

ANNUAL FINANCIAL REPORT

of the

CITY OF NASSAU BAY, TEXAS

For the Year Ended
September 30, 2013

(This page intentionally left blank.)

CITY OF NASSAU BAY, TEXAS

TABLE OF CONTENTS

September 30, 2013

<u>INTRODUCTORY SECTION</u>	<u>Page</u>
Principal Officials	3
<u>FINANCIAL SECTION</u>	
Independent Auditors' Report	7
Management's Discussion and Analysis (Required Supplementary Information)	11
<u>BASIC FINANCIAL STATEMENTS</u>	
Government-Wide Financial Statements	
Statement of Net Position	20
Statement of Activities	22
Fund Financial Statements	
Governmental Funds Financial Statements	
Balance Sheet – Governmental Funds	24
Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds	26
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities	29
Proprietary Fund Financial Statements	
Statement of Net Position	31
Statement of Revenues, Expenses, and Changes in Fund Net Position	33
Statement of Cash Flows	34
Notes to Financial Statements	37
<u>REQUIRED SUPPLEMENTARY INFORMATION</u>	
Schedule of Revenues, Expenditures, and Changes in Fund Balance – Budget and Actual – General Fund	61
Schedule of Funding Progress – Texas Municipal Retirement System	63
<u>COMBINING STATEMENTS AND SCHEDULES</u>	
Schedule of Revenues, Expenditures, and Changes in Fund Balance – Budget and Actual – Debt Service Fund	67
Combining Balance Sheet – Nonmajor Governmental Funds	68
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances – Nonmajor Governmental Funds	70
Schedule of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual – Nonmajor Special Revenue Funds	72

(This page intentionally left blank.)

INTRODUCTORY SECTION

(This page intentionally left blank.)

CITY OF NASSAU BAY, TEXAS

PRINCIPAL OFFICIALS

September 30, 2013

City Officials	Elective Position	Term Expires
Mark Denman	Mayor	05/2014
David Braun	Council Member	05/2015
Sandra Mossman	Council Member	05/2014
John Mahon	Council Member	05/2015
Brad Bailey	Council Member	05/2014
Jonathan Amdur	Council Member	05/2015
Bob Warters	Council Member	05/2014

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

(This page intentionally left blank.)

FINANCIAL SECTION

(This page intentionally left blank.)



INDEPENDENT AUDITORS' REPORT

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

Report on the Financial Statements

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, 2013, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Partners

Robert Belt, CPA
Stephanie E. Harris, CPA
Nathan Krupke, CPA

Houston

3210 Bingle Rd., Ste. 300
Houston, TX 77055
713.263.1123

Bellville

1304 South Front St.
Bellville, TX 77418
979.865.3169

Austin

100 Congress Ave., Ste. 2000
Austin, TX 78701
512.381.0222

All Offices

www.texasauditors.com
info@txauditors.com
713.263.1550 fax

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, 2013, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended, in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis, budgetary comparison information, and schedule of funding progress, identified as Required Supplementary Information on the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the Required Supplementary Information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The introductory section and combining statements and schedules are presented for purposes of additional analysis and are not required parts of the basic financial statements.

The combining 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 basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining statements and schedules are fairly stated in all material respects in relation to the basic 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 28, 2014

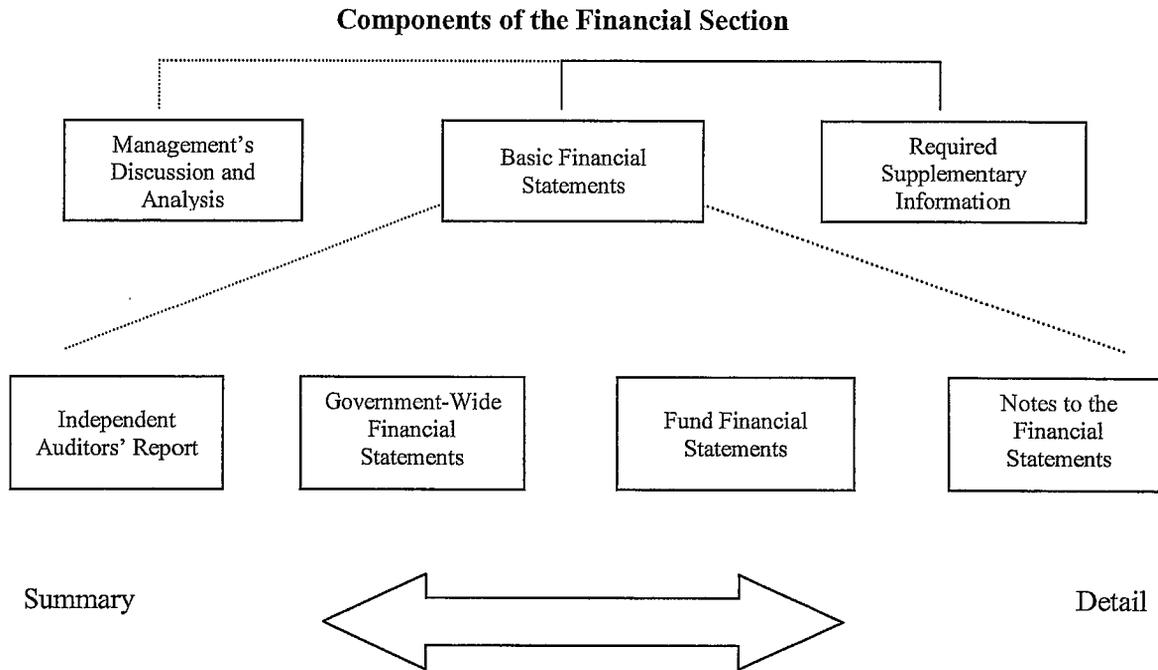
***MANAGEMENT'S DISCUSSION
AND ANALYSIS***

(This page intentionally left blank.)

CITY OF NASSAU BAY, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended September 30, 2013

The purpose of the Management's Discussion and Analysis (MD&A) is to give the readers an objective and easily readable analysis of the financial activities of the City of Nassau Bay, Texas (the "City") for the year ended September 30, 2013. The analysis is based on currently known facts, decisions, or economic conditions. It presents short and long-term analysis of the City's activities, compares current year results with those of the prior year, and discusses the positive and negative aspects of that comparison. Please read the MD&A in conjunction with the City's financial statements, which follow this section.

