

ANNUAL FINANCIAL REPORT

of the

**NASSAU BAY ECONOMIC
DEVELOPMENT CORPORATION**

A COMPONENT UNIT OF
THE CITY OF NASSAU BAY, TEXAS

For the Year Ended
September 30, 2008

**NASSAU BAY ECONOMIC
DEVELOPMENT CORPORATION**
A COMPONENT UNIT OF THE CITY OF NASSAU BAY, TEXAS
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September 30, 2008

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INTRODUCTORY SECTION

**NASSAU BAY ECONOMIC
DEVELOPMENT CORPORATION**
A COMPONENT UNIT OF THE CITY OF NASSAU BAY, TEXAS
BOARD OF DIRECTORS
September 30, 2008

<i>President</i>	Donald C. Matter
<i>Vice President</i>	Ron Swofford
<i>Secretary</i>	Joe Murdock
<i>Treasurer</i>	Mark Denman
<i>Director</i>	Brad Bailey
<i>Director</i>	Gary Mossman
<i>Director</i>	George Dempsey



INDEPENDENT AUDITORS' REPORT

To the Honorable Board of Directors
Nassau Bay Economic Development Corporation
City of Nassau Bay, Texas:

We have audited the accompanying basic financial statements of the governmental activities and the major fund of the Nassau Bay Economic Development Corporation (the "Corporation"), component unit of the City of Nassau Bay, Texas, as of September 30, 2008, and for the year then ended, as listed in the table of contents. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards in the United States of America. 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 examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes 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 opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities and the major fund of the Corporation as of September 30, 2008, and the respective changes in financial position thereof for the year then ended, in conformity with generally accepted accounting principles in the United States of America.

The Management's Discussion and Analysis and budgetary comparison information are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Corporation's basic financial statements. The introductory section is presented for purposes of additional analysis and is not a required part of the basic financial statements. The introductory section has not been subjected to auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on it.

Belt Harris & Associates, LLLP

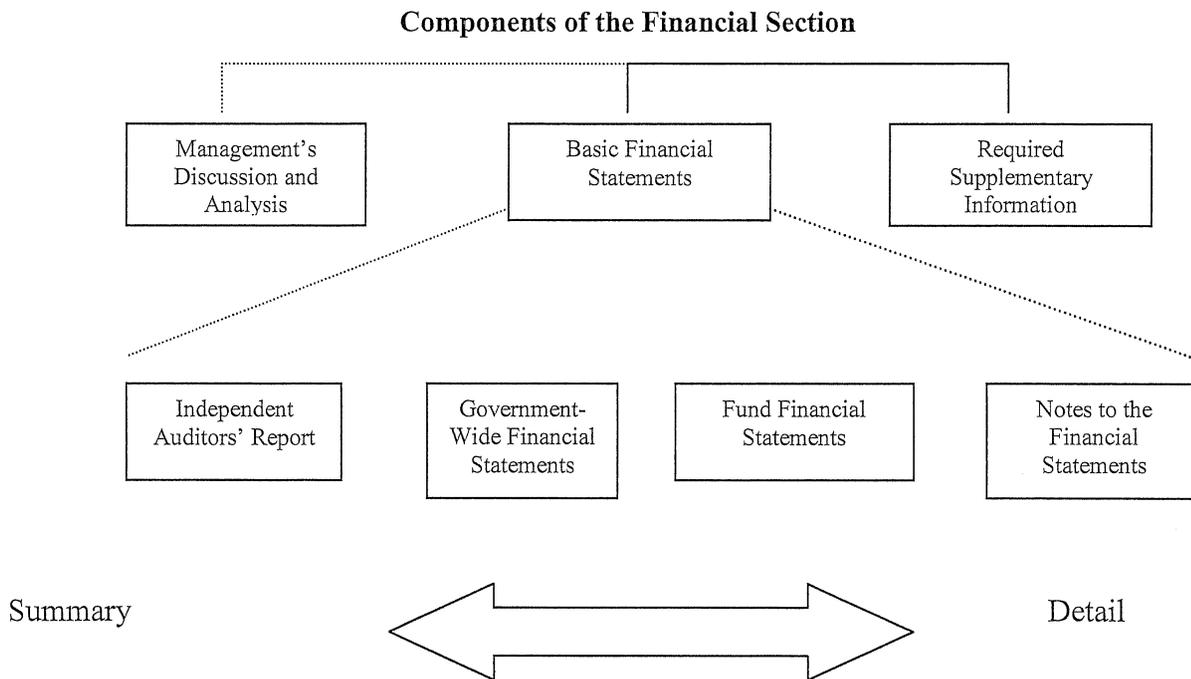
Belt Harris & Associates, LLLP
Certified Public Accountants
Houston, Texas
June 3, 2009

