

*ANNUAL FINANCIAL REPORT*

of the

**CITY OF NASSAU BAY, TEXAS**

For the Year Ended  
September 30, 2012

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# CITY OF NASSAU BAY, TEXAS

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# CITY OF NASSAU BAY, TEXAS

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***INTRODUCTORY SECTION***

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# CITY OF NASSAU BAY, TEXAS

## PRINCIPAL OFFICIALS

September 30, 2012

<u>City Officials</u>	<u>Elective Position</u>	<u>Term Expires</u>
Mark Denman	Mayor	05/2014
David Braun	Council Member	05/2013
Sandra Mossman	Council Member	05/2014
Ron Swofford	Council Member	05/2013
Brad Bailey	Council Member	05/2014
Jonathan Amdur	Council Member	05/2013
Bob Warters	Council Member	05/2014

<u>Key Staff</u>	<u>Position</u>
Chris Reed	City Manager
Csilla Stiles	Director of Finance
Pat Jones, T.R.M.C.	City Secretary

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***FINANCIAL SECTION***

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## INDEPENDENT AUDITORS' REPORT

To the Honorable Mayor and  
City Council Members of the  
City of Nassau Bay, Texas:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Nassau Bay, 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. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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 the 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 respective financial position of the governmental activities, the business-type activities, the discretely presented component units, each major fund, and the aggregate remaining fund information of the City as of September 30, 2012, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with generally accepted accounting principles in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 22, 2013 on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on 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.

The Management's Discussion and Analysis, the budgetary comparison information, and the schedule of funding progress, identified as Required Supplementary Information on the table of contents, are not required parts of the basic financial statements but are supplementary information required by generally accepted accounting principles in the United States of America. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it

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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's financial statements as a whole. The introductory section and combining statements and schedules are presented for purposes of additional analysis and are not required parts of the financial statements. The combining fund statements and schedules are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the 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, the information is fairly stated in all material respects in relation to the financial statements as a whole. The introductory section has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

*BELT HARRIS PECHACEK, LLLP*

Belt Harris Pechacek, LLLP  
*Certified Public Accountants*  
Houston, Texas  
February 22, 2013

***MANAGEMENT'S DISCUSSION  
AND ANALYSIS***

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**CITY OF NASSAU BAY, TEXAS**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)**  
For the Year Ended September 30, 2012

The Statement of Net Assets presents information on all of the City's assets and liabilities. 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 nonfinancial factors, such as the City's property tax base and the condition of the City's infrastructure, need to be considered in order to assess the overall health of the City.

The Statement of Activities presents information showing how the City's net assets changed during the most recent year. All changes in the net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows using the accrual method rather than modified accrual that is used in the fund level statements.

The Statement of Net Assets and the Statement of Activities divide the City into three classes of activities:

1. Governmental Activities – Most of the City's basic services are reported here including general government, public safety, public works, public services, economic development, and tourism. Interest payments on the City's debt are also reported here. Sales tax, property tax, franchise taxes, municipal court fines, and permit fees finance most of these activities.
2. Business-type Activities – Services involving a fee for those services are reported here. These services include the City's water distribution and wastewater collection/treatment.
3. Component Units – The City of Nassau Bay itself is the primary government. The Nassau Bay Economic Development Corporation (the "Corporation") and the NASA Management District (the "District") are established as separate legal entities. Complete financial statements of the Corporation can be obtained from the City. The City maintains financial accountability; thus, the Corporation and the District are reported as *component units*, separate from the financial transactions of the City. In addition, the City also maintains two blended component units, the Tax Increment Reinvestment Zone #1 (TIRZ) and the Nassau Bay Redevelopment Authority (the "Authority").

The government-wide financial statements can be found after the MD&A.

## **FUND FINANCIAL STATEMENTS**

Funds may be considered as operating companies of the parent corporation, which is the City. They are usually segregated for specific activities or objectives. The City uses fund accounting to ensure and demonstrate compliance with finance related legal reporting requirements. The two categories of City funds are governmental and proprietary.

### **Governmental Funds**

Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on *near-term inflows and outflows of spendable resources*, as well as *on balances of spendable resources* available at the end of the year. Such information may be useful in evaluating the City's near-term financing requirements.

Because the focus of governmental funds 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. By doing so, readers may better understand

**CITY OF NASSAU BAY, TEXAS**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)**  
For the Year Ended September 30, 2012

the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

The City maintains eight 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, debt service fund (considered a nonmajor fund for reporting purposes, but the City has elected to present as major due to its significance), and the special revenue and grants fund, which are considered to be major funds. Data from the other five governmental funds are combined into a single, aggregated presentation.

The City adopts an annual appropriated budget for its general, debt service, special revenue and grants, tourism, and streets funds. Budgetary comparison schedules have been provided for these funds to demonstrate compliance with this budget.

**Proprietary Funds**

The City maintains one type of proprietary fund, an enterprise fund. The enterprise fund is used to report the same functions presented as business-type activities in the government-wide financial statements. The City uses the enterprise fund to account for its water distribution and wastewater collection/treatment. The proprietary fund financial statements provide separate information for the water distribution and wastewater collection/treatment. The basic proprietary fund financial statements can be found in the basic financial statements of this report.

**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 government-wide and fund financial statements. The notes are the last section of the basic financial statements.

**Other Information**

In addition to basic financial statements, MD&A, and accompanying notes, this report also presents certain RSI that GASB Statement No. 34 requires including budgetary comparison schedules for the general fund and special revenue and grants fund, as well as a schedule of funding progress for the Texas Municipal Retirement System. The RSI can be found after the basic financial statements.

**GOVERNMENT-WIDE FINANCIAL ANALYSIS**

As noted earlier, net assets may serve over time as a useful indicator of the City's financial position. For the City, assets exceed liabilities by \$15,108,913 as of year end in the primary government.

The largest portion of the City's net assets, 71 percent, reflects its investments in capital assets (e.g., land, City hall, fleet equipment, streets, and drainage systems) less any 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 assets themselves cannot be used to liquidate these liabilities.

**CITY OF NASSAU BAY, TEXAS**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)**  
For the Year Ended September 30, 2012

**Statement of Net Assets:**

The following table reflects the condensed Statement of Net Assets:

	Governmental		Business-Type		Total	
	Activities		Activities		Primary	
	2012	2011	2012	2011	2012	2011
Current and other assets	\$ 4,067,120	\$ 3,539,980	\$ 3,579,389	\$ 3,465,678	\$ 7,646,509	\$ 7,005,658
Capital assets, net	9,772,079	9,564,541	3,304,670	3,162,461	13,076,749	12,727,002
<b>Total Assets</b>	<b>13,839,199</b>	<b>13,104,521</b>	<b>6,884,059</b>	<b>6,628,139</b>	<b>20,723,258</b>	<b>19,732,660</b>
Long-term liabilities	2,313,615	2,783,452	2,389,104	2,471,741	4,702,719	5,255,193
Other liabilities	686,992	515,974	224,634	135,841	911,626	651,815
<b>Total Liabilities</b>	<b>3,000,607</b>	<b>3,299,426</b>	<b>2,613,738</b>	<b>2,607,582</b>	<b>5,614,345</b>	<b>5,907,008</b>
Net Assets:						
Invested in capital assets, net of related debt	7,681,196	6,985,480	3,079,172	2,934,570	10,760,368	9,920,050
Restricted	1,523,828	1,256,636	-	-	1,523,828	1,256,636
Unrestricted	1,633,568	1,562,979	1,191,149	1,085,987	2,824,717	2,648,966
<b>Total Net Assets</b>	<b>\$ 10,838,592</b>	<b>\$ 9,805,095</b>	<b>\$ 4,270,321</b>	<b>\$ 4,020,557</b>	<b>\$ 15,108,913</b>	<b>\$ 13,825,652</b>

A portion of the primary government's net assets, \$1,523,828 or ten percent, represents resources that are subject to restrictions on how they may be used. The remaining balance of unrestricted net assets, \$2,824,717, may be used to meet the City's ongoing obligation to citizens and creditors. The overall condition of the City improved this year as total net assets increased by \$1,283,261.

**CITY OF NASSAU BAY, TEXAS**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)**  
For the Year Ended September 30, 2012

**Statement of Activities:**

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

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2012	2011	2012	2011	2012	2011
<b>Revenues</b>						
Program revenues:						
Charges for services	\$ 687,688	\$ 902,190	\$ 2,238,553	\$ 2,278,665	\$ 2,926,241	\$ 3,180,855
Operating grants and contributions	608,633	319,109	-	-	608,633	319,109
Capital grants and contributions	126,495	457,920	-	-	126,495	457,920
General revenues:						
Property taxes	2,958,107	2,977,296	-	-	2,958,107	2,977,296
Sales taxes	611,090	510,714	-	-	611,090	510,714
Other taxes	958,091	940,787	-	-	958,091	940,787
Investment earnings	11,635	5,852	5,532	717	17,167	6,569
Other revenues	121,825	84,277	-	-	121,825	84,277
<b>Total Revenues</b>	<b>6,083,564</b>	<b>6,198,145</b>	<b>2,244,085</b>	<b>2,279,382</b>	<b>8,327,649</b>	<b>8,477,527</b>
<b>Expenses</b>						
General government	1,201,252	984,489	-	-	1,201,252	984,489
Public safety	1,868,604	2,063,988	-	-	1,868,604	2,063,988
Public works	989,822	1,103,608	-	-	989,822	1,103,608
Public services	429,492	349,625	-	-	429,492	349,625
Economic development/ tourism	583,579	622,197	-	-	583,579	622,197
Interest on long-term debt	79,802	101,875	-	-	79,802	101,875
Water and sewer	-	-	1,894,837	1,656,566	1,894,837	1,656,566
<b>Total Expenses</b>	<b>5,152,551</b>	<b>5,225,782</b>	<b>1,894,837</b>	<b>1,656,566</b>	<b>7,047,388</b>	<b>6,882,348</b>
<b>Increase in Net Assets Before Transfers</b>	<b>931,013</b>	<b>972,363</b>	<b>349,248</b>	<b>622,816</b>	<b>1,280,261</b>	<b>1,595,179</b>
Gain on sale of capital assets	3,000	62,325	-	-	3,000	62,325
Transfers	99,484	55,485	(99,484)	(55,485)	-	-
<b>Change in Net Assets</b>	<b>1,033,497</b>	<b>1,090,173</b>	<b>249,764</b>	<b>567,331</b>	<b>1,283,261</b>	<b>1,657,504</b>
Beginning net assets	9,805,095	8,714,922	4,020,557	3,453,226	13,825,652	12,168,148
<b>Ending Net Assets</b>	<b>\$ 10,838,592</b>	<b>\$ 9,805,095</b>	<b>\$ 4,270,321</b>	<b>\$ 4,020,557</b>	<b>\$ 15,108,913</b>	<b>\$ 13,825,652</b>

**CITY OF NASSAU BAY, TEXAS**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)**  
For the Year Ended September 30, 2012

For the year ended, revenues from governmental activities totaled \$6,083,564. Revenues decreased by two percent during the year mainly due to significant decreases in charges for services and capital grants and contributions. The decrease in charges for services was due to the City entering into a franchise agreement outsourcing the collection of commercial waste. The decrease in capital grants and contributions was due to the majority of projects related to the economic adjustment assistance grant being completed in prior years.