THE STRUCTURE OF OUR ANNUAL REPORT



The City's basic financial statements include (1) government-wide financial statements, (2) individual fund financial statements, and (3) notes to the financial statements. This report also includes supplementary information intended to furnish additional detail to support the basic financial statements themselves.

Government-Wide Statements

The government-wide statements report information for the City as a whole. These statements include transactions and balances relating to all assets, including infrastructure capital assets. These statements are designed to provide information about cost of services, operating results, and financial position of the City as an economic entity. The Statement of Net Position and the Statement of Activities, which appear first in the City's financial statements, report information on the City's activities that enable the reader to understand the financial condition of the City. These statements are prepared using the *accrual basis of accounting*, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account even if cash has not yet changed hands.

CITY OF NASSAU BAY, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
For the Year Ended September 30, 2013

The Statement of Net Position presents information on all of the City's assets and liabilities, with the difference reported as *net position*. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the City is improving or deteriorating. Other 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 position changed during the most recent year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows using the accrual method rather than modified accrual that is used in the fund level statements.

The Statement of Net Position and the Statement of Activities divide the City into two 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.

The government-wide financial statements include not only the City itself (known as the primary government), but also a legally separate economic development corporation, the Nassau Bay Economic Development Corporation (the "Corporation"), and a legally separate management district, the NASA Area Management District (the "District"), for which the City is financially accountable. Financial information for these component units is reported separately from the financial information presented for the primary government itself. The Tax Increment Reinvestment Zone #1 (TIRZ) and the Nassau Bay Redevelopment Authority (the "Authority"), although also legally separate, function for all practical purposes as departments of the City and, therefore, have been included as an integral part of the primary government.

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, 2013

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 redevelopment authority 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 Required Supplementary Information (RSI). The RSI includes a budgetary comparison schedule for the general fund, as well as a schedule of funding progress for the Texas Municipal Retirement System. The RSI can be found after the notes to the basic financial statements.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net position may serve over time as a useful indicator of the City's financial position. For the City, assets exceed liabilities by \$13,327,717 as of year end in the primary government.

The largest portion of the City's net position, 48 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, 2013

Statement of Net Position:

The following table reflects the condensed Statement of Net Position:

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2013	2012	2013	2012	2013	2012
Current and other assets	\$ 4,681,548	\$ 4,029,968	\$ 3,666,646	\$ 3,531,736	\$ 8,348,194	\$ 7,561,704
Capital assets, net	9,375,751	9,490,843	3,931,725	3,585,906	13,307,476	13,076,749
Total Assets	14,057,299	13,520,811	7,598,371	7,117,642	21,655,670	20,638,453
Long-term liabilities	5,542,477	2,313,615	2,304,769	2,389,104	7,847,246	4,702,719
Other liabilities	293,465	686,992	187,242	224,634	480,707	911,626
Total Liabilities	5,835,942	3,000,607	2,492,011	2,613,738	8,327,953	5,614,345
Net Position:						
Net investment in capital assets	4,512,805	7,681,196	1,865,447	3,079,172	6,378,252	10,760,368
Restricted	2,354,949	1,523,828	-	-	2,354,949	1,523,828
Unrestricted	1,353,603	1,315,180	3,240,913	1,424,732	4,594,516	2,739,912
Total Net Position	\$ 8,221,357	\$ 10,520,204	\$ 5,106,360	\$ 4,503,904	\$ 13,327,717	\$ 15,024,108

A portion of the primary government's net position, \$2,354,949 or 18 percent, represents resources that are subject to restrictions on how they may be used. The remaining balance of unrestricted net position, \$4,594,516, may be used to meet the City's ongoing obligation to citizens and creditors. Net position decreased by \$1,696,391 compared to the prior year.

CITY OF NASSAU BAY, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
For the Year Ended September 30, 2013

Statement of Activities:

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

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2013	2012	2013	2012	2013	2012
Revenues						
Program revenues:						
Charges for services	\$ 522,189	\$ 687,688	\$ 2,230,644	\$ 2,238,553	\$ 2,752,833	\$ 2,926,241
Operating grants and contributions	71,480	608,633	-	-	71,480	608,633
Capital grants and contributions	575,438	126,495	-	-	575,438	126,495
General revenues:						
Property taxes	3,374,678	2,958,107	-	-	3,374,678	2,958,107
Sales taxes	615,496	611,090	-	-	615,496	611,090
Other taxes	1,058,250	958,091	-	-	1,058,250	958,091
Investment earnings	11,838	11,635	7,733	5,532	19,571	17,167
Other revenues	121,652	121,825	-	-	121,652	121,825
Total Revenues	6,351,021	6,083,564	2,238,377	2,244,085	8,589,398	8,327,649
Expenses						
General government	1,100,756	1,201,252	-	-	1,100,756	1,201,252
Public safety	1,546,368	1,868,604	-	-	1,546,368	1,868,604
Public works	1,486,490	989,822	-	-	1,486,490	989,822
Public services	497,859	429,492	-	-	497,859	429,492
Economic development/ tourism	3,549,936	583,579	-	-	3,549,936	583,579
Interest on long-term debt	262,400	79,802	-	-	262,400	79,802
Water and sewer	-	-	1,851,303	1,894,837	1,851,303	1,894,837
Total Expenses	8,443,809	5,152,551	1,851,303	1,894,837	10,295,112	7,047,388
Increase (Decrease) in Net Position Before Transfers	(2,092,788)	931,013	387,074	349,248	(1,705,714)	1,280,261
Gain on sale of capital assets	9,323	3,000	-	-	9,323	3,000
Transfers	(215,382)	(181,752)	215,382	181,752	-	-
Change in Net Position	(2,298,847)	752,261	602,456	531,000	(1,696,391)	1,283,261
Beginning net position	10,520,204	9,767,943	4,503,904	3,972,904	15,024,108	13,740,847
Ending Net Position	\$ 8,221,357	\$ 10,520,204	\$ 5,106,360	\$ 4,503,904	\$ 13,327,717	\$ 15,024,108

CITY OF NASSAU BAY, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
For the Year Ended September 30, 2013

For the year ended, revenues from governmental activities totaled \$6,351,021. Revenues increased by four percent during the year mainly due to increases in property tax revenues and other tax revenues. The increase in property taxes was due to an increase in the property tax rate and the assessed values. The increase in other taxes was the result of an increase in hotel occupancy taxes collected.

For the year ended, expenses for governmental activities totaled \$8,443,809. The total expenses increased 64 percent from the prior year, which can be attributed primarily to an increase in economic development/tourism expenses related to a developer reimbursement.

