>Total general revenues</b>	<b>10,906,409</b>	<b>12,364,729</b>	<b>13,369,998</b>	<b>14,725,491</b>	<b>15,593,786</b>	<b>19,283,827</b>	<b>15,481,573</b>	<b>16,368,355</b>	<b>16,928,144</b>
<b>Changes in Net Assets</b>									
Total governmental activities	<u>\$ 1,936,556</u>	<u>\$ 2,202,630</u>	<u>\$ 2,402,698</u>	<u>\$ 2,528,737</u>	<u>\$ (433,930)</u>	<u>\$ 3,256,837</u>	<u>\$ (968,121)</u>	<u>\$ (391,011)</u>	<u>\$ 1,794,533</u>

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)

Schedule 3

	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>
General fund										
Pre GASB 54										
Reserved	\$ 126,658	\$ 481,152	\$ 448,862	\$ 35,721	\$ 54,073	\$ 37,321	\$ 35,092	\$ 31,623	\$ -	\$ -
Unreserved	<u>3,241,689</u>	<u>3,454,047</u>	<u>4,250,065</u>	<u>4,329,297</u>	<u>5,095,575</u>	<u>5,768,180</u>	<u>6,477,049</u>	<u>6,144,362</u>	-	-
Total pre GASB 54	<u>\$3,368,347</u>	<u>\$3,935,199</u>	<u>\$ 4,698,927</u>	<u>\$ 4,365,018</u>	<u>\$5,149,648</u>	<u>\$5,805,501</u>	<u>\$6,512,141</u>	<u>\$ 6,175,985</u>	<u>\$ -</u>	<u>\$ -</u>
Post GASB 54										
Nonspendable	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 45,959	\$ 21,542
Assigned										
Six month operating reserve	-	-	-	-	-	-	-	-	4,899,405	4,937,269
Unassigned	-	-	-	-	-	-	-	-	<u>1,344,359</u>	<u>1,419,824</u>
Total post GASB 54	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 6,289,723</u>	<u>\$ 6,378,635</u>
83 All Other Governmental Funds										
Pre GASB 54										
Reserved	\$1,134,956	\$ 485,622	\$ 427,649	\$ 577,625	\$ 568,453	\$ 766,366	\$ 729,340	\$ 696,464	\$ -	\$ -
Unreserved, reported in:										
Special revenue funds	3,539,846	5,736,110	6,598,953	6,133,843	5,857,458	681,831	3,040,415	2,590,794	-	-
Capital projects funds	<u>924,292</u>	<u>625,681</u>	<u>5,700,520</u>	<u>7,307,966</u>	<u>1,609,091</u>	<u>4,048,185</u>	<u>478,262</u>	<u>1,691,350</u>	-	-
Total pre GASB 54	<u>\$5,599,094</u>	<u>\$6,847,413</u>	<u>\$ 12,727,122</u>	<u>\$ 14,019,434</u>	<u>\$8,035,002</u>	<u>\$5,496,382</u>	<u>\$ 4,248,017</u>	<u>\$ 4,978,608</u>	<u>\$ -</u>	<u>\$ -</u>
Post GASB 54										
Nonspendable	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 114,554	\$ 148,890
Restricted:										
Debt service	-	-	-	-	-	-	-	-	429,784	273,133
Capital projects	-	-	-	-	-	-	-	-	4,914,411	1,502,659
Transportation	-	-	-	-	-	-	-	-	154,277	235,999
Beach maintenance	-	-	-	-	-	-	-	-	78,887	264,395
Municipal court	-	-	-	-	-	-	-	-	43,562	48,913
Criminal justice	-	-	-	-	-	-	-	-	3,433	3,644
Hurricane recovery	-	-	-	-	-	-	-	-	248,227	205,288
Parks and recreation	-	-	-	-	-	-	-	-	2,185	2,372
Hotel/motel tax	-	-	-	-	-	-	-	-	2,442,154	3,603,561
Unassigned	-	-	-	-	-	-	-	-	-	<u>(172,892)</u>
Total post GASB 54	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 8,431,474</u>	<u>\$ 6,115,962</u>