*MANAGEMENT'S DISCUSSION
AND ANALYSIS*

**NASSAU BAY ECONOMIC
DEVELOPMENT CORPORATION**
A COMPONENT UNIT OF THE CITY OF NASSAU BAY, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended September 30, 2008

The purpose of the Management's Discussion and Analysis ("MD&A") is to give the readers an objective and easily readable analysis of the Nassau Bay Economic Development Corporation's (the "Corporation") financial activities for the year. The analysis is based on currently known facts, decisions, or economic conditions. It presents short and long-term analysis of the Corporation's activities. Governmental Accounting Standards Board (GASB) Statement No. 34 establishes the content of the minimum requirements for MD&A. Please read the MD&A in conjunction with the Corporation's financial statements, which follow this section.

THE STRUCTURE OF OUR ANNUAL REPORT



The annual financial report is presented as compliant with the financial reporting model in effect pursuant to GASB Statement No. 34. The financial reporting model requires governments to present certain basic financial statements as well as a Management's Discussion and Analysis (MD&A) and certain other Required Supplementary Information (RSI). The basic financial statements include (1) government-wide financial statements, (2) individual fund financial statements, and (3) notes to the financial statements. For this report no reconciliation has been provided between the fund financial statements and the government-wide financial statements, as the only change necessary was the reclassification of fund balance at the fund level to net assets at the government-wide level.

Notes to Financial Statements

The notes to the financial statements provide additional information that is essential to a full understanding of the data provided in the basic financial statements.

**NASSAU BAY ECONOMIC
DEVELOPMENT CORPORATION**
A COMPONENT UNIT OF THE CITY OF NASSAU BAY, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS, Continued
For the Year Ended September 30, 2008

Statement of Revenues, Expenses, and Changes in Fund Net Assets:

The following table provides a summary of the Corporation's changes in net assets:

CONDENSED CHANGES IN NET ASSETS

	Governmental Activities	
	2008	2007
Revenues		
General Revenues:		
Sales taxes	\$ 204,440	\$ 174,163
Investment income	3,713	5,223
Total Revenues	208,153	179,386
Expenses		
Economic Development	130,689	176,884
Total Expenses	130,689	176,884
Change in Net Assets	77,464	2,502
Beginning net assets	133,693	131,191
Ending Net Assets	\$ 211,157	\$ 133,693

Expenses related to economic development for the year decreased by 26 percent in comparison to the prior year. Revenues increased by \$28,767 to \$208,153.

BUDGETARY HIGHLIGHTS

The Corporation budgeted a \$28,083 decrease in net assets but actually realized an increase of \$77,464. Actual revenues exceeded budgeted revenues by \$34,153, and actual expenditures were less than budgeted expenditures by \$71,394 due to dredging projects and a NASA management district agreement which were discontinued for 2008.

CAPITAL ASSETS

The Corporation has no capital assets. Capital assets are purchased through a contribution for joint capital projects with the City of Nassau Bay and are recorded and depreciated on the City's financial statements. There were no joint capital projects for 2008.

FINANCIAL STATEMENTS

**NASSAU BAY ECONOMIC
DEVELOPMENT CORPORATION**
A COMPONENT UNIT OF THE CITY OF NASSAU BAY, TEXAS
STATEMENT OF NET ASSETS
September 30, 2008

		<u>Component Unit Governmental Activities</u>
<u>Assets</u>		
Cash and cash equivalents	\$	176,794
Receivables		34,363
Total Assets		<u>211,157</u>
<u>Liabilities</u>		
Due to primary government		-
Total Liabilities		<u>-</u>
<u>Net Assets</u>		
Unrestricted		211,157
Total Net Assets	\$	<u><u>211,157</u></u>

See Notes to Financial Statements.