Business-type activities net position increased by \$602,456. Current year revenues were comparable to prior year revenues, which decreased by .25 percent. Expenses decreased two percent compared to the prior year due to a decrease 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 \$4,268,290. Of this, \$181,879 is restricted for debt service, \$312,621 is restricted for enabling legislation, \$1,879,465 is restricted for projects, and \$1,894,325 is unassigned.

The general fund had a positive change in fund balance of \$231,418 for the year. Compared to the prior year, revenues increased \$93,834 mainly due to an increase in property tax revenue from an increase in the tax rate and the assessed value. Expenditures remained consistent with prior year amounts increasing \$21,805.

The debt service fund had a decrease in fund balance of \$27,056 as a result of an increase in debt service payments.

The RDA fund had an increase in fund balance of \$355,599 due to a transfer of property tax increment revenue from TIRZ #1. Revenues and expenditures for the fund were \$1,921 and \$3,063,488, respectively. The RDA issued new debt in the amount of \$3,025,000 to fund expenditures related to a development agreement.

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 \$59,723 during the year due to higher than expected revenues for property taxes, charges for services, and other revenues. General fund expenditures were under the final budget by \$463,846 during the year due to lower than expected expenditures across all functions.

CITY OF NASSAU BAY, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
For the Year Ended September 30, 2013

CAPITAL ASSETS

At the end of the year, the City had invested \$13,307,476 in a variety of capital assets. This represents a net increase of \$230,727.

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

- Peninsula trail project for \$197,206
- Four 2013 Chevrolet Tahoes for \$129,816
- Community Development Block Grant projects for \$737,448
- Construction in progress related to the Texas Water Development Board improvements for \$260,600

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

LONG-TERM DEBT

At the end of the current year, the City had total certificates of obligation, general obligation debt, and capital leases of \$7,588,956. Of this amount, \$3,556,698 represents certificates of obligation, \$700,000 represents general obligation debt, and \$307,258 represents capital leases.

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

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

The City Council approved an \$11.2 million budget for the 2013-2014 fiscal year. This is a five percent increase from the prior year. The tax rate adopted for the fiscal year 2013-2014 budget will remain unchanged at \$0.732120. The budgeted taxable assessed valuations increased by 2.75 percent to \$413 million. Budgeted property tax receipts comprise 27.1 percent of all City-wide revenue sources and 58.8 percent of the general fund revenue.

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.

(This page intentionally left blank.)

BASIC FINANCIAL STATEMENTS

CITY OF NASSAU BAY, TEXAS

STATEMENT OF NET POSITION

September 30, 2013

	Primary Government			Component Unit
	Governmental Activities	Business-Type Activities	Total	Nassau Bay Economic Dev. Corp.
Assets				
Cash and cash equivalents	\$ 3,737,612	\$ 3,164,387	\$ 6,901,999	\$ 147,852
Receivables, net	589,411	335,737	925,148	41,848
Due from component units	9,825	-	9,825	-
Internal balances	42,200	(42,200)	-	-
Restricted assets:				
Temporarily restricted cash and cash equivalents	302,500	208,722	511,222	-
Capital assets:				
Non-depreciable	983,144	329,370	1,312,514	-
Net depreciable	8,392,607	3,602,355	11,994,962	-
Total Assets	14,057,299	7,598,371	21,655,670	189,700
Liabilities				
Accounts payable and accrued liabilities	252,926	110,787	363,713	-
Customer deposits	-	59,523	59,523	-
Accrued interest payable	40,539	16,932	57,471	-
Due to primary government	-	-	-	370
Noncurrent liabilities:				
Long-term liabilities due within one year	999,364	116,792	1,116,156	-
Long-term liabilities due in more than one year	4,543,113	2,187,977	6,731,090	-
Total Liabilities	5,835,942	2,492,011	8,327,953	370
Net Position				
Net investment in capital assets	4,512,805	1,865,447	6,378,252	-
Restricted for:				
Debt service	162,863	-	162,863	-
Enabling legislation	312,621	-	312,621	-
Special projects	1,428,036	-	1,428,036	-
Capital projects	451,429	-	451,429	-
Nassau Bay Economic Development	-	-	-	189,330
NASA Area Management District	-	-	-	-
Unrestricted	1,353,603	3,240,913	4,594,516	-
Total Net Position	\$ 8,221,357	\$ 5,106,360	\$ 13,327,717	\$ 189,330

See Notes to Financial Statements.

**Component
Unit**

**NASA Area
Management
District**

\$ 152,632
14,347
-
-
-
-
-

166,979

2,903
-
-
9,455

-
-

12,358

-
-
-
-
-
154,621
-

\$ 154,621

CITY OF NASSAU BAY, TEXAS

STATEMENT OF ACTIVITIES

For the Year Ended September 30, 2013

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary Government				
Governmental Activities				
General government	\$ 1,100,756	\$ 298,911	\$ -	\$ -
Public safety	1,546,368	163,636	-	89,802
Public works	1,486,490	59,642	71,480	414,012
Public services	497,859	-	-	71,624
Economic development/tourism	3,549,936	-	-	-
Interest and fiscal agent fees on long-term debt	262,400	-	-	-
Total Governmental Activities	<u>8,443,809</u>	<u>522,189</u>	<u>71,480</u>	<u>575,438</u>
Business-Type Activities				
Water and sewer	1,851,303	2,230,644	-	-
Total Business-Type Activities	<u>1,851,303</u>	<u>2,230,644</u>	<u>-</u>	<u>-</u>
Total Primary Government	<u>\$ 10,295,112</u>	<u>\$ 2,752,833</u>	<u>\$ 71,480</u>	<u>\$ 575,438</u>
Component Units				
Nassau Bay Economic Development Corp.	\$ 202,122	\$ -	\$ -	\$ -
NASA Area Management District	52,536	-	-	-
Total Component Units	<u>\$ 254,658</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 Position

Beginning net position

Ending Net Position

See Notes to Financial Statements.