For the year ended, expenses for governmental activities totaled \$5,152,551. The total expenses decreased five percent from the prior year, which can be attributed primarily to a decrease in public works expenses related to the franchise agreement for the collection of commercial waste.

Business-type activities net assets increased by \$249,764. Compared to the prior year, revenues decreased two percent. This decrease in charges for services revenue was due to a decrease in consumption. Expenses increased 14 percent compared to the prior year due to an increase in administrative expenses.

### **FINANCIAL ANALYSIS OF THE CITY'S FUNDS**

As noted earlier, fund accounting is used to demonstrate and ensure compliance with finance-related legal requirements.

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

The City's governmental funds reflect a combined fund balance of \$3,186,200. Of this, \$208,935 is restricted for debt service, \$249,879 is restricted for enabling legislation, \$1,064,479 is restricted for projects, and \$1,662,907 is unassigned.

The general fund had a positive change in fund balance of \$118,066 for the year. Compared to the prior year, revenues decreased \$119,682 due mainly to a decrease in revenue from charges for services as the City discontinued commercial waste collection. Expenditures remained consistent with prior year amounts increasing \$46,840.

The debt service fund increased fund balance by \$14,969 as a result of a transfer from the enterprise fund.

The special revenue and grants fund had a decrease in fund balance of \$4,370 due to excess project costs over grant funding. Revenues and expenditures for the fund were \$667,657 and \$672,027, respectively.

Proprietary Funds – The City's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail.

### **GENERAL FUND BUDGETARY HIGHLIGHTS**

Actual revenues exceeded original and final budgeted revenues by \$320,001 during the year due to higher than expected revenues for sales taxes, other taxes, fines and forfeitures, charges for services, and other revenues. General fund expenditures were under the final budget by \$222,087 during the year due to lower than expected expenditures for general government, public safety, public works, and public services.

**CITY OF NASSAU BAY, TEXAS**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)**  
For the Year Ended September 30, 2012

**CAPITAL ASSETS**

At the end of the year, the City had invested \$13,076,749 in a variety of capital assets. This represents a net increase of \$349,747. Depreciation is included with the governmental capital assets as required by GASB Statement No. 34.

Major capital asset events during the current year include the following:

- Diesel powered generator for \$138,638
- Natural gas powered generator for \$129,500
- Construction in progress related to the Peninsula Trail Project of \$114,685
- Construction in progress related to the CDBG projects of \$281,236
- Construction in progress related to the TWDB improvements for \$206,930

More detailed information about the City's capital assets is presented in the notes to the financial statements.

**LONG-TERM DEBT**

At the end of the current year, the City had total certificates of obligation, tax notes, and capital leases of \$4,450,883. Of this amount, \$3,981,676 represents certificates of obligation, \$70,000 represents tax notes, and \$399,207 represents capital leases.

More detailed information about the City's long-term liabilities is presented in the notes to the financial statements.

**ECONOMIC FACTORS AND NEXT YEAR'S BUDGET**

The City Council approved a \$10.7 million budget for the 2012-2013 fiscal year. This is a 13.35 percent increase from the prior year. The tax rate adopted for the fiscal year 2012-2013 budget increased from 0.692120 to 0.732120. The budgeted taxable assessed valuations decreased by 1.05 percent to \$402 million. Budgeted property tax receipts comprise 27.8 percent of all City-wide revenue sources and 61.4 percent of the general fund revenue.

The economic growth and vitality of the City are supported by several mechanisms including the Nassau Bay Economic Development Corporation, the NASA Area Management District, the Nassau Bay Tax Increment Reinvestment Zone #1 and the Nassau Bay Redevelopment Authority. Through these entities and a Federal Economic Development Authority Recovery Grant, the City has been able to support the redevelopment of a 27-acre commercial area and actively pursue retail and commercial expansion in this area.

**CONTACTING THE CITY'S FINANCIAL MANAGEMENT**

This financial report is designed to provide a general overview of the City's finances. Questions concerning this report or requests for additional financial information should be directed to Csilla Stiles, Finance Director, City of Nassau Bay, 18100 Upper Bay Road, Nassau Bay, Texas, 77058, by telephone at 281.333.4211, or by email at [finance.office@nassaubay.com](mailto:finance.office@nassaubay.com).

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***BASIC FINANCIAL STATEMENTS***

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# CITY OF NASSAU BAY, TEXAS

## STATEMENT OF NET ASSETS

September 30, 2012

	Primary Government			Component Units	
	Governmental Activities	Business-Type Activities	Total	Nassau Bay Economic Dev. Corp.	NASA Area Management District
<b>Assets</b>					
Cash and cash equivalents	\$ 3,025,219	\$ 1,062,182	\$ 4,087,401	\$ 90,043	\$ 101,899
Receivables, net	1,002,568	333,932	1,336,500	54,806	19,966
Due from component units	3,301	-	3,301	-	-
Internal balances	(1,120)	1,120	-	-	-
Deferred charges	37,152	47,653	84,805	-	-
Restricted assets:					
Temporarily restricted cash and cash equivalents	-	136,502	136,502	-	-
Temporarily restricted investments	-	1,998,000	1,998,000	-	-
Capital assets:					
Non-depreciable	1,356,978	250,389	1,607,367	-	-
Net depreciable	8,415,101	3,054,281	11,469,382	-	-
<b>Total Assets</b>	<b>13,839,199</b>	<b>6,884,059</b>	<b>20,723,258</b>	<b>144,849</b>	<b>121,865</b>
<b>Liabilities</b>					
Accounts payable and accrued liabilities	665,469	149,196	814,665	-	-
Customer deposits	-	58,189	58,189	-	-
Accrued interest payable	21,523	17,249	38,772	-	-
Noncurrent liabilities:					
Long-term liabilities due within one year	702,385	111,194	813,579	-	-
Long-term liabilities due in more than one year	1,611,230	2,277,910	3,889,140	-	-
<b>Total Liabilities</b>	<b>3,000,607</b>	<b>2,613,738</b>	<b>5,614,345</b>	<b>-</b>	<b>-</b>
<b>Net Assets</b>					
Invested in capital assets, net of related debt	7,681,196	3,079,172	10,760,368	-	-
Restricted for:					
Debt service	209,470	-	209,470	-	-
Enabling legislation	249,879	-	249,879	-	-
Special projects	1,064,061	-	1,064,061	-	-
Capital projects	418	-	418	-	-
Nassau Bay Economic Development	-	-	-	144,849	-
NASA Area Management District	-	-	-	-	121,865
Unrestricted	1,633,568	1,191,149	2,824,717	-	-
<b>Total Net Assets</b>	<b>\$ 10,838,592</b>	<b>\$ 4,270,321</b>	<b>\$ 15,108,913</b>	<b>\$ 144,849</b>	<b>\$ 121,865</b>

See Notes to Financial Statements.

# CITY OF NASSAU BAY, TEXAS

## STATEMENT OF ACTIVITIES

For the Year Ended September 30, 2012

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
<b>Primary Government</b>				
<b>Governmental Activities</b>				
General government	\$ 1,201,252	\$ 347,607	\$ -	\$ -
Public safety	1,868,604	201,408	-	-
Public works	989,822	138,673	608,633	-
Public services	429,492	-	-	-
Economic development/tourism	583,579	-	-	126,495
Interest and fiscal agent fees on long-term debt	79,802	-	-	-
<b>Total Governmental Activities</b>	<u>5,152,551</u>	<u>687,688</u>	<u>608,633</u>	<u>126,495</u>
<b>Business-Type Activities</b>				
Water and sewer	1,894,837	2,238,553	-	-
<b>Total Business-Type Activities</b>	<u>1,894,837</u>	<u>2,238,553</u>	<u>-</u>	<u>-</u>
<b>Total Primary Government</b>	<u>\$ 7,047,388</u>	<u>\$ 2,926,241</u>	<u>\$ 608,633</u>	<u>\$ 126,495</u>
<b>Component Units</b>				
Nassau Bay Economic Development Corp.	\$ 199,354	\$ -	\$ -	\$ -
NASA Area Management District	27,350	-	-	-
<b>Total Component Units</b>	<u>\$ 226,704</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

**General Revenues:**

Taxes  
     Property taxes  
     Sales taxes  
     Other taxes  
 Investment earnings  
 Other revenues  
 Gain on sale of capital assets  
 Transfers

**Total General Revenues and Transfers**

**Change in Net Assets**

Beginning net assets

**Ending Net Assets**

See Notes to Financial Statements.

<u>Net (Expense) Revenue and Changes in Net Assets</u>			<u>Component Units</u>	
<u>Primary Government</u>			<u>Nassau Bay</u>	<u>NASA Area</u>
<u>Governmental</u>	<u>Business-Type</u>		<u>Economic</u>	<u>Management</u>
<u>Activities</u>	<u>Activities</u>	<u>Total</u>	<u>Dev. Corp</u>	<u>District</u>
\$ (853,645)	\$ -	\$ (853,645)	\$ -	\$ -
(1,667,196)	-	(1,667,196)	-	-
(242,516)	-	(242,516)	-	-
(429,492)	-	(429,492)	-	-
(457,084)	-	(457,084)	-	-
(79,802)	-	(79,802)	-	-
<u>(3,729,735)</u>	<u>-</u>	<u>(3,729,735)</u>	<u>-</u>	<u>-</u>
-	343,716	343,716	-	-
-	343,716	343,716	-	-
<u>(3,729,735)</u>	<u>343,716</u>	<u>(3,386,019)</u>	<u>-</u>	<u>-</u>
-	-	-	(199,354)	-
-	-	-	-	(27,350)
<u>-</u>	<u>-</u>	<u>-</u>	<u>(199,354)</u>	<u>(27,350)</u>
2,958,107	-	2,958,107	-	-
611,090	-	611,090	244,436	84,701
958,091	-	958,091	-	-
11,635	5,532	17,167	203	-
121,825	-	121,825	-	-
3,000	-	3,000	-	-
99,484	(99,484)	-	-	-
<u>4,763,232</u>	<u>(93,952)</u>	<u>4,669,280</u>	<u>244,639</u>	<u>84,701</u>
1,033,497	249,764	1,283,261	45,285	57,351
9,805,095	4,020,557	13,825,652	99,564	64,514
<u>\$ 10,838,592</u>	<u>\$ 4,270,321</u>	<u>\$ 15,108,913</u>	<u>\$ 144,849</u>	<u>\$ 121,865</u>