**NASSAU BAY ECONOMIC
DEVELOPMENT CORPORATION**
A COMPONENT UNIT OF THE CITY OF NASSAU BAY, TEXAS
BALANCE SHEET

September 30, 2008

	General Fund
<u>Assets</u>	
Cash and cash equivalents:	\$ 176,794
Receivables	34,363
Total Assets	\$ 211,157
<u>Liabilities</u>	
Due to primary government	-
Total Liabilities	-
<u>Fund Balance</u>	
Unreserved and undesignated	211,157
Total Net Assets	\$ 211,157

See Notes to Financial Statements.

**NASSAU BAY ECONOMIC
DEVELOPMENT CORPORATION**

A COMPONENT UNIT OF THE CITY OF NASSAU BAY, TEXAS

*STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
GENERAL FUND*

For the Year Ended September 30, 2008

		<u>General Fund</u>
<u>Revenues</u>		
Sales taxes	\$	204,440
Investment income		3,713
Total Revenues		<u>208,153</u>
<u>Expenditures</u>		
Current:		
Economic development		130,689
Total Expenditures		<u>130,689</u>
	Excess of Revenues Over Expenditures	<u>77,464</u>
Net Change in Fund Balance		<u>77,464</u>
Beginning Fund Balance		133,693
Ending Fund Balance	\$	<u><u>211,157</u></u>

See Notes to Financial Statements.

**NASSAU BAY ECONOMIC
DEVELOPMENT CORPORATION**
A COMPONENT UNIT OF THE CITY OF NASSAU BAY, TEXAS
NOTES TO FINANCIAL STATEMENTS
September 30, 2008

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

The Nassau Bay Economic Development Corporation (the "Corporation") was incorporated in April 1998 as a non-profit corporation specifically governed by Section 4B of the Texas Development Corporation Act of 1979. The purpose of the Corporation is to encourage the retention of business enterprises within the City of Nassau Bay, Texas (the "City"), and the promotion and development of new and expanded business enterprises in the City in order to promote and encourage the economic growth of the City and the full employment, welfare and prosperity of its citizens as provided by the Development Corporation Act of 1979; as amended.

The accompanying financial statements of the Corporation are prepared in conformity with generally accepted accounting principles for governmental entities as prescribed by the Governmental Accounting Standards Board (GASB), which is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The Corporation's significant accounting policies are described below.

The Corporation has adopted Governmental Accounting Standards Board Statement No. 14, *The Financial Reporting Entity*. In accordance with this statement, a financial 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.

Considerations regarding the potential for inclusion of other entities, organizations or functions in the Corporation's financial reporting entity are based on criteria prescribed by generally accepted accounting principles. These same criteria are evaluated in considering whether the Corporation is a part of any other governmental or other type of reporting entity. The overriding elements associated with prescribed criteria considered in determining that the Corporation's financial reporting entity status is that of a primary government are that it has a separately elected governing body, it is legally separate, and it is fiscally independent of other state and local governments. Additionally prescribed criteria under generally accepted accounting principles include considerations pertaining to organizations for which the primary government is financially accountable, and considerations pertaining to organizations 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.

The City is the primary government which exercises significant influence over the Corporation. Significant influence or accountability is based primarily on operational or financial relationships with the City. Due to the nature of the relationship between the City and the Corporation, the Corporation has been included as a component unit of the City for financial statement purposes.

The Corporation is managed by a Board of Directors, consisting of seven directors, all residents of the City, appointed by the City Council for two-year terms of office. Four of the directors consist of the Mayor and Council Positions Three, Four, and Five. The remaining three directors are persons who are not employees, agents, paid or non-paid appointed officers, or members of the City Council or any City committee, board, or commission.

**NASSAU BAY ECONOMIC
DEVELOPMENT CORPORATION**
A COMPONENT UNIT OF THE CITY OF NASSAU BAY, TEXAS
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2008

General Fund

The general fund is used to account for the proceeds of specific revenue sources that are legally restricted to expenditures for specified purposes. The principal source of revenue is sales tax collected by the City to be used by the Corporation for expenditures on economic development.

D. Measurement Focus and Basis of Accounting

The government-wide statements of net assets and statements of activities are accounted for on a flow of economic resources measurement focus, accrual basis of accounting. With this measurement focus, all assets and all liabilities associated with the operations of these activities are included on the balance sheet.