Net (Expense) Revenue and Changes in Net Position			Component Units	
Primary Government			Nassau Bay	NASA Area
Governmental	Business-Type	Total	Economic	Management
Activities	Activities		Dev. Corp	District
\$ (801,845)	\$ -	\$ (801,845)	\$ -	\$ -
(1,292,930)	-	(1,292,930)	-	-
(941,356)	-	(941,356)	-	-
(426,235)	-	(426,235)	-	-
(3,549,936)	-	(3,549,936)	-	-
(262,400)	-	(262,400)	-	-
<u>(7,274,702)</u>	<u>-</u>	<u>(7,274,702)</u>	<u>-</u>	<u>-</u>
-	379,341	379,341	-	-
-	379,341	379,341	-	-
<u>(7,274,702)</u>	<u>379,341</u>	<u>(6,895,361)</u>	<u>-</u>	<u>-</u>
-	-	-	(202,122)	-
-	-	-	-	(52,536)
-	-	-	<u>(202,122)</u>	<u>(52,536)</u>
3,374,678	-	3,374,678	-	-
615,496	-	615,496	246,198	85,292
1,058,250	-	1,058,250	-	-
11,838	7,733	19,571	405	-
121,652	-	121,652	-	-
9,323	-	9,323	-	-
(215,382)	215,382	-	-	-
<u>4,975,855</u>	<u>223,115</u>	<u>5,198,970</u>	<u>246,603</u>	<u>85,292</u>
(2,298,847)	602,456	(1,696,391)	44,481	32,756
10,520,204	4,503,904	15,024,108	144,849	121,865
<u>\$ 8,221,357</u>	<u>\$ 5,106,360</u>	<u>\$ 13,327,717</u>	<u>\$ 189,330</u>	<u>\$ 154,621</u>

CITY OF NASSAU BAY, TEXAS

BALANCE SHEET

GOVERNMENTAL FUNDS

September 30, 2013

	General	Debt Service	RDA	Nonmajor Governmental
Assets				
Cash and cash equivalents	\$ 1,918,942	\$ 181,519	\$ 490,825	\$ 1,146,326
Receivables, net	353,854	1,457	-	234,100
Due from other funds	4,440	-	-	42,200
Due from component units	9,465	360	-	-
Restricted assets	-	-	302,500	-
Total Assets	\$ 2,286,701	\$ 183,336	\$ 793,325	\$ 1,422,626
Liabilities				
Accounts payable and accrued liabilities	\$ 233,501	\$ -	\$ -	\$ 19,425
Due to other funds	-	-	4,440	-
Total Liabilities	233,501	-	4,440	19,425
Deferred Inflows of Resources				
Unavailable revenue - ambulance	148,197	-	-	-
Unavailable revenue - property taxes	10,678	1,457	-	-
Total Deferred Inflows of Resources	158,875	1,457	-	-
Fund Balances				
Restricted for:				
Debt service	-	181,879	-	-
Enabling legislation	-	-	-	312,621
Capital projects	-	-	-	451,429
Special projects	-	-	788,885	639,151
Unassigned	1,894,325	-	-	-
Total Fund Balances	1,894,325	181,879	788,885	1,403,201
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	\$ 2,286,701	\$ 183,336	\$ 793,325	\$ 1,422,626

Adjustments for the Statement of Net Position:

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

Capital assets - non-depreciable	983,144
Capital assets - net depreciable	8,392,607

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

Property taxes	12,135
Ambulance services	148,197

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

Accrued interest payable	(40,539)
Non-current liabilities due in one year	(999,364)
Non-current liabilities due in more than one year	(4,543,113)

Net Position of Governmental Activities

See Notes to Financial Statements.

**Total
Governmental
Funds**

\$ 3,737,612
589,411
46,640
9,825
302,500
\$ 4,685,988

\$ 252,926
4,440
257,366

148,197
12,135
160,332

181,879
312,621
451,429
1,428,036
1,894,325
4,268,290

9,375,751

160,332

(5,583,016)
\$ 8,221,357

CITY OF NASSAU BAY, TEXAS

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

For the Year Ended September 30, 2013

	General	Debt Service	RDA	Nonmajor Governmental
Revenues				
Property taxes	\$ 2,810,166	\$ 168,141	\$ -	\$ 392,166
Sales taxes	492,397	-	-	123,099
Other taxes	451,584	-	-	606,666
Licenses and permits	59,642	-	-	-
Fines and forfeitures	163,636	-	-	-
Charges for services	321,083	-	-	-
Intergovernmental	-	71,480	-	575,438
Investment earnings	6,319	563	1,921	3,035
Other revenues	120,622	-	-	1,030
Total Revenues	4,425,449	240,184	1,921	1,701,434
Expenditures				
Current:				
General government	916,990	-	-	-
Public safety	1,908,045	-	-	84,918
Public works	842,564	-	-	491,438
Public services	421,890	-	-	116,986
Economic development/tourism	-	-	2,923,820	544,507
Capital outlay	-	-	-	223,382
Debt service:				
Principal	91,949	409,978	-	-
Interest and fiscal charges	21,916	55,892	-	25,908
Issuance costs	-	-	139,668	-
Total Expenditures	4,203,354	465,870	3,063,488	1,487,139
Excess (Deficiency) of Revenues Over (Under) Expenditures	222,095	(225,686)	(3,061,567)	214,295
Other Financing Sources (Uses)				
Transfers in	-	198,630	392,166	-
Transfers (out)	-	-	-	(392,166)
Sale of capital assets	9,323	-	-	-
Debt issued	-	-	3,025,000	700,000
Total Other Financing Sources	9,323	198,630	3,417,166	307,834
Net Change in Fund Balances	231,418	(27,056)	355,599	522,129
Beginning fund balances	1,662,907	208,935	433,286	881,072
Ending Fund Balances	\$ 1,894,325	\$ 181,879	\$ 788,885	\$ 1,403,201

See Notes to Financial Statements.

**Total
Governmental
Funds**

\$ 3,370,473
615,496
1,058,250
59,642
163,636
321,083
646,918
11,838
121,652
6,368,988

916,990
1,992,963
1,334,002
538,876
3,468,327
223,382

501,927
103,716
139,668
9,219,851

(2,850,863)

590,796
(392,166)
9,323
3,725,000

3,932,953

1,082,090

3,186,200

\$ 4,268,290

(This page intentionally left blank.)

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, 2013

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

Net changes in fund balances - total governmental funds	\$ 1,082,090
<p>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.</p>	
Capital outlay	427,334
Depreciation expense	(542,426)
<p>Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds.</p>	
Property taxes	4,205
Ambulance services	(22,172)
<p>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 position. Also, governmental funds report the effect of premiums, discounts, and similar items when they are first issued, whereas these amounts are deferred and amortized in the Statement of Activities.</p>	
Principal expenditures	501,927
<p>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.</p>	
Debt issued	(3,725,000)
Accrued interest	(19,016)
Compensated absences	(5,789)
Change in Net Position of Governmental Activities	\$ <u>(2,298,847)</u>

See Notes to Financial Statements.