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

	2003	2004	2005	2006
<b>REVENUES</b>				
Property taxes	\$2,622,048	\$3,126,553	\$3,743,132	\$4,123,204
Nonproperty taxes	6,996,138	7,676,631	8,223,206	8,439,497
Fees and services	326,843	273,285	288,136	335,617
Fines and forfeitures	499,703	454,340	386,011	265,700
Licenses and permits	292,731	316,180	512,384	887,829
Intergovernmental	3,113,629	434,464	2,210,966	489,358
Miscellaneous and program revenues	146,666	103,745	398,202	970,769
<b>Total revenues</b>	<b>13,997,758</b>	<b>12,385,198</b>	<b>15,762,037</b>	<b>15,511,974</b>
<b>EXPENDITURES</b>				
General	1,470,151	1,788,195	2,123,657	1,967,410
Public safety	2,335,486	2,697,669	2,860,988	3,135,257
Public works	919,703	1,028,903	1,101,741	1,158,093
Transportation	271,787	292,721	295,769	382,221
Community service	88,603	91,080	1,572,109	179,277
Convention and visitors bureau	6,063,914	3,045,418	4,145,010	4,627,296
Debt service				
Principal retirement	808,000	585,000	655,000	845,000
Interest	318,399	171,308	234,820	329,844
Administrative charges	-	-	119,461	32,100
Capital outlay	1,772,868	869,735	1,065,470	3,503,133
<b>Total expenditures</b>	<b>14,048,911</b>	<b>10,570,029</b>	<b>14,174,025</b>	<b>16,159,631</b>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES</b>	<b>(51,153)</b>	<b>1,815,169</b>	<b>1,588,012</b>	<b>(647,657)</b>
<b>Other financing sources (uses)</b>				
Sale of fixed assets	8,500	-	10,365	6,060
Lease Proceeds	-	-	-	-
Proceeds from issuance of bonds	112,854	-	5,045,060	1,600,000
Premium on issuance of bonds	-	-	-	-
Uses of debt refunding	-	-	-	-
Bond issue costs	-	-	-	-
Insurance Proceeds	-	-	-	-
Transfers out	(1,749,908)	(1,648,535)	(1,929,200)	(3,105,238)
Transfers in	1,809,319	1,648,535	1,929,200	3,105,238
<b>Total other financing sources and (uses)</b>	<b>180,765</b>	<b>-</b>	<b>5,055,425</b>	<b>1,606,060</b>
<b>Net change in fund balances</b>	<b>\$129,612</b>	<b>\$1,815,169</b>	<b>\$6,643,437</b>	<b>\$958,403</b>
<b>Debt service as a percentage of noncapital expenditures</b>	<b>9.18%</b>	<b>7.80%</b>	<b>6.79%</b>	<b>9.28%</b>