# CITY OF NASSAU BAY, TEXAS

## BALANCE SHEET

### GOVERNMENTAL FUNDS

September 30, 2012

	General	Debt Service	Special Revenue and Grants	Nonmajor Governmental Funds
<b><u>Assets</u></b>				
Cash and cash equivalents	\$ 1,658,385	\$ 208,935	\$ 250,017	\$ 907,882
Receivables, net	409,930	474	444,408	147,756
Due from other funds	6,785	-	-	-
Due from component units	3,301	-	-	-
<b>Total Assets</b>	<b>\$ 2,078,401</b>	<b>\$ 209,409</b>	<b>\$ 694,425</b>	<b>\$ 1,055,638</b>
<b><u>Liabilities</u></b>				
Accounts payable and accrued liabilities	\$ 237,445	\$ -	\$ 390,170	\$ 37,854
Due to other funds	224	-	4,722	2,959
Deferred revenue	177,825	474	-	-
<b>Total Liabilities</b>	<b>415,494</b>	<b>474</b>	<b>394,892</b>	<b>40,813</b>
<b><u>Fund Balances</u></b>				
Restricted for:				
Debt service	-	208,935	-	-
Enabling legislation	-	-	-	249,879
Capital projects	-	-	-	418
Special projects	-	-	299,533	764,528
Unassigned	1,662,907	-	-	-
<b>Total Fund Balances</b>	<b>1,662,907</b>	<b>208,935</b>	<b>299,533</b>	<b>1,014,825</b>
<b>Total Liabilities and Fund Balances</b>	<b>\$ 2,078,401</b>	<b>\$ 209,409</b>	<b>\$ 694,425</b>	<b>\$ 1,055,638</b>

Adjustments for the Statement of Net Assets:

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

Capital assets - non-depreciable	1,356,978
Capital assets - net depreciable	8,415,101

Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the governmental funds.

Property taxes	7,931
Ambulance services	170,368

Some liabilities, including bonds payable, are not reported as liabilities in the governmental funds.

Accrued interest payable	(21,523)
Non-current liabilities due in one year	(702,385)
Non-current liabilities due in more than one year	(1,611,230)
Deferred charges for issuance costs	37,152

#### Net Assets of Governmental Activities

See Notes to Financial Statements.

**Total  
Governmental  
Funds**

\$ 3,025,219  
1,002,568  
6,785  
3,301  
\$ 4,037,873

\$ 665,469  
7,905  
178,299  
851,673

208,935  
249,879  
418  
1,064,061  
1,662,907  
3,186,200

9,772,079

178,299

(2,297,986)  
\$ 10,838,592

# CITY OF NASSAU BAY, TEXAS

## STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES GOVERNMENTAL FUNDS

For the Year Ended September 30, 2012

	General	Debt Service	Special Revenue and Grants	Nonmajor Governmental Funds
<b>Revenues</b>				
Property taxes	\$ 2,637,194	\$ 181,291	\$ -	\$ 212,328
Sales taxes	488,872	-	-	122,218
Other taxes	459,275	-	-	498,816
Licenses and permits	138,673	-	-	-
Fines and forfeitures	201,408	-	-	-
Charges for services	278,193	-	-	-
Intergovernmental	-	69,283	665,845	-
Investment earnings	7,273	502	717	3,143
Other revenues	120,728	-	1,095	2
<b>Total Revenues</b>	<b>4,331,616</b>	<b>251,076</b>	<b>667,657</b>	<b>836,507</b>
<b>Expenditures</b>				
<b>Current:</b>				
General government	1,103,896	-	-	76,169
Public safety	1,936,002	-	579,999	-
Public works	808,720	-	-	14,469
Public services	332,932	-	92,028	-
Economic development/tourism	-	-	-	501,970
Capital outlay	-	-	-	40,100
<b>Debt service:</b>				
Principal	-	393,339	-	-
Interest and fiscal charges	-	71,752	-	-
<b>Total Expenditures</b>	<b>4,181,550</b>	<b>465,091</b>	<b>672,027</b>	<b>632,708</b>
<b>Excess (Deficiency) of Revenues Over (Under) Expenditures</b>	<b>150,066</b>	<b>(214,015)</b>	<b>(4,370)</b>	<b>203,799</b>
<b>Other Financing Sources (Uses)</b>				
Transfers in	-	228,984	-	247,328
Transfers (out)	(35,000)	-	-	(212,328)
Sale of capital assets	3,000	-	-	-
<b>Total Other Financing Sources (Uses)</b>	<b>(32,000)</b>	<b>228,984</b>	<b>-</b>	<b>35,000</b>
<b>Net Change in Fund Balances</b>	<b>118,066</b>	<b>14,969</b>	<b>(4,370)</b>	<b>238,799</b>
Beginning fund balances	1,544,841	193,966	303,903	776,026
<b>Ending Fund Balances</b>	<b>\$ 1,662,907</b>	<b>\$ 208,935</b>	<b>\$ 299,533</b>	<b>\$ 1,014,825</b>

See Notes to Financial Statements.

**Total  
Governmental  
Funds**

\$ 3,030,813  
611,090  
958,091  
138,673  
201,408  
278,193  
735,128  
11,635  
121,825  
6,086,856

1,180,065  
2,516,001  
823,189  
424,960  
501,970  
40,100

393,339

71,752

5,951,376

135,480

476,312

(247,328)

3,000

231,984

367,464

2,818,736

\$ 3,186,200

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**CITY OF NASSAU BAY, TEXAS**  
**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,**  
**AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE**  
**STATEMENT OF ACTIVITIES**  
**For the Year Ended September 30, 2012**

Amounts reported for governmental activities in the Statement of Activities are different because:

Net changes in fund balances - total governmental funds	\$	367,464
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.		
Capital outlay		653,327
Depreciation expense		(445,789)
Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds.		
Property taxes		(72,706)
Ambulance services		69,414
The issuance of long-term debt (e.g., bonds, leases, certificates of obligation) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when they are first issued, whereas these amounts are deferred and amortized in the Statement of Activities.		
Principal expenditures		488,178
Amortization of issuance costs		(8,585)
Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds.		
Accrued interest		535
Compensated absences		(18,341)
<b>Change in Net Assets of Governmental Activities</b>	<b>\$</b>	<b><u>1,033,497</u></b>

See Notes to Financial Statements.

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# CITY OF NASSAU BAY, TEXAS

## STATEMENT OF NET ASSETS

### PROPRIETARY FUND

September 30, 2012

	<u>Business-Type Activities Enterprise Fund</u>
<b><u>Assets</u></b>	
<b><u>Current Assets</u></b>	
Cash and cash equivalents	\$ 1,062,182
Receivables, net	333,932
Due from other funds	1,120
<b><u>Current Restricted Assets</u></b>	
Cash and cash equivalents	136,502
Investments	1,998,000
<b>Total Current Assets</b>	<u>3,531,736</u>
<b><u>Noncurrent Assets</u></b>	
Deferred charges	47,653
Capital assets:	
Land	43,459
Construction in progress	206,930
Water and sewer system	6,351,000
Water rights, SEWPP	2,130,430
Machinery and equipment	279,265
Less: accumulated depreciation	<u>(5,706,414)</u>
<b>Total Capital Assets, Net of Accumulated Depreciation</b>	<u>3,304,670</u>
<b>Total Noncurrent Assets</b>	<u>3,352,323</u>
<b>Total Assets</b>	<u>6,884,059</u>
<b><u>Liabilities</u></b>	
<b><u>Current Liabilities</u></b>	
Accounts payable and accrued liabilities	149,196
Accrued interest payable	17,249
Customer deposits	58,189
Bond payable, due in one year	85,000
Compensated absences due in one year	26,194
<b>Total Current Liabilities</b>	<u>335,828</u>
<b><u>Noncurrent Liabilities</u></b>	
Bond payable, due in more than one year	2,275,000
Compensated absences due in more than one year	2,910
<b>Total Noncurrent Liabilities</b>	<u>2,277,910</u>
<b>Total Liabilities</b>	<u>2,613,738</u>
<b><u>Net Assets</u></b>	
Invested in capital assets, net of related debt	3,079,172
Unrestricted	1,191,149
<b>Total Net Assets</b>	<u>\$ 4,270,321</u>

See Notes to Financial Statements.

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**CITY OF NASSAU BAY, TEXAS**  
**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS**  
**PROPRIETARY FUND**

For the Year Ended September 30, 2012

	Business-Type Activities
	Enterprise Fund
<b><u>Operating Revenues</u></b>	
Water charges	\$ 1,104,421
Sewer charges	1,061,561
Penalties and reconnect fees	42,986
Other revenues	29,585
<b>Total Operating Revenues</b>	<b>2,238,553</b>
<b><u>Operating Expenses</u></b>	
General and administrative	992,810
Water expenses	269,352
Sewer expenses	225,269
Depreciation	233,363
<b>Total Operating Expenses</b>	<b>1,720,794</b>
<b>Operating Income</b>	<b>517,759</b>
<b><u>Nonoperating Revenues (Expenses)</u></b>	
Investment earnings	5,532
Interest expense	(174,043)
<b>Total Nonoperating Revenues (Expenses)</b>	<b>(168,511)</b>
<b>Income Before Transfers</b>	<b>349,248</b>
Capital contribution	129,500
Transfers (out)	(228,984)
<b>Change in Net Assets</b>	<b>249,764</b>
Beginning net assets	4,020,557
<b>Ending Net Assets</b>	<b>\$ 4,270,321</b>

See Notes to Financial Statements.

# CITY OF NASSAU BAY, TEXAS

## STATEMENT OF CASH FLOWS

### PROPRIETARY FUND (Page 1 of 2)

For the Year Ended September 30, 2012

	<u>Business-Type Activities</u>
	<u>Enterprise Fund</u>
<b><u>Cash Flows from Operating Activities</u></b>	
Receipts from customers	\$ 2,296,868
Payments to suppliers	(516,603)
Payments to employees	(884,080)
Net Cash Provided by Operating Activities	<u>896,185</u>
<b><u>Cash Flows from Noncapital Financing Activities</u></b>	
Transfers (out) to other funds	(228,984)
Net Cash (Used) by Noncapital Financing Activities	<u>(228,984)</u>
<b><u>Cash Flows from Capital and Related Financing Activities</u></b>	
Acquisition and construction of capital assets	(246,072)
Principal paid on debt	(85,000)
Interest and fiscal charges	(170,179)
Net Cash (Used) by Capital and Related Financing Activities	<u>(501,251)</u>
<b><u>Cash Flows from Investing Activities</u></b>	
Purchase of investments	(188,212)
Interest on investments	5,532
Net Cash (Used) by Investing Activities	<u>(182,680)</u>
Net (Decrease) in Cash and Cash Equivalents	(16,730)
Beginning cash and cash equivalents	<u>1,215,414</u>
Ending Cash and Cash Equivalents	<u>\$ 1,198,684</u>
<b>Ending Cash and Cash Equivalents:</b>	
Unrestricted cash and cash equivalents	\$ 1,062,182
Restricted cash and cash equivalents	<u>136,502</u>
	<u>\$ 1,198,684</u>

# CITY OF NASSAU BAY, TEXAS

## STATEMENT OF CASH FLOWS PROPRIETARY FUND (Page 2 of 2) For the Year Ended September 30, 2012

	<u>Business-Type Activities</u> <u>Enterprise Fund</u>
<b><u>Reconciliation of Operating Income to Net Cash Provided by Operating Activities</u></b>	
Operating income	\$ 517,759
Adjustments to Reconcile Operating income to Net Cash Provided by Operating Activities:	
Depreciation	233,363
<b>Changes in Operating Assets and Liabilities:</b>	
<b>(Increase) Decrease in:</b>	
Accounts receivable	55,027
Due from other funds	(1,120)
<b>Increase (Decrease) in:</b>	
Accounts payable and accrued liabilities	84,385
Compensated absences	2,363
Customer deposits	4,408
<b>Net Cash Provided by Operating Activities</b>	<u>\$ 896,185</u>
 <b>Noncash Investing, Capital, and Financing Activities:</b>	
Contributions of capital assets from government	<u>\$ 129,500</u>

See Notes to Financial Statements.