(This page intentionally left blank.)

CITY OF NASSAU BAY, TEXAS

STATEMENT OF NET POSITION

PROPRIETARY FUND

September 30, 2013

	<u>Business-Type Activities Enterprise</u>
Assets	
Current assets:	
Cash and cash equivalents	\$ 3,164,387
Receivables, net	335,737
Current restricted assets:	
Cash and cash equivalents	208,722
Total Current Assets	<u>3,708,846</u>
Noncurrent assets:	
Capital assets:	
Land	43,459
Construction in progress	285,911
Water and sewer system	7,088,448
Water rights, SEWPP	2,154,163
Machinery and equipment	302,710
Less: accumulated depreciation	<u>(5,942,966)</u>
Total Capital Assets, Net of Accumulated Depreciation	<u>3,931,725</u>
Total Noncurrent Assets	<u>3,931,725</u>
Total Assets	<u>7,640,571</u>
Liabilities	
Current liabilities:	
Accounts payable and accrued liabilities	110,787
Accrued interest payable	16,932
Due to other funds	42,200
Customer deposits	59,523
Bond payable, due in one year	90,000
Compensated absences due in one year	26,792
Total Current Liabilities	<u>346,234</u>
Noncurrent liabilities:	
Bond payable due in more than one year	2,185,000
Compensated absences due in more than one year	2,977
Total Noncurrent Liabilities	<u>2,187,977</u>
Total Liabilities	<u>2,534,211</u>
Net Position	
Net investment in capital assets	1,865,447
Unrestricted	3,240,913
Total Net Position	<u>\$ 5,106,360</u>

See Notes to Financial Statements.

(This page intentionally left blank.)

CITY OF NASSAU BAY, TEXAS

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION PROPRIETARY FUND

For the Year Ended September 30, 2013

	Business-Type Activities
	Enterprise
<u>Operating Revenues</u>	
Water charges	\$ 1,125,580
Sewer charges	1,070,668
Penalties and reconnect fees	33,658
Other revenues	738
Total Operating Revenues	2,230,644
 <u>Operating Expenses</u>	
General and administrative	1,040,160
Water expenses	257,096
Sewer expenses	198,515
Depreciation	252,555
Total Operating Expenses	1,748,326
Operating Income	482,318
 <u>Nonoperating Revenues (Expenses)</u>	
Investment earnings	7,733
Interest expense	(102,977)
Total Nonoperating Revenues (Expenses)	(95,244)
Income Before Contributions and Transfers	387,074
Capital contribution	414,012
Transfers (out)	(198,630)
Total Contributions and Transfers	215,382
Change in Net Position	602,456
Beginning net position	4,503,904
Ending Net Position	\$ 5,106,360

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, 2013

	<u>Business-Type Activities</u> <u>Enterprise</u>
<u>Cash Flows from Operating Activities</u>	
Receipts from customers	\$ 2,231,293
Payments to suppliers	(584,993)
Payments to employees	(906,639)
Net Cash Provided by Operating Activities	<u>739,661</u>
<u>Cash Flows from Noncapital Financing Activities</u>	
Transfers (out) to other funds	(198,630)
Net Cash (Used) by Noncapital Financing Activities	<u>(198,630)</u>
<u>Cash Flows from Capital and Related Financing Activities</u>	
Acquisition and construction of capital assets	(184,362)
Principal paid on debt	(85,000)
Interest and fiscal charges	(102,977)
Net Cash (Used) by Capital and Related Financing Activities	<u>(372,339)</u>
<u>Cash Flows from Investing Activities</u>	
Sale of investments	1,998,000
Interest on investments	7,733
Net Cash Provided by Investing Activities	<u>2,005,733</u>
Net Increase in Cash and Cash Equivalents	2,174,425
Beginning cash and cash equivalents	<u>1,198,684</u>
Ending Cash and Cash Equivalents	<u>\$ 3,373,109</u>
Ending Cash and Cash Equivalents:	
Unrestricted cash and cash equivalents	\$ 3,164,387
Restricted cash and cash equivalents	<u>208,722</u>
	<u>\$ 3,373,109</u>

CITY OF NASSAU BAY, TEXAS

STATEMENT OF CASH FLOWS

PROPRIETARY FUND (Page 2 of 2)

For the Year Ended September 30, 2013

	<u>Business-Type Activities</u> <u>Enterprise</u>
<u>Reconciliation of Operating Income</u>	
<u>to Net Cash Provided by Operating Activities</u>	
Operating income	\$ 482,318
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:	
Depreciation	252,555
Changes in Operating Assets and Liabilities:	
(Increase) Decrease in:	
Accounts receivable	(1,805)
Due from other funds	1,120
Increase (Decrease) in:	
Accounts payable and accrued liabilities	(38,726)
Due to other funds	42,200
Compensated absences	665
Customer deposits	1,334
Net Cash Provided by Operating Activities	<u>\$ 739,661</u>
 Noncash Investing, Capital, and Financing Activities:	
Contributions of capital assets	<u>\$ 414,012</u>

See Notes to Financial Statements.

(This page intentionally left blank.)

CITY OF NASSAU BAY, TEXAS

NOTES TO FINANCIAL STATEMENTS

For the Year Ended September 30, 2013

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, 2013

dissolution, net position 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 tax revenue will be utilized to pay for certain infrastructure costs. Such tax revenue is 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 the TIRZ tax increment 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 Financial Statements

The government-wide financial statements (i.e., the Statement of Net Position and the Statement of Activities) report information on 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, and other nonexchange transactions, are reported separately from business-type activities, which rely to a significant extent on fees and charges to external customers for support. Likewise, the primary

CITY OF NASSAU BAY, TEXAS
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended September 30, 2013

government is reported separately from certain legally separate component units for which the primary government is financially accountable.

C. Basis of Presentation – Government-Wide Financial Statements

While separate government-wide and fund financial statements are presented, they are interrelated. The governmental activities column incorporates data from governmental funds, while business-type activities incorporate data from the City's enterprise funds. Separate financial statements are provided for governmental funds and proprietary funds.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are payments in lieu of taxes where the amounts are reasonably equivalent in value to the interfund services provided and other charges between the City's water and wastewater functions and various other functions of the City. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

D. Basis of Presentation – Fund Financial Statements

The fund financial statements provide information about the City's funds, including its blended component units. Separate statements for each fund category – governmental and proprietary – are presented. The emphasis of fund financial statements is on major governmental and enterprise funds, each displayed in a separate column. All remaining governmental and enterprise funds are aggregated and reported as nonmajor funds.