2007	2008	2009	2010	2011	2012
\$4,719,773	\$5,393,449	\$6,115,209	\$6,042,754	\$6,407,899	\$6,572,035
8,722,337	7,999,068	8,478,004	8,988,221	9,585,210	10,231,694
287,475	298,189	353,545	529,702	411,771	847,528
295,560	219,209	295,990	379,684	424,124	517,776
451,372	573,866	322,645	557,605	222,292	191,105
920,629	1,077,978	1,056,767	905,542	1,679,714	2,202,888
1,203,760	616,757	981,229	361,596	408,344	179,856
<u>16,600,906</u>	<u>16,178,516</u>	<u>17,603,389</u>	<u>17,765,104</u>	<u>19,139,354</u>	<u>20,742,882</u>
2,179,937	4,084,721	3,124,195	3,801,677	3,441,451	2,912,655
3,256,352	3,822,108	4,101,247	4,478,384	4,313,528	4,806,764
1,346,075	1,484,580	2,156,348	2,158,644	2,188,234	2,424,423
430,979	1,063,572	552,966	782,525	957,492	1,078,641
616,566	326,736	832,168	40,494	820,784	119,300
4,423,112	5,114,147	5,532,594	4,653,373	4,972,074	4,740,409
1,065,000	1,110,000	1,160,000	1,205,000	932,358	982,225
372,160	329,243	285,443	275,612	261,642	400,165
500	500	-	-	2,736	800
8,110,027	3,211,465	4,816,260	906,820	2,417,098	5,628,071
<u>21,800,708</u>	<u>20,547,072</u>	<u>22,561,221</u>	<u>18,302,529</u>	<u>20,307,397</u>	<u>23,093,453</u>
(5,199,802)	(4,368,556)	(4,957,832)	(537,425)	(1,168,043)	(2,350,571)
-	1,485,785	14,989	85,350	25,933	4,771
-	-	-	-	902,220	119,200
-	1,000,000	-	830,000	3,800,000	3,165,000
-	-	-	-	101,462	289,990
-	-	-	-	-	(3,351,703)
-	-	-	-	(94,968)	(103,287)
-	-	4,401,118	16,510	-	-
(2,031,131)	(2,209,420)	(2,371,184)	(1,587,679)	(853,568)	(1,200,089)
2,031,131	2,209,420	2,371,184	1,587,679	853,568	1,200,089
<u>-</u>	<u>2,485,785</u>	<u>4,416,107</u>	<u>931,860</u>	<u>4,734,647</u>	<u>123,971</u>
<u>(\$5,199,802)</u>	<u>(\$1,882,771)</u>	<u>(\$541,725)</u>	<u>\$394,435</u>	<u>\$3,566,604</u>	<u>(\$2,226,600)</u>
10.50%	8.30%	8.15%	8.51%	6.67%	7.92%

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

Schedule 5

Fiscal Year Ended September 30,	Net Taxable Assessed Value		Less: Exempt Property	Total Taxable Assessed Value	Total Direct Tax Rate
	Real Property	Personal Property			
2003	1,037,328,591	25,832,316	35,218,564	1,027,942,343	0.25811
2004	1,222,211,135	26,540,260	44,573,534	1,204,177,861	0.25811
2005	1,503,904,613	28,449,556	77,073,416	1,455,280,753	0.25811
2006	1,712,735,440	31,000,283	83,532,833	1,660,202,890	0.25311
2007	1,941,204,388	32,472,880	61,850,862	1,911,826,406	0.25311
2008	2,305,658,543	34,289,547	71,535,213	2,268,412,877	0.24561
2009	2,545,047,287	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	2,654,262,185	29,055,461	77,035,264	2,606,282,382	0.25040

Source: Cameron County Appraisal District

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

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

Fiscal Period	City of South Padre Island Direct Rates			Water Supply District No. 1	Point Isabel Cons. ISD	Cameron County	Texas Southmost College	South Texas ISD
	Maintenance & Operations Rate	Debt Service	Total Direct					
2003	0.248640	0.009470	0.258110	0.139306	1.35612	0.358191	0.131400	0.0392
2004	0.258110	0.000000	0.258110	0.139306	1.35612	0.358191	0.131400	0.0392
2005	0.258110	0.000000	0.258110	0.123807	1.35612	0.358191	0.131400	0.0392
2006	0.230197	0.022913	0.253110	0.105800	1.35612	0.358191	0.128782	0.0392
2007	0.219598	0.033512	0.253110	0.080820	1.06163	0.343191	0.162772	0.0492
2008	0.216810	0.028800	0.245610	0.080820	1.06163	0.353191	0.161089	0.0492
2009	0.218400	0.027210	0.245610	0.080820	1.061634	0.363191	0.161089	0.0492
2010	0.220310	0.025300	0.245610	0.080820	1.081634	0.364291	0.161924	0.0492
2011	0.220310	0.025300	0.245610	0.080820	1.081634	0.384291	0.162423	0.0492
2012	0.224355	0.026045	0.250400	0.080820	1.081634	0.384291	0.164026	0.0492