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# CITY OF NASSAU BAY, TEXAS

## NOTES TO FINANCIAL STATEMENTS

For the Year Ended September 30, 2012

### I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### A. Reporting Entity

The City of Nassau Bay, Texas (the "City") was incorporated in June 1970 and adopted a "Home Rule Charter" in April 1973. The City operates under a Council – Manager form of government. The Mayor and six Council Members are elected from the City at large serving two-year terms. Currently, the City charter provides for a term limitation of four terms. The City Council is the principal legislative body of the City. The City Manager is appointed by a majority vote of the City Council and is responsible for the administration of all affairs of the City. The City Manager is responsible for law enforcement, appointment and removal of department directors and employees, supervision and control of all City departments, and preparation of the annual budget. The Mayor presides at meetings of the City Council and can vote.

The City provides the following services: public safety, public works, public services, economic development, tourism, water and sewer services, and general administration.

The City is an independent political subdivision of the State and is considered a primary government. As required by generally accepted accounting principles, these basic financial statements have been prepared based on considerations regarding the potential for inclusion of other entities, organizations, or functions as part of the City's financial reporting entity. The component units, as listed below, although legally separate, are considered part of the reporting entity. No other entities have been included in the City's reporting entity. Additionally, as the City is considered a primary government for financial reporting purposes, its activities are not considered a part of any other governmental or other type of reporting entity.

Considerations regarding the potential for inclusion of other entities, organizations, or functions in the City's financial reporting entity are based on criteria prescribed by generally accepted accounting principles. These same criteria are evaluated in considering whether the City 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 City's financial reporting entity status is that of a primary government are that it has a separately elected governing body, it is a legally separate entity 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.

#### **Discretely Presented Component Units**

##### **Nassau Bay Economic Development Corporation**

Nassau Bay Economic Development Corporation (the "Corporation") has been included in the reporting entity as a discretely presented component unit. The citizens of Nassau Bay approved an additional one-half of one percent sales and use tax on November 4, 1997. The Corporation was created to encourage the retention of business enterprises and the promotion and development of new and expanded business enterprises within the City. The Board of Directors is appointed by the City Council and includes the Mayor, three City Council members, and three residents not affiliated with the City government. City Council approval is required for annual budgets. In the event of

**CITY OF NASSAU BAY, TEXAS**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**  
For the Year Ended September 30, 2012

dissolution, net assets of the Corporation shall be conveyed to the City. The operations of the Corporation are presented as a governmental fund type. Separate financial statements of the Corporation may be obtained from the Finance Department of the City.

**NASA Area Management District**

NASA Area Management District (the "District") has been included in the reporting entity as a discretely presented component unit. The District was created to develop, encourage, and maintain employment, commerce, transportation, housing, tourism, recreation, the arts, entertainment, economic development, safety, and the public welfare in the District territory. The Board of Directors is appointed by the City Council. The District began collecting a sales tax in March 2008 to finance these activities.

**Blended Component Units**

**Tax Increment Reinvestment Zone #1**

During fiscal year 2008, the City passed an ordinance creating a Tax Increment Reinvestment Zone #1 (TIRZ), in accordance with Section 311.005 of the Texas Tax Code, for the purpose of tax increment financing in order to facilitate the development of a mixed use commercial development, which may include a hotel, office buildings, residential units, and retail developments. The TIRZ includes participation by a developer and another governmental entity, the NASA Area Management District. Under this arrangement, increases in property taxes will be utilized to pay for certain infrastructure costs. Such taxes are controlled by a Board of Directors appointed by the City managing the TIRZ and accounted for as a special revenue fund with the City's financial oversight.

**Nassau Bay Redevelopment Authority**

Nassau Bay Redevelopment Authority (the "Authority") has been included in the reporting entity as a blended component unit. The Authority has been created to assist and act on behalf of the City in the performance of the City's governmental and proprietary functions with respect to the common good and general welfare of the area included in the TIRZ. During fiscal year 2010, the City passed a formal agreement (the "Agreement") between the City, the Authority, and the TIRZ in which the Authority will facilitate the implementation of the TIRZ plan and assist the City with reimbursement to the Developer participating in the TIRZ. Reimbursement to the Developer will be made through the issuance of bonds and with certain other monies available to the Authority but only after consent of the City Council. Efforts of the Authority will be financed using tax increments from the TIRZ as outlined in the Agreement. Such taxes are controlled by a Board of Directors appointed by the City managing the Authority and accounted for as a special revenue fund with the City's financial oversight.

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

The government-wide financial statements (i.e., the Statement of Net Assets and the Statement of Activities) report information about the City as a whole. These statements include all activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

**CITY OF NASSAU BAY, TEXAS**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**  
For the Year Ended September 30, 2012

The Statement of Activities presents a comparison between direct expenses and program revenues for each segment of the business-type activities of the City and for each function of the City's governmental activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. Program revenues include charges paid by the recipients of goods or services offered by the programs and grants that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, such as taxes and investment earnings, are presented as general revenues.

Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual proprietary funds are reported as separate columns in the fund financial statements. In the fund financial statements, the accounts of the City are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues, and expenditures or expenses, as appropriate. Following is a description of the various funds:

**Governmental Funds**

Governmental funds are those funds through which most governmental functions are typically financed.

**General Fund**

The general fund is used to account for all financial transactions not properly includable in other funds. The principal sources of revenues include local property taxes, sales and franchise taxes, licenses and permits, fines and forfeitures, and charges for services. Expenditures include general government, public safety, public works, and public services. The general fund is always considered a major fund for reporting purposes.

**Special Revenue Funds**

The special revenue funds are used to account for proceeds of specific revenue sources that are legally restricted to expenditures for specified purposes. The special revenue funds include tourism, streets, tax increment reinvestment zone #1 (TIRZ), Nassau Bay redevelopment authority (Authority), and special revenue and grants. The special revenue and grants fund is considered a major fund for reporting purposes while the tourism, streets, TIRZ, and Authority funds are considered nonmajor funds.

**Debt Service Fund**

The debt service fund is used to account for the payment of interest and principal on all general obligation bonds and other long-term debt of the City. The primary source of revenue for debt service is local property taxes. The debt service fund is considered a nonmajor fund for reporting purposes, but the City has elected to present it as major due to its significance.

**Capital Projects Fund**

The capital projects fund is used to account for the expenditures of resources accumulated from certificates of obligation and tax notes, as well as related interest earnings for capital

**CITY OF NASSAU BAY, TEXAS**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**  
For the Year Ended September 30, 2012

improvement projects. The capital projects fund is considered a nonmajor fund for reporting purposes.

**Proprietary Fund Types**

Proprietary funds are used to account for activities that are similar to those often found in the private sector. All assets, liabilities, equities, revenues, expenses, and transfers relating to the government's business activities are accounted for through proprietary funds. The measurement focus is on determination of net income, financial position, and cash flows. Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues include charges for services. Operating expenses include costs of materials, contracts, personnel, and depreciation. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses. Proprietary fund types follow GAAP prescribed by the Governmental Accounting Standards Board (GASB) and all Financial Accounting Standards Board's standards issued prior to November 30, 1989. Subsequent to this date, the City accounts for its enterprise funds as presented by GASB.

The proprietary fund types used by the City include the following:

**Enterprise Fund**

The enterprise fund is used to account for the operations that provide water and wastewater collection and wastewater treatment operations. The services are financed and operated in a manner similar to private business enterprises where the intent of the governing body is that the costs (expenses including depreciation) of providing goods or services to the general public on a continuing basis will be financed or recovered primarily through user charges. The enterprise fund is considered a major fund for reporting purposes.

**C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation**

The government-wide Statements of Net Assets and Statements of Activities and all proprietary funds 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. Government-wide and proprietary fund equity consists of net assets. Operating statements of these funds present increases (i.e., revenues) and decreases (i.e., expenses) in net total assets.

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All governmental funds and blended component units are accounted for using a current financial resources measurement focus, modified accrual basis of accounting. 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.

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 City considers revenues available if they are collected within 60 days of the end of the current period.

**CITY OF NASSAU BAY, TEXAS**  
*NOTES TO FINANCIAL STATEMENTS (Continued)*  
For the Year Ended September 30, 2012

Property taxes, sales taxes, franchise taxes, and interest associated with the current period are all considered to be susceptible to accrual and so have been recognized as revenues of the current period. Other receipts and other taxes become measurable and available when cash is received by the government and are recognized as revenue at that time.

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.

Under the accrual basis of accounting, revenues are recognized in the accounting period in which they are earned, and expenses in the accounting period in which they are incurred.

**D. Assets, Liabilities, and Net Assets or Fund Equity**

**1. Deposits and Investments**

The City's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition. For the purpose of the statement of cash flows, the proprietary fund types consider temporary investments with maturity of three months or less when purchased to be cash equivalents.

The City maintains a pooled cash and investments account for all funds of the City. Each fund's positive equity in the pooled cash account is presented as cash and cash equivalents or investments. Interest income is allocated to each respective individual fund monthly based on their representative fund balances.

In accordance with GASB Statement No. 31, *Accounting and Reporting for Certain Investments and External Investment Pools*, the City reports all investments at fair value, except for "money market investments" and "2a7-like pools." Money market investments, which are short-term highly liquid debt instruments that may include U.S. Treasury and agency obligations, are reported at amortized costs. Investment positions in external investment pools that are operated in a manner consistent with the SEC's Rule 2a7 of the Investment Company Act of 1940, such as TexPool are reported using the pools' share price.