The City reports the following governmental funds:

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 (the "Authority"), and special revenue and grants. The Authority fund is considered a major fund for reporting purposes while the tourism, streets, TIRZ, and special revenue and grants 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.

CITY OF NASSAU BAY, TEXAS
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended September 30, 2013

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

The City reports the following enterprise fund:

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.

During the course of operations, the City has activity between funds for various purposes. Any residual balances outstanding at year end are reported as due from/to other funds and advances to/from other funds. While these balances are reported in fund financial statements, certain eliminations are made in the preparation of the government-wide financial statements. Balances between the funds included in governmental activities (i.e., the governmental funds) are eliminated so that only the net amount is included as internal balances in the governmental activities column. Similarly, balances between the funds included in business-type activities (i.e., the enterprise funds) are eliminated so that only the net amount is included as internal balances in the business-type activities column.

Further, certain activity occurs during the year involving transfers of resources between funds. In fund financial statements, these amounts are reported at gross amounts as transfers in/out. While reported in fund financial statements, certain eliminations are made in the preparation of the government-wide financial statements. Transfers between the funds included in governmental activities are eliminated so that only the net amount is included as transfers in the governmental activities column. Similarly, balances between the funds included in business-type activities are eliminated so that only the net amount is included as internal balances in the business-type activities column.

E. Measurement Focus and Basis of Accounting

The accounting and financial reporting treatment is determined by the applicable measurement focus and basis of accounting. Measurement focus indicates the type of resources being measured such as *current financial resources* or *economic resources*. The basis of accounting indicates the timing of transactions or events for recognition in the financial statements.

The government-wide and proprietary fund financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

CITY OF NASSAU BAY, TEXAS
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended September 30, 2013

The governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due. General capital asset acquisitions are reported as expenditures in governmental funds. Issuance of long-term debt and acquisitions under capital leases are reported as other financing sources.

Property taxes, sales taxes, franchise taxes, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Entitlements are recorded as revenues when all eligibility requirements are met, including any time requirements, and the amount is received during the period or within the availability period for this revenue source (within 60 days of year end). Expenditure-driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other eligibility requirements have been met, and the amount is received during the period or within the availability period for this revenue source (within 60 days of year end). All other revenue items are considered to be measurable and available only when cash is received by the City.

F. Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position/Fund Balance

1. Cash and Cash Equivalents

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 account balances.

2. Investments

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.

CITY OF NASSAU BAY, TEXAS
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended September 30, 2013

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

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

5. Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will *not* be recognized as an outflow of resources (expense/expenditure) until then. The City has no items that qualify for reporting in this category.

CITY OF NASSAU BAY, TEXAS
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended September 30, 2013

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period(s) and so will *not* be recognized as an inflow of resources (revenue) until that time. The City has only one type of item, which arises only under a modified accrual basis of accounting, that qualifies for reporting in this category. Accordingly, the item, *unavailable revenue*, is reported only in the governmental funds balance sheet. The governmental funds report unavailable revenues from property taxes. This amount is deferred and recognized as an inflow of resources in the period that the amount becomes available.

6. 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 is 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.

7. 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 Position. The long-term debt consists primarily of certificates of obligation 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 and discounts 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.

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

CITY OF NASSAU BAY, TEXAS
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended September 30, 2013

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.

8. Net Position Flow Assumption

Sometimes the City will fund outlays for a particular purpose from both restricted (e.g., restricted bond or grant proceeds) and unrestricted resources. In order to calculate the amounts to report as restricted-net position and unrestricted-net position in the government-wide and proprietary fund financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the City's policy to consider restricted-net position to have been depleted before unrestricted-net position is applied.

9. Fund Balance Flow Assumptions

Sometimes the City will fund outlays for a particular purpose from both restricted and unrestricted resources (the total of committed, assigned, and unassigned fund balance). In order to calculate the amounts to report as restricted, committed, assigned, and unassigned fund balance in the governmental fund financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the City's policy to consider restricted fund balance to have been depleted before using any of the components of unrestricted fund balance. Further, when the components of unrestricted fund balance can be used for the same purpose, committed fund balance is depleted first, followed by assigned fund balance. Unassigned fund balance is applied last.

10. Fund Balance Policies

Fund balances of governmental funds are reported in various categories based on the nature of any limitations requiring the use of resources for specific purposes. The City itself can establish limitations on the use of resources through either a commitment (committed fund balance) or an assignment (assigned fund balance).

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.

The committed fund balance classification includes amounts that can be used only for the specific purposes determined by a formal action of the City's highest level of decision-making authority. The City Council is the highest level of decision-making authority for the City that can, by adoption of an ordinance prior to the end of the fiscal year, commit fund balance. Once adopted, the limitation

CITY OF NASSAU BAY, TEXAS
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended September 30, 2013

imposed by the ordinance remains in place until a similar action is taken (the adoption of another ordinance) to remove or revise the limitation.

Amounts in the assigned fund balance classification are intended to be used by the City for specific purposes but do not meet the criteria to be classified as committed. The City Council may also assign fund balance as it does when appropriating fund balance to cover a gap between estimated revenue and appropriations in the subsequent year's appropriated budget. Unlike commitments, assignments generally only exist temporarily. In other words, an additional action does not normally have to be taken for the removal of an assignment. Conversely, as discussed above, an additional action is essential to either remove or revise a commitment.

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.

11. 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.

G. Revenues and Expenditures/Expenses

1. Program Revenues

Amounts reported as *program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions (including special assessments) that are restricted to meeting the operational or capital requirements of a particular function or segment. All taxes, including those dedicated for specific purposes, and other internally dedicated resources are reported as general revenues rather than as program revenues.

2. 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. Proprietary Funds Operating and Nonoperating Revenues and Expenses

Proprietary funds distinguish *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the enterprise fund are charges to customers for sales and services. The enterprise fund also recognizes as operating revenue the portion of tap fees intended to recover the cost of connecting new customers to the system. Operating expenses for the enterprise fund include the cost

CITY OF NASSAU BAY, TEXAS
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended September 30, 2013

of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

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>
U.S. agencies	\$ 208,722	0.14
LOGIC	2,921,512	0.00
TexPool	121,083	0.00
Total Fair Value	\$ 3,251,317	
Portfolio weighted average maturity		0.01

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, 2013, the City's investment in TexPool and LOGIC were 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, 2013, were rated not less than "AA+" 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, 2013, the bank balances were \$4,164,963, of which \$515,750 was insured by FDIC. The market values of pledged securities were \$4,075,000.