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

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

Schedule 7

Taxpayer	2012			2003		
	Taxable Assessed Valuation	Rank	Percentage of Total Assessed Valuation	Taxable Assessed Valuation	Rank	Percentage of Total Assessed Valuation
Sapphire VP LP (ID 516435)	\$ 37,335,237	1	1.43%			
Agora USA LP	14,458,253	2	0.55%			
Sapphire VP LP (ID 526932)	10,517,812	3	0.40%			
ICS Management Company	9,997,001	4	0.38%	6,855,310	2	0.54%
Peninsula Island Resort & Spa LLC	8,247,266	5	0.32%			
First National Bank	7,458,404	6	0.29%			
Shores Development Inc.	7,451,714	7	0.29%			
Bahia Mar Tower LLC	6,724,652	8	0.26%			
Los Corales Inc.	6,533,175	9	0.25%			
SPI La Copa Ltd	6,377,206	10	0.24%			
SSPIBR, Ltd				9,178,820	1	0.73%
HISPI, Ltd				6,230,164	3	0.49%
ALMA Investments Inc.				5,176,133	4	0.41%
SPI Management Co				5,047,790	5	0.40%
Padre Central Limited Partnership				4,877,416	6	0.39%
Saida Royale Corporation				4,604,326	7	0.36%
Condo Shares Inc.				4,228,848	8	0.33%
Casablanca Condominiums Inc.				3,963,125	9	0.31%
Dalor Limited Partnership				3,946,972	10	0.31%
<b>Total</b>	<b><u>\$115,100,720</u></b>		<b><u>4.41%</u></b>	<b><u>\$54,108,904</u></b>		<b><u>4.27%</u></b>

Source: Cameron County Appraisal District

**PROPERTY TAX LEVIES AND COLLECTIONS**

Last Ten Fiscal Years  
(Unaudited)

Collected within the  
Fiscal Year of the Levy

Fiscal Year	Tax Roll Year	Taxes Levied for the Fiscal Year	Collected within the Fiscal Year of the Levy		Collections in Subsequent Years	Collections in Subsequent Years	
			Amount	Percentage of Levy		Amount	Percentage of Levy
2003	2002	2,653,324	2,543,740	95.87%	105,808	2,649,548	99.86%
2004	2003	3,108,102	3,009,684	96.83%	92,325	3,102,009	99.80%
2005	2004	3,737,909	3,646,511	97.55%	86,826	3,733,337	99.88%
2006	2005	4,196,142	4,033,570	96.13%	151,828	4,185,398	99.74%
2007	2006	4,772,418	4,564,448	95.64%	192,211	4,756,659	99.67%
2008	2007	5,479,052	5,215,751	95.19%	242,790	5,458,541	99.63%
2009	2008	6,072,211	5,804,355	95.59%	237,733	6,042,088	99.50%
2010	2009	6,073,653	5,804,071	95.56%	214,305	6,018,376	99.09%
2011	2010	6,310,281	6,123,665	97.04%	88,346	6,212,011	98.44%
2012	2011	6,396,519	6,179,171	96.60%	-	6,179,171	96.60%

Source: Point Isabel Independent School District.

**TAX REVENUES BY SOURCE - GOVERNMENTAL FUNDS**

Last Ten Fiscal Years

(modified accrual basis of accounting)

<u>Fiscal Year</u>	<u>Property Taxes</u>	<u>Sales &amp; Mixed Beverage Tax</u>	<u>Franchise Tax</u>	<u>Hotel/Motel Tax</u>	<u>Total</u>
2003	2,622,048	1,385,146	558,947	4,831,285	9,397,426
2004	3,126,830	1,642,306	602,821	4,473,153	9,845,110
2005	3,732,956	1,711,622	621,012	4,878,739	10,944,329
2006	4,165,498	1,866,426	644,126	5,191,304	11,867,354
2007	4,780,512	1,897,938	748,363	5,334,627	12,761,440
2008	5,483,386	1,965,363	792,992	4,610,239	12,851,980
2009	6,089,968	2,295,465	792,501	4,766,668	13,944,602
2010	6,098,437	2,001,606	802,819	5,564,657	14,467,519
2011	6,407,899	2,116,728	821,796	6,012,126	15,358,549
2012	6,572,035	2,171,134	806,646	7,253,914	16,803,729