The City has adopted a written investment policy regarding the investment of its funds as defined in the Public Funds Investment Act, Chapter 2256, Texas Government Code. In summary, the City is authorized to invest in the following:

- Obligations of the U.S. Treasury
- Fully collateralized certificates of deposit and money market accounts with local depository banks
- Local government investment pools
- Repurchase agreements

**2. Receivables**

Transactions between funds that are representative of lending/borrowing arrangements outstanding at the end of the year are referred to as either "interfund receivables/payables" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds" in

**CITY OF NASSAU BAY, TEXAS**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**  
For the Year Ended September 30, 2012

the fund financial statements. If the transactions are between the primary government and its component units, these receivables and payables are classified as “due to/from component units/primary government.” Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as “internal balances.”

Advances between funds are offset by a fund balance reserve account in an applicable governmental fund to indicate they are not available for appropriation and are not expendable, available financial resources.

All trade receivables are shown net of an allowance for uncollectibles.

Property taxes

Property taxes are levied on October 1 of each year, are due upon receipt of the City’s tax bill, and become delinquent on February 1 of the following year. The City’s tax lien exists from January 1 (the assessment date) each year until the taxes are paid.

**3. Inventories and Prepaid Items**

The costs of governmental fund type inventories are recorded as expenditures when the related liability is incurred (i.e., the purchase method). Certain payments to vendors reflect costs applicable to future accounting periods (prepaid expenditures) are recognized as expenditures when utilized.

**4. Capital Assets**

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. In accordance with GASB Statement No. 34, infrastructure has been capitalized retroactively. Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000 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 capital assets are recorded at estimated fair market value at the date of donation. Major outlays for capital assets and improvements are capitalized as projects are constructed.

Interest costs incurred in connection with construction of enterprise fund capital assets are capitalized when the effects of capitalization materially impact the financial statements.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets’ lives are not capitalized.

Property, plant, and equipment of the primary government are depreciated using the straight-line method over the following estimated useful years.

<u>Asset Description</u>	<u>Estimated Useful Life</u>
Machinery and equipment	1 to 20 years
Buildings and improvements	10 to 50 years
Water and sewer system	10 to 45 years

**CITY OF NASSAU BAY, TEXAS**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**  
For the Year Ended September 30, 2012

**5. Compensated Employee Absences**

It is the City's policy to permit employees to accumulate earned but unused vacation up to a maximum of 40 days. Compensatory time not used can also be accumulated. Vacation and compensatory time amounts accumulated may be paid to employees upon termination of employment or at retirement. The City also allows employees to accumulate unused sick leave up to a maximum of 100 days. Upon severance, any full-time employee will receive a percentage of the accumulated sick leave paid at the employee's current rate of compensation based on years of service with the City. The estimated amount of compensation for services provided that is expected to be liquidated with expendable, available financial resources are reported as an expenditure and a fund liability of the governmental fund that will pay it when it becomes due. Amounts of vested or accumulated vacation leave that are not expected to be liquidated with expendable, available financial resources are maintained separately and represent a reconciling item between the fund and government-wide presentations.

**6. Long-Term Obligations**

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities or business-type activities column on the Statement of Net Assets. The long-term debt consists primarily of certificates of obligation payable and accrued compensated absences.

Long-term debt for governmental funds is not reported as a liability in the fund financial statements until due. The debt proceeds are reported as other financing sources, net of the applicable premium or discount and payments of principal and interest are reported as expenditures. In the governmental fund types, issuance costs, even if withheld from the actual net proceeds received, are reported as debt service expenditures. However, claims and judgments paid from governmental funds are reported as a liability in the fund financial statements only for the portion expected to be financed from expendable, available financial resources.

Long-term debt and other obligations, financed by proprietary funds, are reported as liabilities in the appropriate funds. For proprietary fund types, bond premiums, discounts and issuance costs are deferred and amortized over the life of the bonds using the effective interest method, if material. Bonds payable are reported net of the applicable bond premium or discount. Issuance costs are reported as deferred charges.

The property tax rate is allocated each year between the general and debt service funds. The full amount estimated to be required for debt service on general obligation debt is provided by the tax along with interest earned in the debt service fund. Though a portion of the general obligation debt was directly related to the purchase of water and sewer infrastructure, the debt service expenditures are included in the governmental fund financial statements as they are expected to be paid from debt service tax revenues instead of water system revenues.

Assets acquired under the terms of capital leases are recorded as liabilities and capitalized in the government-wide financial statements at the present value of net minimum lease payments at inception of the lease. In the year of acquisition, capital lease transactions are recorded as other financing sources and as capital outlay expenditures in the general fund. Lease payments representing both principal and interest are recorded as expenditures in the general fund upon payment, with an appropriate reduction of principal recorded in the government-wide financial statements.

**CITY OF NASSAU BAY, TEXAS**  
*NOTES TO FINANCIAL STATEMENTS (Continued)*  
For the Year Ended September 30, 2012

**7. Fund Equity**

Fund balances of governmental funds are classified as follows:

Nonspendable fund balance – represents amounts that cannot be spent because they are either in nonspendable form (such as inventory or prepaid insurance) or are legally required to remain intact (such as notes receivable or principal of a permanent fund).

Restricted fund balance – represents amounts that are constrained by external parties, constitutional provisions, or by enabling legislation.

Committed fund balance – represents amounts constrained to specific purposes by the City itself, using its highest level of decision-making authority (i.e., City Council). To be reported as committed, amounts cannot be used for any other purpose unless the City takes the same highest level action to remove or change the constraint. The commitment must be made prior to year end.

Assigned fund balance – represents amounts the City intends to use for a specific purpose. Intent can be expressed by the City Council or by an official or body to which the City Council delegates the authority. In governmental funds other than the general fund, assigned fund balance represents the amount that is not restricted or committed. This indicates that resources in other governmental funds are, at a minimum, intended to be used for the purpose of that fund. Assignments can be made at any time.

Unassigned fund balance – represents amounts that are available for any purpose. Positive amounts are reported only in the general fund. Other governmental funds might report a negative balance in this classification because of overspending for specific purposes for which amounts had been restricted, committed, or assigned.

When an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available, the City considers restricted funds to have been spent first. When an expenditure is incurred for which committed, assigned, or unassigned fund balances are available, the City considers amounts to have been spent first out of committed, then assigned funds, and finally unassigned funds.

The City Council is the government's highest level of decision-making authority and the formal action that is required to be taken to establish, modify, or rescind a fund balance commitment is an ordinance approved by the Council. The ordinance must either be approved or rescinded, as applicable, prior to the last day of the fiscal year for which the commitment is made. The amount subject to the constraint may be determined in the subsequent period.

The City Council has the authority to assign fund balance to a specific purpose as approved by the City's fund balance policy.

The City strives to maintain an unassigned fund balance of not less than 90 days of expenditures. The purpose of the unassigned balance is to alleviate significant unanticipated budget shortfalls and to ensure the orderly provisions of services to citizens. If unassigned fund balance falls below the goal or has a deficiency, the City will seek to reduce expenditures prior to increasing revenues to replenish fund balance within a reasonable timeframe.

**CITY OF NASSAU BAY, TEXAS**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**  
For the Year Ended September 30, 2012

**8. Estimates**

The preparation of financial statements, in conformity with generally accepted accounting principles, 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 revenues and expenditures/expenses during the reporting period. Actual results could differ from those estimates.

**II. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY**

Annual budgets are adopted on a basis consistent with generally accepted accounting principles (GAAP). The original budget is adopted by the City Council prior to the beginning of the year. The legal level of control as defined by the charter in the approved budget is the department level. The City Manager may transfer appropriations within a department without seeking the approval of City Council. Appropriations lapse at the end of the year. Encumbrance accounting is not utilized.

**III. DETAILED NOTES ON ALL FUNDS**

**A. Deposits and Investments**

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

<u>Investment Type</u>	<u>Fair Value</u>	<u>Weighted Average Maturity (Years)</u>
Certificates of deposits	\$ 1,997,278	0.30
External investment pools	128,513	0.00
<b>Total Fair Value</b>	<b>\$ 2,125,791</b>	
Portfolio weighted average maturity		0.28

*Interest rate risk.* In accordance with the City investment policy, the City manages its exposure to declines in fair values by structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations.

*Credit risk.* The City's investment policy limits investments in money market mutual funds rated as to investment quality not less than AAA by at least one nationally recognized rating service. As of September 30, 2012, the City's investment in TexPool was rated AAAM by Standard & Poor's. The City's investment policy also requires repurchase agreements to be fully collateralized as described in the Public Funds Investment Act. The purchased securities shall have a minimum market value, including accrued interest, of 102 percent of the dollar value of the transaction. The City's investment in U.S. agency securities, held as of September 30, 2012, were rated not less than AAA 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 City's deposits may not be returned to it. As of September 30, 2012, the bank balances were \$4,354,323, \$1,113,826 of which was insured by FDIC. The market values of pledged securities were \$4,042,276.

*Custodial credit risk – investments.* For an investment, this is the risk that, in the event of the failure of the counterparty, the City will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The City's investment policy requires that it

**CITY OF NASSAU BAY, TEXAS**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**  
For the Year Ended September 30, 2012

will seek to safekeeping securities at financial institutions, avoiding physical possession. Further, all trades, where applicable, are executed by delivery versus payment to ensure that securities are deposited in the City's safekeeping account prior to the release of funds.

**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 to the office of the Comptroller of Public Accounts for review.

**B. Receivables**

The following comprise receivable balances at year end:

	<u>Governmental Funds</u>					<u>Proprietary Fund</u>
	<u>General</u>	<u>Debt Service</u>	<u>Special Revenue and</u>			<u>Enterprise</u>
			<u>Grants</u>	<u>Tourism</u>	<u>Streets</u>	
Accounts	\$ 29,455	\$ -	\$ 357,326	\$ -	\$ -	\$ 342,501
Property taxes	201,078	12,793	-	-	-	-
Sales taxes	109,612	-	-	-	27,403	-
Other taxes	93,038	-	-	120,353	-	-
Grants	-	-	87,082	-	-	-
Ambulance billing	903,954	-	-	-	-	-
Commercial trash	16,306	-	-	-	-	-
Less allowance	(943,513)	(12,319)	-	-	-	(8,569)
	<u>\$ 409,930</u>	<u>\$ 474</u>	<u>\$ 444,408</u>	<u>\$ 120,353</u>	<u>\$ 27,403</u>	<u>\$ 333,932</u>
	<u>Component Units</u>					
			<u>Nassau Bay</u>	<u>NASA Area</u>		
			<u>Economic Dev.</u>	<u>Management</u>		
			<u>Corp.</u>	<u>District</u>		
Sales taxes			<u>\$ 54,806</u>	<u>\$ 19,966</u>		

**CITY OF NASSAU BAY, TEXAS**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**  
For the Year Ended September 30, 2012

**C. Capital Assets**

A summary of changes in capital assets for governmental activities for the year end is as follows:

	<b>Beginning Balance</b>	<b>Increases</b>	<b>Decreases</b>	<b>Ending Balance</b>
<b>Governmental Activities:</b>				
Capital assets not being depreciated:				
Land	\$ 961,057	\$ -	\$ -	\$ 961,057
Construction in progress	2,513,691	522,416	(2,640,186)	395,921
	3,474,748	522,416	(2,640,186)	1,356,978
Other capital assets:				
Buildings	1,146,064	10,185	-	1,156,249
Improvements other than buildings	6,700,524	2,509,995	-	9,210,519
Machinery and equipment	2,674,846	250,917	(8,500)	2,917,263
Total other capital assets	10,521,434	2,771,097	(8,500)	13,284,031
<b>Total capital assets</b>	13,996,182	3,293,513	(2,648,686)	14,641,009
Less accumulated depreciation for:				
Buildings	(218,839)	(23,936)	-	(242,775)
Improvements other than buildings	(2,382,168)	(255,659)	-	(2,637,827)
Machinery and equipment	(1,830,634)	(166,194)	8,500	(1,988,328)
Total accumulated depreciation	(4,431,641)	(445,789)	8,500	(4,868,930)
<b>Other capital assets, net</b>	6,089,793	2,325,308	-	8,415,101
<b>Totals</b>	\$ 9,564,541	\$ 2,847,724	\$ (2,640,186)	9,772,079
			<b>Less associated debt</b>	(2,090,883)
			<b>Invested in capital assets, net of related debt</b>	\$ 7,681,196

All capital assets constructed or paid for with funds of the component units are titled in the City's name. Accordingly, component units' capital assets and construction in progress are recorded in the governmental activities totals.