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 resources) and decreases (i.e., expenditures and other financing uses) in net current assets.

The Corporation utilizes the modified accrual basis of accounting in the governmental fund type. Under the modified accrual basis of accounting, revenues are recognized in the accounting period when they are susceptible to accrual (i.e., when they are 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 pay liabilities of the current period. For this purpose, the Corporation considers revenues available if they are collected within 60 days of the end of the current period. Revenues susceptible to accrual include sales tax and interest on temporary investments.

Under modified accrual accounting, expenditures are recognized in the accounting period in which the liability is incurred, if measurable, except for interest on general long-term debt, which is recognized when due.

**NASSAU BAY ECONOMIC
DEVELOPMENT CORPORATION**
A COMPONENT UNIT OF THE CITY OF NASSAU BAY, TEXAS
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2008

II. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

The Corporation's Board of Directors adopts an annual budget, subject to approval by City Council, which sets forth in detail all anticipated revenues and expenses. The annual budget is prepared using the modified accrual basis of accounting. Encumbrance accounting is not utilized.

III. DETAILED NOTES

A. Deposits and Investments

As of year end, the Corporation had the following investments:

Investment Type	Fair Value
State Pool (TexPool)	\$ 133,346
Total fair value	\$ 133,346

Credit risk. State law limits investments to obligations of states, agencies, counties, cities and other political subdivisions of any state rated as to investment quality by a nationally recognized investment rating firm not less than A or its equivalent. Further, commercial paper must be rated not less than A-1 or P-1 or an equivalent rating by at least two nationally recognized credit rating agencies. As of September 30, 2008, the Corporation's investment in TexPool was rated AAAM by Standard & Poor's.

Custodial credit risk – deposits. In the case of deposits, this is the risk that in the event of a bank failure, the Corporation's deposits may not be returned to it. As of year end, the Corporation's bank balance was completely insured by FDIC.

TexPool

TexPool was established as a trust company with the Treasurer of the State of Texas as trustee, segregated from all other trustees, investments, and activities of the trust company. 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. Additionally, the State Comptroller has established an advisory board composed of both participants in TexPool and other persons who do not have a business relationship with TexPool. The advisory board members review the investment policy and management fee structure. Finally, Standard & Poor's rate TexPool AAAM. As a requirement to maintain the rating, weekly portfolio information must be submitted to Standard & Poor's, as well as the office of the Comptroller of Public Accounts for review.

TexPool operates in a manner consistent with the SEC'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. Accordingly, the fair value of the position in TexPool is the same as the value of TexPool shares.

REQUIRED SUPPLEMENTARY INFORMATION

NASSAU BAY ECONOMIC DEVELOPMENT CORPORATION

A COMPONENT UNIT OF THE CITY OF NASSAU BAY, TEXAS SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL - GENERAL FUND

For the Year Ended September 30, 2008

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
<u>Revenues</u>				
Taxes:				
Sales	\$ 170,000	\$ 170,000	\$ 204,440	\$ 34,440
Investment income	4,000	4,000	3,713	(287) *
Total Revenues	<u>174,000</u>	<u>174,000</u>	<u>208,153</u>	<u>34,153</u>
<u>Expenditures</u>				
Current:				
Economic development:				
Administrative expenses	12,000	12,000	14,662	(2,662) *
Audit	4,500	4,500	4,500	-
Promotion/consulting	3,000	3,000	410	2,590
Reserve	60,000	60,000	-	60,000
Training	1,000	1,000	-	1,000
Legal	5,000	5,000	3,925	1,075
Memberships	15,350	15,350	15,275	75
Development services	32,400	32,400	23,084	9,316
Debt Service	68,833	68,833	68,833	-
Total Expenditures	<u>202,083</u>	<u>202,083</u>	<u>130,689</u>	<u>71,394</u>
Revenues Over (Under) Expenditures	<u>\$ (28,083)</u>	<u>\$ (28,083)</u>	77,464	<u>\$ 105,547</u>
Beginning fund balance			<u>133,693</u>	
		Ending Fund Balance	<u>\$ 211,157</u>	

Notes to Required Supplementary Information:

1. Annual budgets are adopted on a basis consistent with generally accepted accounting principles (GAAP).
2. *Expenditures exceeded appropriations above the legal level of control.