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

Fiscal Year	Governmental Activities					Total Primary Government	Percentage of Personal Income	Per Capita <sup>1</sup>
	General Obligation Bonds	Public Property Finance Contractual Obligations	Combination Tax & Revenue Refunding Bonds	Combination Tax & Revenue Certificates of Obligation	Tax Anticipation Notes			
2003	-	140,000	4,745,000	-	-	4,885,000	3.95%	1,517
2004	-	-	4,300,000	-	-	4,300,000	3.56%	1,285
2005	4,950,000	-	3,645,000	-	-	8,595,000	4.08%	1,507
2006	4,785,000	-	2,965,000	-	1,600,000	9,350,000	4.14%	1,639
2007	4,615,000	-	2,265,000	-	1,405,000	8,285,000	3.77%	1,452
2008	4,440,000	-	1,540,000	-	1,195,000	7,175,000	3.49%	1,258
2009	4,255,000	-	785,000	-	975,000	6,015,000	2.77%	1,019
2010	4,065,000	-	830,000	-	745,000	5,640,000	2.57%	956
2011	7,665,000	-	420,000	-	505,000	8,590,000	3.88%	1,456
2012	7,640,000	-	-	-	260,000	7,900,000	3.57%	1,339

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

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

**RATIO OF GENERAL BONDED DEBT OUTSTANDING**

Last Ten Fiscal Years

<u>Fiscal Year</u>	<u>General Obligation Bonds</u>	<u>Debt Service Restricted Net Assets</u>	<u>Net Bonded Debt</u>	<u>Percentage of Actual Taxable Value of Property (1)</u>	<u>Per Capita (2)</u>
2003	-	-	-	-	-
2004	-	-	-	-	-
2005	4,950,000	312,326	4,637,674	0.32%	868
2006	4,785,000	330,344	4,454,656	0.27%	839
2007	4,615,000	330,961	4,284,039	0.22%	809
2008	4,440,000	364,509	4,075,491	0.18%	778
2009	4,255,000	372,222	3,882,778	0.16%	721
2010	4,065,000	413,918	3,651,082	0.15%	689
2011	7,665,000	430,535	7,234,465	0.28%	1,299
2012	7,640,000	266,563	7,373,437	0.28%	1,250

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

1 See Schedule 5 for property value data

2 See Schedule 14 for population data

City of South Padre Island, Texas  
**DIRECT AND OVERLAPPING GOVERNMENTAL ACTIVITIES DEBT**  
As of September 30, 2012

Schedule 12

<u>Governmental Unit</u>	<u>Debt Outstanding</u>	<u>Estimated Percentage Applicable</u>	<u>Estimated Share of Overlapping Debt</u>
Debt repaid with property taxes			
Cameron County	\$ 79,190,000	16.01%	\$ 12,678,319
Point Isabel Independent School District	23,207,202	70.24%	16,300,739
Laguna Madre Water District #1	8,816,000	78.06%	6,881,770
Texas Southmost College	94,420,000	23.48%	<u>22,169,816</u>
Subtotal, overlapping debt			58,030,644
City direct debt	8,726,837	100.00%	<u>8,726,837</u>
Total direct and overlapping debt			<u><u>\$ 66,757,481</u></u>

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

Debt outstanding data provided by each governmental unit listed above.