Depreciation was charged to governmental functions as follows:

General government	\$ 15,868
Public safety	142,421
Public works	171,832
Public services	34,059
Economic development	81,609
<b>Total Governmental Activities Depreciation Expense</b>	<b>\$ 445,789</b>

**CITY OF NASSAU BAY, TEXAS**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**  
For the Year Ended September 30, 2012

The City has active governmental activities construction projects as of September 30, 2012. The projects include:

Project Description	Authorized Contract	Contract Expenditures	Remaining Commitment
Peninsula project	\$ 158,100	\$ 88,945	\$ 69,155
CDBG project	770,478	281,236	489,242
Total	<u>\$ 928,578</u>	<u>\$ 370,181</u>	<u>\$ 558,397</u>

The following is a summary of changes in capital assets for business-type activities for the year ended September 30, 2012:

	Beginning Balance	Increases	(Decreases)	Ending Balance
<b>Business-Type Activities:</b>				
Capital assets not being depreciated:				
Land	\$ 43,459	\$ -	\$ -	\$ 43,459
Construction in progress	-	206,930	-	206,930
	<u>43,459</u>	<u>206,930</u>	<u>-</u>	<u>250,389</u>
Other capital assets:				
Water and sewer system	6,198,470	152,530	-	6,351,000
Water rights, SEWPP	2,114,318	16,112	-	2,130,430
Machinery and equipment	279,265	-	-	279,265
<b>Total other capital assets</b>	<u>8,592,053</u>	<u>168,642</u>	<u>-</u>	<u>8,760,695</u>
Less accumulated depreciation for:				
Water and sewer system	(4,386,958)	(175,344)	-	(4,562,302)
Water rights, SEWPP	(828,673)	(51,250)	-	(879,923)
Machinery and equipment	(257,420)	(6,769)	-	(264,189)
<b>Total accumulated depreciation</b>	<u>(5,473,051)</u>	<u>(233,363)</u>	<u>-</u>	<u>(5,706,414)</u>
<b>Total capital assets, being depreciated, net</b>	<u>3,119,002</u>	<u>(64,721)</u>	<u>-</u>	<u>3,054,281</u>
<b>Business-Type Activities Capital Assets, Net</b>	<u>\$ 3,162,461</u>	<u>\$ 142,209</u>	<u>\$ -</u>	<u>3,304,670</u>
			<b>Less associated debt</b>	(2,360,000)
			<b>Plus unspent bond proceeds</b>	<u>2,134,502</u>
			<b>Invested in Capital Assets, Net of Related Debt</b>	<u>\$ 3,079,172</u>

Depreciation was charged to business-type functions as follows:

Water and sewer	<u>\$ 233,363</u>
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**CITY OF NASSAU BAY, TEXAS**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**  
For the Year Ended September 30, 2012

**D. Long-Term Debt**

The following is a summary of changes in the City's total long-term liabilities for the year ended September 30, 2012. In general, the City uses the general and debt service funds to liquidate long-term liabilities.

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
<b>Governmental Activities:</b>					
Compensated absences	\$ 204,391	\$ 188,171	\$ 169,830	\$ 222,732	\$ 200,458
General obligation debt:					
Certificates of obligation	1,950,015	-	328,339	1,621,676 *	339,978
Tax anticipation notes	135,000	-	65,000	70,000 *	70,000
<b>Total</b>	<u>2,289,406</u>	<u>188,171</u>	<u>563,169</u>	<u>1,914,408</u>	<u>610,436</u>
Obligations under capital leases					
Capital leases	494,046	-	94,839	399,207 *	91,949
<b>Total</b>	<u>494,046</u>	<u>-</u>	<u>94,839</u>	<u>399,207</u>	<u>91,949</u>
<b>Total Governmental Activities</b>	<u>\$ 2,783,452</u>	<u>\$ 188,171</u>	<u>\$ 658,008</u>	<u>\$ 2,313,615</u>	<u>\$ 702,385</u>
<b>Long-Term Liabilities Due In More Than One Year</b>				<u>\$ 1,611,230</u>	
				<u>*Debt Associated with Capital Assets</u>	<u>\$ 2,090,883</u>
<b>Business-Type Activities:</b>					
Compensated absences	\$ 26,741	\$ 16,810	\$ 14,447	\$ 29,104	\$ 26,194
Certificates of obligation	2,445,000	-	85,000	2,360,000 *	85,000
<b>Total Business-Type Activities</b>	<u>\$ 2,471,741</u>	<u>\$ 16,810</u>	<u>\$ 99,447</u>	<u>\$ 2,389,104</u>	<u>\$ 111,194</u>
<b>Long-Term Liabilities Due In More Than One Year</b>				<u>\$ 2,277,910</u>	
				<u>*Debt Associated with Capital Assets</u>	<u>\$ 2,360,000</u>

**CITY OF NASSAU BAY, TEXAS**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**  
For the Year Ended September 30, 2012

Long-term liabilities applicable to the City's governmental activities are not due and payable in the current period and, accordingly, are not reported as fund liabilities in the governmental funds. The governmental activities' compensated absences are generally liquidated by the general fund. Interest on long-term debt is not accrued in governmental funds, but rather is recognized as an expenditure when due.

Long-term governmental debt at year end was comprised of the following debt issues:

Description	Interest Rates (%)	Balance
<b>General obligation debt:</b>		
<b>Certificates of obligation</b>		
Series 2002	4.80	\$ 71,676
Series 2006	4.25-4.33	340,000
Series 2007	5.15-6.00	520,000
Series 2008	3.09	690,000
<b>Total Certificates of Obligation</b>		<b>1,621,676</b>
<b>Tax anticipation notes</b>		
Series 2006	4.105-4.212	70,000
<b>Total Tax Notes</b>		<b>70,000</b>
<b>Capital Leases</b>		
Oshkosh Capital	5.49	399,207
<b>Total Capital Leases</b>		<b>399,207</b>
<b>Total General Obligation Debt</b>		<b>\$ 2,090,883</b>

The annual requirements to amortize debt issues outstanding at year end are as follows:

Year Ending Sept. 30	Certificates of Obligation		Tax Note		Capital Leases		Total
	Principal	Interest	Principal	Interest	Principal	Interest	
2013	\$ 339,978	\$ 53,932	\$ 70,000	\$ 1,474	\$ 91,949	\$ 21,916	\$ 465,384
2014	351,698	40,686	-	-	96,997	16,869	392,384
2015	330,000	27,828	-	-	102,322	11,543	357,828
2016	340,000	15,399	-	-	107,939	5,926	355,399
2017	260,000	4,546	-	-	-	-	264,546
<b>Total</b>	<b>\$ 1,621,676</b>	<b>\$ 142,391</b>	<b>\$ 70,000</b>	<b>\$ 1,474</b>	<b>\$ 399,207</b>	<b>\$ 56,254</b>	<b>\$ 1,835,541</b>

**CITY OF NASSAU BAY, TEXAS**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**  
For the Year Ended September 30, 2012

Long-term business-type debt at year end was comprised of the following debt issues:

Description	Interest Rates (%)	Balance
<b>General obligation debt:</b>		
<b>Certificates of obligation</b>		
Series 2011	2.24-5.29	\$ 2,360,000
<b>Total Certificates of Obligation</b>		<b>\$ 2,360,000</b>

The annual requirements to amortize debt issues outstanding at year end are as follows:

Year	Certificates of Obligation	
Ending Sept. 30	Principal	Interest
2013	\$ 85,000	\$ 102,545
2014	90,000	100,495
2015	90,000	98,119
2016	95,000	95,373
2017	95,000	92,319
2018-2022	545,000	402,757
2023-2027	680,000	264,793
2028-2031	680,000	74,007
<b>Total</b>	<b>\$ 2,360,000</b>	<b>\$ 1,230,408</b>

Machinery and equipment acquired under current capital lease obligations was a total of \$697,589. This is from the issuance of two capital leases through Oshkosh Capital to acquire a new fire truck and Ford Motor Credit Company to acquire a new Ford Expedition. At year end, the fire truck had accumulated depreciation of \$134,151 and a net value of \$536,604, and the Expedition had \$26,834 and \$0 net value, respectively.

Certificates of obligation are direct obligations of the City for which its full faith and credit are pledged. Repayment is from taxes levied on all taxable property located within the City and from the water and sewer system revenues. Series 2006 tax notes repayment is from sales tax from the Nassau Bay Economic Development Corporation.

**CITY OF NASSAU BAY, TEXAS**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**  
For the Year Ended September 30, 2012

**E. Interfund Transactions**

Transfers between the primary government funds during the year were as follows:

<u>Transfer Out</u>	<u>Transfer In</u>	<u>Amounts</u>
General	Nonmajor governmental	\$ 35,000
Nonmajor governmental	Nonmajor governmental	212,328
Enterprise	Debt service	228,984
		<u>\$ 476,312</u>

Amounts transferred between funds related to amounts collected by general, enterprise, and nonmajor governmental funds for various governmental expenditures and debt payments. The amount transferred between nonmajor funds relates to a transfer of revenue from the TIRZ to the RDA as part of a tri-party agreement between the two funds and the City.

The compositions of interfund balances as of year end were as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amounts</u>
General	Nonmajor governmental	\$ 2,959
General	Special revenue and grants	3,826
Enterprise	General	224
Enterprise	Special revenue and grants	896
		<u>\$ 7,905</u>

Amounts recorded as due to/from are considered to be temporary loans and will be repaid during the following year.