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 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.

CITY OF NASSAU BAY, TEXAS
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended September 30, 2013

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.

LOGIC

Local Government Investment Cooperative (LOGIC) was organized to conform to the Texas Government Code – Interlocal Cooperation Act, Chapter 791 and the Public Funds Investment Act (PFIA), Chapter 2256. LOGIC's governing body is a five-member Board of Directors comprised of three government officials or employees and two other persons with expertise in public finance representing the general manager of LOGIC. LOGIC is required by the PFIA to maintain an "AAA" rating. It has an "AAAm" rating from Standard & Poor's, which monitors the fund's compliance with its rating requirements.

B. Receivables

The following comprise receivable balances at year end:

	Governmental Funds					Proprietary Fund
	General	Debt Service	Special Revenue and			Enterprise
			Grants	Tourism	Streets	
Accounts	\$ 3,261	\$ -	\$ 51,010	\$ -	\$ -	\$ 338,152
Property taxes	213,554	29,145	-	-	-	-
Sales taxes	83,696	-	-	-	20,924	-
Other taxes	79,948	-	-	162,166	-	-
Grants	28,050	-	-	-	-	-
Ambulance billing	675,039	-	-	-	-	-
Returned checks	25	-	-	-	-	-
Less:						
Allowances	(729,719)	(27,688)	-	-	-	(2,415)
	<u>\$ 353,854</u>	<u>\$ 1,457</u>	<u>\$ 51,010</u>	<u>\$ 162,166</u>	<u>\$ 20,924</u>	<u>\$ 335,737</u>

	Component Units	
	Nassau Bay Economic Dev. Corp.	NASA Area Management District
Sales taxes	<u>\$ 41,848</u>	<u>\$ 14,347</u>

CITY OF NASSAU BAY, TEXAS
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended September 30, 2013

C. Capital Assets

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

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental Activities:				
Capital assets not being depreciated:				
Land	\$ 961,057	\$ -	\$ -	\$ 961,057
Construction in progress *	114,685	104,608	(197,206)	22,087
	1,075,742	104,608	(197,206)	983,144
Other capital assets:				
Buildings	1,156,249	46,411	-	1,202,660
Improvements other than buildings	9,210,519	230,206	-	9,440,725
Machinery and equipment	2,917,263	243,315	(122,166)	3,038,412
Total other capital assets	13,284,031	519,932	(122,166)	13,681,797
Total capital assets	14,359,773	624,540	(319,372)	14,664,941
Less accumulated depreciation for:				
Buildings	(242,775)	(25,587)	-	(268,362)
Improvements other than buildings	(2,637,827)	(365,743)	-	(3,003,570)
Machinery and equipment	(1,988,328)	(151,096)	122,166	(2,017,258)
Total accumulated depreciation	(4,868,930)	(542,426)	122,166	(5,289,190)
Other capital assets, net	8,415,101	(22,494)	-	8,392,607
Governmental Activities Capital Assets, Net	\$ 9,490,843	\$ 82,114	\$ (197,206)	9,375,751
			Less associated debt	(5,313,956)
			Plus unspent bond proceeds	451,010
			Net Investment in Capital Assets	\$ 4,512,805

* Beginning balance has been restated.

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	\$ 22,111
Public safety	120,803
Public works	279,695
Public services	38,208
Economic development	81,609
Total Governmental Activities Depreciation Expense	\$ 542,426

CITY OF NASSAU BAY, TEXAS
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended September 30, 2013

The following is a summary of changes in capital assets for business-type activities for the year ended September 30, 2013:

	Beginning Balance	Increases	(Decreases)	Ending Balance
Business-Type Activities:				
Capital assets not being depreciated:				
Land	\$ 43,459	\$ -	\$ -	\$ 43,459
Construction in progress *	488,166	535,193	(737,448)	285,911
	<u>531,625</u>	<u>535,193</u>	<u>(737,448)</u>	<u>329,370</u>
Other capital assets:				
Water and sewer system	6,351,000	737,448	-	7,088,448
Water rights, SEWPP	2,130,430	23,733	-	2,154,163
Machinery and equipment	279,265	39,448	(16,003)	302,710
Total other capital assets	<u>8,760,695</u>	<u>800,629</u>	<u>(16,003)</u>	<u>9,545,321</u>
Less accumulated depreciation for:				
Water and sewer system	(4,562,302)	(189,925)	-	(4,752,227)
Water rights, SEWPP	(879,923)	(52,200)	-	(932,123)
Machinery and equipment	(264,189)	(10,430)	16,003	(258,616)
Total accumulated depreciation	<u>(5,706,414)</u>	<u>(252,555)</u>	<u>16,003</u>	<u>(5,942,966)</u>
Total capital assets, being depreciated, net	<u>3,054,281</u>	<u>548,074</u>	<u>-</u>	<u>3,602,355</u>
Business-Type Activities Capital Assets, Net	<u>\$ 3,585,906</u>	<u>\$ 1,083,267</u>	<u>\$ (737,448)</u>	<u>3,931,725</u>
			Less associated debt	(2,275,000)
			Plus unspent bond proceeds	<u>208,722</u>
			Net Investment in Capital Assets	<u>\$ 1,865,447</u>

* Beginning balance has been restated.

Depreciation was charged to business-type functions as follows:

Water and sewer \$ 252,555

The City has active business-type activities construction projects as of September 30, 2013. The projects include:

Project Description	Authorized Contract	Contract Expenditures	Remaining Commitment
Wastewater Improvements	\$ 2,306,670	\$ 124,955	\$ 2,181,715
Total	<u>\$ 2,306,670</u>	<u>\$ 124,955</u>	<u>\$ 2,181,715</u>

CITY OF NASSAU BAY, TEXAS
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended September 30, 2013