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	
2003	2,129,496	692,439	1,437,057	590,000	219,625	809,625	1.77
2004	2,163,770	827,257	1,336,513	445,000	166,713	611,713	2.18
2005	2,059,075	837,927	1,221,148	655,000	150,213	805,213	1.52
2006	1,877,855	868,660	1,009,195	680,000	128,488	808,488	1.25
2007	2,172,451	899,167	1,273,284	700,000	105,650	805,650	1.58
2008	1,881,284	1,045,290	835,994	725,000	82,025	807,025	1.04
2009	1,867,690	1,099,504	768,186	755,000	52,822	807,822	0.95
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	-	-	-	-

(1) Convention Center Fund revenues, including interest.

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

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

Schedule 14

Year	Estimated Population <sup>1</sup>	Personal Income <sup>2</sup>	Per Capita Personal Income <sup>2</sup>	Median Age <sup>2</sup>	School Enrollment <sup>3</sup>	Unemployment Rate <sup>4</sup>
2003	3,220	\$ 123,599,700	\$ 38,385	51.4	2,246	9.5%
2004	3,346	120,673,490	36,065	50.7	2,500	8.7%
2005	5,705	210,828,275	36,955	51.8	2,487	7.6%
2006	5,705	225,957,935	39,607	51.9	2,585	6.6%
2007	5,705	219,693,845	38,509	52.3	2,593	6.0%
2008	5,705	205,665,250	36,050	57.2	2,418	8.2%
2009	5,900	217,090,500	36,795	57.7	2,520	8.3%
2010	5,900	219,780,900	37,251	58	2,507	10.9%
2011	5,900	221,592,200	37,558	58.1	2,544	12.4%
2012	5,900	221,592,200	37,558	58.3	2,574	10.2%

Source:

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

2 Claritas MarketPlace Executive Summary

3 Point Isabel Independent School District

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

Unemployment Info. at tracer2.com: LMCI Search

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

Employer	2012			2003*		
	Number of Employees (Peak)	Rank	Percent of Total City Employment	Number of Employees	Rank	Percent of Total City Employment
Schlitterbahn Beach Water Park	354	1	7.53%	-	-	-
City of South Padre Island	250	2	5.31%	-	-	-
The Pearl Beach Resort	242	3	5.14%	-	-	-
Isla Grand Resort	207	4	4.40%	-	-	-
Blackbeard's Restaurant	176	5	3.74%	-	-	-
Hilton Garden Inn	150	6	3.19%	-	-	-
Louie's Backyard	130	7	2.76%	-	-	-
La Quinta Inn & Suites	120	8	2.55%	-	-	-
Sea Ranch Enterprises	120	9	2.55%	-	-	-
La Copa Inn	110	10	2.34%	-	-	-
<b>Total</b>	<b>1,859</b>		<b>39.51%</b>			

Source: South Padre Island Economic Development Corporation

\*Information for 2003 not available

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

<u>Function</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>
General Fund										
City Administration	4	4	5	5	5	5	6	6	4	4
Finance	3	3	4	4	5	5	4	5	5	5
Planning	2	2	2	2	2	2	2	2	1.75	1.75
Technology	0	0	1	2	2	2	2	2	3	3
Human Resources	0	0	0	0	0	0	1	2	3	3
Municipal Court	2	2	2	2	2	2	2	3	2	2
Police	32	33	33	34	34	34	39	39	39	38
Fire	18	18	18	18	18	18	21	21	21	27
Code Enforcement	2	2	2	3	4	4	6	6	5	5
Fleet Management	0	0	0	0	0	0	2	2	2	2
Building Maintenance	0	0	0	0	0	0	3	3	3	3
Inspections	3	3	3	4	4	4	4	4	3	3
Public Works	21	21	21	22	22	22	18	18	19	19
Hotel Motel Fund										
Visitor's Center	2	2	2	2	2	2	2	2	2	2
Hotel Motel	11	11	11	12	13.5	13	13	9.5	9.5	9.5
Events Marketing	1	1	1	1	2	2	2	1	1	1
Convention Centre										
Convention Centre	11	10	10	11	13.5	13	13	13.5	11.5	10.5
Transportation										
Transportation	0	5	5	6	7	7	7	9	9.25	15.25
Beach Maintenance										
Beach Maintenance	<u>0</u>	<u>4</u>	<u>4</u>	<u>4</u>						
Total Operating Budget FTE's	112	117	120	128	136	135	147	152	148	158