**IV. OTHER INFORMATION**

**A. Risk Management**

The City is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; and natural disasters for which the City participates along with 2,617 other entities in the Texas Municipal League's Intergovernmental Risk Pools. The Pool purchases commercial insurance at group rates for participants in the Pool. The City has no additional risk or responsibility to the Pool, outside of the payment of insurance premiums. The City has not significantly reduced insurance coverage or had settlements, which exceeded coverage amounts for the past three years.

**B. Contingent Liabilities**

Amounts received or receivable from granting agencies are subject to audit and adjustment by grantor agencies, principally the federal government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount of expenditures which may be disallowed by the grantor cannot be determined at this time although the City expects such amounts, if any, to be immaterial.

The City is a defendant in several lawsuits. Although the outcome of the lawsuits is not presently determinable, it is the opinion of the City's counsel that resolution of these matters will not have a material adverse effect on the financial condition of the City.

**CITY OF NASSAU BAY, TEXAS**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**  
For the Year Ended September 30, 2012

Liabilities are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. Liabilities include an amount for claims that have been incurred but not reported. Claim liabilities are calculated considering the effects of inflation, recent claim settlement trends including frequency and amount of payouts, and other economic and social factors. No claim liabilities are reported at year end.

**C. Pension Plans**

**Texas Municipal Retirement System**

Plan Description

The City provides pension benefits for all of its full-time 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 for TMRS. The report also provides detailed explanations of the contributions, benefits and actuarial methods and assumptions used by TMRS. This report may be obtained from TMRS' website at [www.TMRS.com](http://www.TMRS.com).

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>2012</u>	<u>2011</u>
Employee deposit rate	7.00%	5.00%
Matching ratio (City to employee)	2 to 1	2 to 1
Years required for vesting	5	5
Service requirement eligibility (expressed as age/yrs of service)	60/5, 0/20	60/5, 0/25
Updated service credit	50% Repeating, Transfers	50% Repeating, Transfers
Annuity increase (to retirees)	70% of CPI Repeating	70% of CPI Repeating

Benefits

Upon retirement, benefits depend upon the sum of the employee's contributions to the plan, with interest, and the City-financed monetary credits, with interest. City-financed monetary credits are composed of three sources: prior service credits, current service credits, and updated service credits. At the date the plan began, the City granted monetary credits for service rendered before the plan began of a theoretical amount at least equal to two times what would have been contributed by the employee, with interest, prior to establishment of the plan. Monetary credits for service since the plan began are a percent (100%, 150%, or 200%) of the employee's accumulated contributions. In addition, the City can grant, as often as annually, another type of monetary credit referred to as an updated service credit. This is a theoretical amount which, when added to the employee's accumulated contributions and the monetary credits for service since the plan began, would be the total monetary credits and employee contributions accumulated with interest if the current employee contribution rate and City matching percent had always been in existence, and if the employee's salary had always been the average of his salary in the last three years that are one year before the

**CITY OF NASSAU BAY, TEXAS**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**  
For the Year Ended September 30, 2012

effective date. At retirement, the benefit is calculated as if the sum of the employee's accumulated contributions, with interest, and the employer-financed monetary credits, with interest, were used to purchase an annuity.

Contributions

Under the state law governing TMRS, the contribution rate for each city is determined annually by the actuary, using the Projected Unit Credit actuarial cost method. This rate consists of the normal cost contribution 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 remainder of the plan's 30-year amortization period. 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.

Three-year trend information for the annual pension cost (APC) is as follows:

<u>Fiscal Year</u>	<u>Annual Pension Cost (APC)</u>	<u>Actual Contribution Made</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
2010	\$ 252,699	\$ 252,699	100.00%	\$ -
2011	\$ 242,960	\$ 242,960	100.00%	\$ -
2012	\$ 277,066	\$ 277,066	100.00%	\$ -

**CITY OF NASSAU BAY, TEXAS**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**  
For the Year Ended September 30, 2012

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

	<u>2012</u>	<u>2011</u>	<u>2010</u>
Actuarial Valuation Date	12/31/2011	12/31/2010	12/31/2009
Actuarial Cost Method	Projected Unit Credit	Projected Unit Credit	Projected Unit Credit
Amortization Method	Level % of Payroll	Level % of Payroll	Level % of Payroll
Remaining Amortization Period	27.6 Years - Closed period	28.2 Years - Closed period	28.2 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
Investment Rate of Return	7.0%	7.0%	7.5%
Projected Salary Increases	Varies by age and service	Varies by age and service	Varies by age and service
Includes Inflation at	3.00%	3.00%	3.00%
Cost of Living Adjustments	2.1%	2.1%	2.1%

Funded Status and Funding Progress

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

	<u>2012</u>
Actuarial Valuation Date	12/31/2011
Actuarial Value of Assets	\$ 3,376,136
Actuarial Accrued Liability	6,368,898
Percentage Funded	53.0%
Unfunded Actuarial Accrued Liability (UAAL)	\$ 2,992,762
Annual Covered Payroll	\$ 2,398,970
UAAL as a Percentage of Covered Payroll	124.8%

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events far into the future. Actuarially determined amounts are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future.

Actuarial calculations are based on the benefits provided under the terms of the substantive plan in effect at the time of each valuation and reflect a long-term perspective. Consistent with that perspective, actuarial methods and assumptions used include techniques that are designed to reduce

**CITY OF NASSAU BAY, TEXAS**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**  
For the Year Ended September 30, 2012

short-term volatility in actuarial accrued liabilities and the actuarial value of assets. 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 benefits.

**D. Other Post Employment Benefits**

**TMRS - Supplemental Death Benefit Fund**

Plan Description

The City also participates in the cost sharing multiple-employer defined benefit group-term life insurance plan operated by 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.

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. The obligations of this plan are payable only from the SDBF and are not an obligation of, or a claim against, the Pension Trust Fund. For the year ended September 30, 2012, the City offered the supplemental death benefit to both active and retired employees.

Contributions

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

The City's contributions to the TMRS SDBF for the fiscal years ended 2012, 2011, and 2010 were \$246, \$233, and \$227, respectively. The City's contribution rates for the past three years are shown below:

	<u>2012</u>	<u>2011</u>	<u>2010</u>
Annual Req. Contrib. (Rate)	0.01%	0.01%	0.01%
Actual Contribution Made	0.01%	0.01%	0.01%
Percentage of ARC Contrib.	100.00%	100.00%	100.00%

**E. Deferred Compensation Plan**

The City offers its employees a deferred compensation plan (the "Plan") created in accordance with the Internal Revenue Code Section 457. The Plan, available to all City employees, permits them to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death, or an unforeseeable emergency. The plan's trust arrangements are established to protect deferred compensation amounts of employees under the plan from any other use than intended under the plan (eventual payment to employees deferring the

**CITY OF NASSAU BAY, TEXAS**  
*NOTES TO FINANCIAL STATEMENTS (Continued)*  
For the Year Ended September 30, 2012

compensation) in accordance with federal tax laws. Amounts of compensation deferred by employees under plan provisions are disbursed monthly by the City to a third party administrator. The third party administrator handles all funds in the plan and makes investment decisions and disburses funds to employees in accordance with plan provisions.

**F. Joint Ventures**

Southeast Water Purification Plant

On February 24, 1988, the City entered into a joint venture agreement (the "Venture") with the City of Houston, Gulf Coast Water Authority (the City of Galveston and the City of League City), the City of Webster, Clear Brook City Municipal Utility District, the LaPorte Area Water Authority, the Harris County Municipal Utility District No. 55, the City of Pasadena, the City of South Houston, the City of Friendswood, and Baybrook Municipal Utility District No. 1 for the construction and operation of the Southeast Water Purification Plant (SEWPP). The City of Houston acts as the managing participant in the Venture. Members of the Venture are entitled to their proportionate share of the plant's water production and share its operating costs on the same basis. The City's percentage of ownership in SEWPP is 1.95 percent. As of September 30, 2012, the City's total investment in SEWPP totaled \$2,130,431. The net investment reported is \$1,250,507, which includes accumulated depreciation of \$879,924.

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***REQUIRED SUPPLEMENTARY INFORMATION***

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**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, 2012

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original Budget</u>	<u>Budget as Amended</u>		
<b><u>Revenues</u></b>				
Property taxes	\$ 2,881,495	\$ 2,645,095	\$ 2,637,194	\$ (7,901)
Sales taxes	424,400	424,400	488,872	64,472
Other taxes	397,000	397,000	459,275	62,275
Licenses and permits	131,550	131,550	138,673	7,123
Fines and forfeitures	137,550	137,550	201,408	63,858
Charges for services	161,000	209,000	278,193	69,193
Investment income	3,500	3,500	7,273	3,773
Other revenues	52,520	63,520	120,728	57,208
<b>Total Revenues</b>	<u>4,189,015</u>	<u>4,011,615</u>	<u>4,331,616</u>	<u>320,001</u>
<b><u>Expenditures</u></b>				
<b>Current:</b>				
General government	1,102,481	1,241,511	1,103,896	137,615
Public safety	1,867,731	1,951,831	1,936,002	15,829
Public works	829,085	857,285	808,720	48,565
Public services	370,300	353,010	332,932	20,078
<b>Total Expenditures</b>	<u>4,169,597</u>	<u>4,403,637</u>	<u>4,181,550</u>	<u>222,087</u>
<b>Revenues Over (Under) Expenditures</b>	<u>19,418</u>	<u>(392,022)</u>	<u>150,066</u>	<u>542,088</u>
<b><u>Other Financing Sources (Uses)</u></b>				
Sale of capital assets	-	-	3,000	3,000
Transfer out	(266,400)	(35,000)	(35,000)	-
<b>Total Other Financing (Uses)</b>	<u>(266,400)</u>	<u>(35,000)</u>	<u>(32,000)</u>	<u>3,000</u>
<b>Net Change in Fund Balance</b>	<u>\$ (246,982)</u>	<u>\$ (427,022)</u>	<u>118,066</u>	<u>\$ 545,088</u>
Beginning fund balance			<u>1,544,841</u>	
<b>Ending Fund Balance</b>			<u>\$ 1,662,907</u>	

Notes to Required Supplementary Information:

1. Annual budgets are adopted on a basis consistent with generally accepted accounting principles (GAAP).

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**CITY OF NASSAU BAY, TEXAS**  
**SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES**  
**IN FUND BALANCE - BUDGET AND ACTUAL**  
**SPECIAL REVENUE AND GRANTS FUND**  
For the Year Ended September 30, 2012

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original Budget	Budget as Amended		
<b>Revenues</b>				
Intergovernmental	\$ 1,529,569	\$ 1,537,569	\$ 665,845	\$ (871,724)
Investment earnings	100	100	717	617
Other revenues	-	-	1,095	1,095
<b>Total Revenues</b>	1,529,669	1,537,669	667,657	(870,012)
<b>Expenditures</b>				
<b>Current:</b>				
Public safety	1,603,478	1,529,158	579,999	949,159
Public services	160,000	160,000	92,028	67,972
<b>Total Expenditures</b>	1,763,478	1,689,158	672,027	1,017,131
<b>Net Change in Fund Balance</b>	\$ (233,809)	\$ (151,489)	(4,370)	\$ 147,119
Beginning fund balance			303,903	
		<b>Ending Fund Balance</b>	\$ 299,533	

Notes to Required Supplementary Information:

1. Annual budgets are adopted on a basis consistent with generally accepted accounting principles (GAAP).

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**CITY OF NASSAU BAY, TEXAS**  
**SCHEDULE OF FUNDING PROGRESS**  
**TEXAS MUNICIPAL RETIREMENT SYSTEM**  
For the Year Ended September 30, 2012

The City's annual covered payroll and pension costs are actuarially valued on a calendar year basis. Because the City makes all the annually required contributions, no net pension obligation (NPO) exists. The information presented below represents the City's Schedule of Funding Progress.