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

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

Function	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
<b>Police</b>										
Physical arrests	1,824	1,402	1,212	973	896	727	952	1,002	1,199	1,454
Parking violations	851	456	552	1,227	306	514	1,643	2,123	1,897	1,138
Traffic violations	3,877	3,277	2,803	2,215	3,100	942	995	1,204	1,038	748
Number of commissioned police officers	24	25	25	25	25	26	29	28	28	28
Number of employees - police officers & civilians	32	33	33	34	35	36	40	39	38	38
<b>Fire</b>										
Number of calls answered	477	470	821	928	1,194	1,420	1,667	1,783	1,858	1,964
EMS calls	165	199	443	536	712	838	816	1,082	1,172	1,415
Inspections	507	414	307	331	355	219	475	369	490	327
Number of firefighters	17	17	17	17	17	18	18	18	20	26
Number of employees - firefighters & civilians	18	18	18	18	18	21	21	21	21	27
<b>Streets</b>										
Street resurfacing (square yards)	24,617	18,679	10,811	-	7,040	16,837	6,956	8,611	9,032	7,867
Sidewalk construction (square yards)	-	-	-	1,160	647	220	693	-	73	2,069

Source: City Departments

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

Function/Program	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Public Safety										
Police Stations	1	1	1	1	1	1	1	1	1	1
Fire Stations	1	1	1	1	1	1	1	1	1	1
Development Services										
Streets (miles)	47.31	47.31	47.09	47.09	47.09	47.09	47.09	47.39	47.39	47.39
City area (acres)	1333	1562	1562	1562	1589	1640	1640	1640	1640	1527
Parks and recreation										
Playground	1	1	1	1	1	1	1	2	2	2
Parks	1	1	1	2	2	2	2	2	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)	16	16	17	18	18	18	18	18	19	19
Beach accesses (undeveloped)	8	8	7	6	6	6	6	6	5	5
Transportation										
Transit - minibuses	4	4	6	5	6	8	12	10	9	10

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

Source: City Departments

City of South Padre Island, Texas  
**MISCELLANEOUS STATISTICAL DATA**

Schedule 19

Date of incorporation	1973
Fiscal year begins	October 1st
Number of budgeted City employees	158
Geographical location:	Southern tip of Texas on the Gulf of Mexico approximately 15 miles north of the Mexican border.
Temperature:	68.4 degrees average low temperature 80 degrees average high temperature

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

**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***

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

We have audited the accompanying financial statements of the governmental activities, the aggregate discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of South Padre Island, Texas (“the City”) as of and for the year ended September 30, 2012, which collectively comprise the City’s basic financial statements as listed in the Table of Contents. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Internal Control Over Financial Reporting**

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

*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.

Our consideration of internal control over financial reporting 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 financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

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## Compliance and Other Matters

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

We noted certain matters that we reported to management in a separate letter dated March 11, 2013.

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

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

Harlingen, Texas  
March 11, 2013

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**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE  
WITH REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL  
EFFECT ON EACH MAJOR FEDERAL PROGRAM AND ON INTERNAL CONTROL  
OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

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

**Compliance**

We have audited the compliance of the City of South Padre Island, Texas with the types of compliance requirements described in the *U. S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the fiscal year ended September 30, 2012. The 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. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the City of South Padre Island, Texas' management. Our responsibility is to express an opinion on the City of South Padre Island, Texas compliance based on our audit.

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

In our opinion, the City of South Padre Island, Texas complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the fiscal year ended September 30, 2012.

**Internal Control Over Compliance**

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

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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.

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 deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

The purpose of this report is solely to describe the scope of our testing of compliance with the types of compliance requirements applicable to each of the City of South Padre Island, Texas' major programs and our testing of internal control over compliance and the results of our testing, and to provide an opinion on the City of South Padre Island, Texas' compliance but not to provide an opinion on the effectiveness of the City of South Padre Island, Texas' internal control over compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City of South Padre Island, Texas' compliance with requirements applicable to each major program and its internal control over compliance. Accordingly, this report is not suitable for any other purpose.

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

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

Harlingen, Texas  
March 11, 2013

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City of South Padre Island, Texas  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
 For the Year Ended September 30, 2012

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

*Financial Statements*

Type of auditors' report issued: Unqualified

Internal control over financial reporting:

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

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

Noncompliance material to financial statements noted?                           yes                      X   no

*Federal Awards*

Internal control over major programs:

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

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

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

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

Identification of major programs:

<i>CFDA Number(s)</i>	<i>Name of Federal Program or Cluster</i>
20.500	Federal Transit Capital Investment Grants
14.228	Community Development Block Grant

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

Auditee qualified as low-risk auditee?                      X   yes                           no

City of South Padre Island, Texas  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS - CONTINUED**  
For the Year Ended September 30, 2012

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

**A. Significant Deficiencies in Internal Control**

*None reported.*

**B. Compliance Findings**

*None reported.*

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

*None reported.*

City of South Padre Island, Texas  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS - CONTINUED**  
**SCHEDULE OF STATUS OF PRIOR AUDIT FINDINGS**  
For the Year Ended September 30, 2012

**PROGRAM DESCRIPTION**

Not applicable

**DESCRIPTION**

There were no findings reported in the prior year.

City of South Padre Island, Texas  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
For the Year Ended September 30, 2012

Federal Grantor/ Pass/Trough Grantor/ Program Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Expenditures
<b>Federal Awards</b>			
<b>U.S. Department of Transportation</b>			
Passed Through the Texas Department of Transportation Federal Transit Capital Investment Grants	20.500	VCR 1102(21)0072	\$ 115,500
Passed Through the Texas Department of Transportation Capital Assistance Program for Elderly Persons and Persons with Disabilities	20.513	ED 1104 ED 1204	50,100 27,127 <u>77,227</u>
Passed Through the Texas Department of Transportation Department of Transportation Wave Grant	20.509	RPT 1106 RPT 1206	488,332 107,600 <u>595,932</u>
Total U.S. Department of Transportation			<u>788,659</u>
<b>U.S. Department of Homeland Security</b>			
Disaster Grants - Public Assistance	97.044	EMW-2010 FO-01642	14,345
Passed Through the Texas Department of Public Safety Homeland Security Grant Program	97.067	11-SR 69140-01 2012c02043	10,510 59,984 <u>70,494</u>
Total U.S. Department of Homeland Security			<u>84,839</u>
<b>U.S. Department of Housing and Urban Development</b>			
Community Development Block Grant	14.228	DRS010177	846,559
<b>U.S. Department of Justice</b>			
Edward Byrne Memorial Justec Assistance Grant (JAG) - ARRA	16.804	2009-SB-B9-2600	211
<b>U.S. Department of Energy</b>			
Energy Efficiency and Conservation Block Grant (EECBG) Program	81.128	DE-EE0000893	<u>22,118</u>
<b>Total Federal Awards</b>			<u><u>\$ 1,742,386</u></u>

City of South Padre Island, Texas  
**NOTES ON ACCOUNTING POLICIES FOR FEDERAL AWARDS**  
For the Year Ended September 30, 2012

**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, 2012. The reporting entity consists of the primary government, organizations for which the primary government is financially accountable, and other organizations for which the primary government is not accountable, but for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete.

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

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

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

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

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

City of South Padre Island, Texas  
**EXIT CONFERENCE**  
For the Year Ended September 30, 2012

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

Rodrigo Gimenez, Finance Director  
Joni Clarke, City Manager

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