Fiscal Year	<u>2012</u>	<u>2011</u>	<u>2010</u>
Actuarial Valuation Date	12/31/2011	12/31/2010	12/31/2009
Actuarial Value of Assets	\$ 3,376,136	\$ 2,913,782	\$ 2,043,040
Actuarial Accrued Liability	\$ 6,368,898	\$ 5,722,206	\$ 3,739,953
Percentage Funded	53.0%	50.9%	54.6%
Unfunded Actuarial			
Accrued Liability	\$ 2,992,762	\$ 2,808,424	\$ 1,696,913
Annual Covered Payroll	\$ 2,398,970	\$ 2,315,948	\$ 2,261,481
Unfunded Actuarial Accrued Liability			
(UAAL) % of Covered Payroll	124.8%	121.3%	75.0%
Net Pension Obligation (NPO)			
at the Beginning of Period	\$ -	\$ -	\$ -
Annual Req. Contrib. (ARC)	277,066	242,960	252,699
Contributions Made	277,066	242,960	252,699
<b>NPO at the End of Period</b>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>

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***COMBINING STATEMENTS AND SCHEDULES***

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**CITY OF NASSAU BAY, TEXAS**  
**SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES**  
**IN FUND BALANCE - BUDGET AND ACTUAL**  
**DEBT SERVICE FUND**

For the Year Ended September 30, 2012

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original Budget	Budget as Amended		
<b>Revenues</b>				
Property taxes	\$ 185,570	\$ 170,470	\$ 181,291	\$ 10,821
Intergovernmental	69,283	69,283	69,283	-
Investment earnings	330	330	502	172
<b>Total Revenues</b>	<u>255,183</u>	<u>240,083</u>	<u>251,076</u>	<u>10,993</u>
<b>Expenditures</b>				
<b>Current:</b>				
Principal	393,339	393,339	393,339	-
Interest and fiscal charges	71,758	71,758	71,752	6
<b>Total Expenditures</b>	<u>465,097</u>	<u>465,097</u>	<u>465,091</u>	<u>6</u>
<b>Revenues (Under) Expenditures</b>	<u>(209,914)</u>	<u>(225,014)</u>	<u>(214,015)</u>	<u>10,999</u>
<b>Other Financing Sources (Uses)</b>				
Transfers in	228,984	228,984	228,984	-
Transfers (out)	(15,100)	-	-	-
<b>Total Other Financing Sources</b>	<u>213,884</u>	<u>228,984</u>	<u>228,984</u>	<u>-</u>
<b>Net Change in Fund Balance</b>	<u>\$ 3,970</u>	<u>\$ 3,970</u>	14,969	<u>\$ 10,999</u>
Beginning fund balance			<u>193,966</u>	
		<b>Ending Fund Balance</b>	<u>\$ 208,935</u>	

Notes to Supplementary Information:

1. Annual budgets are adopted on a basis consistent with generally accepted accounting principles (GAAP).

# CITY OF NASSAU BAY, TEXAS

## COMBINING BALANCE SHEET

### NONMAJOR GOVERNMENTAL FUNDS

September 30, 2012

	Special Revenue Funds			
	Tourism	Streets	TIRZ #1	RDA
<b><u>Assets</u></b>				
Cash	\$ 142,117	\$ 315,888	\$ -	\$ 449,459
Receivables, net	120,353	27,403	-	-
<b>Total Assets</b>	<b>\$ 262,470</b>	<b>\$ 343,291</b>	<b>\$ -</b>	<b>\$ 449,459</b>
<b><u>Liabilities</u></b>				
Accounts payable and accrued liabilities	\$ 12,591	\$ 12,049	\$ -	\$ 13,214
Due to other funds	-	-	-	2,959
<b>Total Liabilities</b>	<b>12,591</b>	<b>12,049</b>	<b>-</b>	<b>16,173</b>
<b><u>Fund Balances</u></b>				
Restricted for:				
Enabling legislation	249,879	-	-	-
Capital projects	-	-	-	-
Special projects	-	331,242	-	433,286
<b>Total Fund Balances</b>	<b>249,879</b>	<b>331,242</b>	<b>-</b>	<b>433,286</b>
<b>Total Liabilities and Fund Balances</b>	<b>\$ 262,470</b>	<b>\$ 343,291</b>	<b>\$ -</b>	<b>\$ 449,459</b>

Capital Projects	Total Nonmajor Governmental Funds
\$ 418	\$ 907,882
<u>-</u>	<u>147,756</u>
<u>\$ 418</u>	<u>\$ 1,055,638</u>
\$ -	\$ 37,854
<u>-</u>	<u>2,959</u>
<u>-</u>	<u>40,813</u>
-	249,879
418	418
<u>-</u>	<u>764,528</u>
<u>418</u>	<u>1,014,825</u>
<u>\$ 418</u>	<u>\$ 1,055,638</u>

**CITY OF NASSAU BAY, TEXAS**  
**COMBINING STATEMENT OF REVENUES, EXPENDITURES,**  
**AND CHANGES IN FUND BALANCES**  
**NONMAJOR GOVERNMENTAL FUNDS**  
For the Year Ended September 30, 2012

	Special Revenue Funds			
	Tourism	Streets	TIRZ #1	RDA
<b>Revenues</b>				
Property taxes	\$ -	\$ -	\$ 212,328	\$ -
Sales taxes	-	122,218	-	-
Other taxes	498,816	-	-	-
Investment earnings	566	1,141	-	1,424
Other revenues	-	-	-	2
<b>Total Revenues</b>	<b>499,382</b>	<b>123,359</b>	<b>212,328</b>	<b>1,426</b>
<b>Expenditures</b>				
General government	-	-	-	76,169
Public works	-	14,469	-	-
Economic development/tourism	501,970	-	-	-
Capital outlay	-	-	-	-
<b>Total Expenditures</b>	<b>501,970</b>	<b>14,469</b>	<b>-</b>	<b>76,169</b>
<b>Revenues Over (Under) Expenditures</b>	<b>(2,588)</b>	<b>108,890</b>	<b>212,328</b>	<b>(74,743)</b>
<b>Other Financing Sources (Uses)</b>				
Transfers in	-	-	-	212,328
Transfers out	-	-	(212,328)	-
<b>Total Other Financing Sources (Uses)</b>	<b>-</b>	<b>-</b>	<b>(212,328)</b>	<b>212,328</b>
<b>Net Change in Fund Balances</b>	<b>(2,588)</b>	<b>108,890</b>	<b>-</b>	<b>137,585</b>
Beginning fund balances	252,467	222,352	-	295,701
<b>Ending Fund Balances</b>	<b>\$ 249,879</b>	<b>\$ 331,242</b>	<b>\$ -</b>	<b>\$ 433,286</b>

<u>Capital Projects</u>	<u>Total Nonmajor Governmental Funds</u>
\$ -	\$ 212,328
-	122,218
-	498,816
12	3,143
-	2
<u>12</u>	<u>836,507</u>
-	76,169
-	14,469
-	501,970
40,100	40,100
<u>40,100</u>	<u>632,708</u>
<u>(40,088)</u>	<u>203,799</u>
35,000	247,328
-	(212,328)
<u>35,000</u>	<u>35,000</u>
<u>(5,088)</u>	<u>238,799</u>
5,506	776,026
<u>\$ 418</u>	<u>\$ 1,014,825</u>

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**CITY OF NASSAU BAY, TEXAS**  
**SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES**  
**IN FUND BALANCE - BUDGET AND ACTUAL**  
**NONMAJOR SPECIAL REVENUE FUNDS**  
For the Year Ended September 30, 2012

<b>Tourism Fund</b>				<b>Variance with Final Budget Positive (Negative)</b>
<b>Budgeted Amounts</b>			<b>Actual</b>	
<b>Original Budget</b>	<b>Budget as Amended</b>			
<b>Revenues</b>				
Other taxes	\$ 502,000	\$ 502,000	\$ 498,816	\$ (3,184)
Investment earnings	350	350	566	216
<b>Total Revenues</b>	<u>502,350</u>	<u>502,350</u>	<u>499,382</u>	<u>(2,968)</u>
<b>Expenditures</b>				
<b>Current:</b>				
Economic development/tourism	538,660	538,660	501,970	36,690
<b>Total Expenditures</b>	<u>538,660</u>	<u>538,660</u>	<u>501,970</u>	<u>36,690</u>
<b>Net Change in Fund Balance</b>	<u>\$ (36,310)</u>	<u>\$ (36,310)</u>	<u>(2,588)</u>	<u>\$ 33,722</u>
Beginning fund balance			<u>252,467</u>	
		<b>Ending Fund Balance</b>	<u>\$ 249,879</u>	

<b>Streets Fund</b>				<b>Variance with Final Budget Positive (Negative)</b>
<b>Budgeted Amounts</b>			<b>Actual</b>	
<b>Original Budget</b>	<b>Budget as Amended</b>			
<b>Revenues</b>				
Sales taxes	\$ 106,100	\$ 106,100	\$ 122,218	\$ 16,118
Investment earnings	500	500	1,141	641
<b>Total Revenues</b>	<u>106,600</u>	<u>106,600</u>	<u>123,359</u>	<u>16,759</u>
<b>Expenditures</b>				
<b>Current:</b>				
Public works	222,880	222,880	14,469	208,411
<b>Total Expenditures</b>	<u>222,880</u>	<u>222,880</u>	<u>14,469</u>	<u>208,411</u>
<b>Net Change in Fund Balance</b>	<u>\$ (116,280)</u>	<u>\$ (116,280)</u>	<u>108,890</u>	<u>\$ 225,170</u>
Beginning fund balance			<u>222,352</u>	
		<b>Ending Fund Balance</b>	<u>\$ 331,242</u>	

Notes to Supplementary Information:

1. Annual budgets are adopted on a basis consistent with generally accepted accounting principles (GAAP).

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