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, 2013. 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>
Governmental Activities:					
Compensated absences	\$ 222,732	\$ 212,586	\$ 206,797	\$ 228,521	\$ 205,669
Bonds, notes, and other payables:					
Certificates of obligation	1,621,676	-	339,978	1,281,698 *	351,698
General obligation	70,000	700,000	70,000	700,000 *	90,000
Contract revenue bonds	-	3,025,000	-	3,025,000 *	255,000
Total	<u>1,914,408</u>	<u>3,937,586</u>	<u>616,775</u>	<u>5,235,219</u>	<u>902,367</u>
Capital leases	399,207	-	91,949	307,258 *	96,997
Total	<u>399,207</u>	<u>-</u>	<u>91,949</u>	<u>307,258</u>	<u>96,997</u>
Total Governmental Activities	<u>\$ 2,313,615</u>	<u>\$ 3,937,586</u>	<u>\$ 708,724</u>	<u>\$ 5,542,477</u>	<u>\$ 999,364</u>
				<u>Long-Term Liabilities Due In More Than One Year</u>	<u>\$ 4,543,113</u>
				<u>*Debt Associated with Capital Assets</u>	<u>\$ 5,313,956</u>
Business-Type Activities:					
Compensated absences	\$ 29,104	\$ 21,907	\$ 21,242	\$ 29,769	\$ 26,792
Certificates of obligation	2,360,000	-	85,000	2,275,000 **	90,000
Total Business-Type Activities	<u>\$ 2,389,104</u>	<u>\$ 21,907</u>	<u>\$ 106,242</u>	<u>\$ 2,304,769</u>	<u>\$ 116,792</u>
				<u>Long-Term Liabilities Due In More Than One Year</u>	<u>\$ 2,187,977</u>
				<u>**Debt Associated with Capital Assets</u>	<u>\$ 2,275,000</u>

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.

CITY OF NASSAU BAY, TEXAS
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended September 30, 2013

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

Description	Interest Rates (%)	Balance
Governmental Activities		
Certificates of obligation		
Series 2002	4.80	\$ 36,698
Series 2006	4.27	255,000
Series 2007	6.00	425,000
Series 2008	3.09	565,000
Total Certificates of Obligation		<u>1,281,698</u>
General obligation		
Tax Notes, Series 2013	1.62	700,000
Total General Obligation		<u>700,000</u>
Contract revenue bonds		
RDA Tax Increment Contract Revenue Bonds	3.30	3,025,000
Total Contract Revenue Bonds		<u>3,025,000</u>
Capital leases		
Oshkosh Capital	5.49	307,258
Total Capital Leases		<u>307,258</u>
Total Governmental Activities Long-Term Debt		<u><u>\$ 5,313,956</u></u>

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

Year Ending Sept. 30	Certificates of Obligation		General Obligation		Contract Revenue Bonds	
	Principal	Interest	Principal	Interest	Principal	Interest
2014	\$ 351,698	\$ 40,686	\$ 90,000	\$ 14,139	\$ 255,000	\$ 105,568
2015	330,000	27,828	100,000	9,072	270,000	91,410
2016	340,000	15,399	100,000	7,452	280,000	82,726
2017	260,000	4,546	100,000	5,832	290,000	73,260
2018	-	-	100,000	4,212	295,000	63,690
2019-2023	-	-	210,000	3,402	1,635,000	165,780
Total	<u>\$ 1,281,698</u>	<u>\$ 88,457</u>	<u>\$ 700,000</u>	<u>\$ 44,109</u>	<u>\$ 3,025,000</u>	<u>\$ 582,434</u>

Year Ending Sept. 30	Capital Leases		Total
	Principal	Interest	
2014	\$ 96,997	\$ 16,869	\$ 970,957
2015	102,322	11,543	942,175
2016	107,939	5,926	939,442
2017	-	-	733,638
2018	-	-	462,902
2019-2023	-	-	2,014,182
Total	<u>\$ 307,258</u>	<u>\$ 34,338</u>	<u>\$ 6,063,294</u>

CITY OF NASSAU BAY, TEXAS
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended September 30, 2013

In July of 2013, the Nassau Bay Redevelopment Authority (the "Authority") issued Tax Increment Contract Revenue Bonds, series 2013, with the authorization and approval of the City and the TIRZ in the amount of \$3,025,000. The bonds were issued to reimburse a developer for certain public improvement project costs and pay the costs of issuance. The bonds are the limited obligation of the Authority, payable solely from pledged revenues. The pledged revenues consist of tax increments from the TIRZ payable to the Authority as specified in a Tri-Party agreement between the City, the TIRZ, and the Authority. The City is not obligated to make payments on the series 2013 bonds. The Authority must maintain a debt service reserve in the amount of \$302,500 for final payment upon maturity in 2023.

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

Description	Interest Rates (%)	Balance
Business-Type Activities		
Certificates of obligation		
Series 2011	2.24-5.29	\$ 2,275,000
Total Certificates of Obligation		\$ 2,275,000

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

Year Ending Sept. 30	Certificates of Obligation	
	Principal	Interest
2014	\$ 90,000	\$ 100,495
2015	90,000	98,119
2016	95,000	95,373
2017	95,000	92,319
2018	100,000	88,987
2019-2023	570,000	379,477
2024-2028	710,000	230,590
2029-2031	525,000	42,503
Total	\$ 2,275,000	\$ 1,127,863

Machinery and equipment acquired under current capital lease obligations totaled \$670,755. This is from the issuance of one capital lease through Oshkosh Capital to acquire a new fire truck. At year end, the fire truck had accumulated depreciation of \$167,689 and a net value of \$503,066.

Certificates of obligation and general obligation tax notes 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.

CITY OF NASSAU BAY, TEXAS
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended September 30, 2013

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>
Nonmajor governmental	RDA	\$ 392,166
Enterprise	Debt service	198,630
		<u>\$ 590,796</u>

Amounts transferred between the enterprise fund and the debt service fund relate to amounts collected by the enterprise fund for debt payments. The amount transferred between the nonmajor fund and the RDA fund 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	RDA	\$ 4,440
Nonmajor governmental	Enterprise	42,200
		<u>\$ 46,640</u>

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

F. Fund Equity

As of September 30, 2013, \$312,621 of the City's total fund balance is restricted by enabling legislation.

Change in Beginning Net Position

In the fiscal year ending September 30, 2013, the City implemented GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*. In accordance with this statement, beginning net position of the governmental and business-type activities has been reduced to remove previously capitalized bond issuance costs. In addition, beginning net position for the enterprise fund, business-type activities, and governmental activities has been restated to recognize a capital contribution and the related construction in progress.

	<u>Enterprise Fund</u>	<u>Business-Type Activities</u>	<u>Governmental Activities</u>
Beginning net position	\$ 4,270,321	\$ 4,270,321	\$ 10,838,592
Restatement - Construction in progress	281,236	281,236	(281,236)
Restatement - Bond issuance costs	(47,653)	(47,653)	(37,152)
Restated Beginning Net Position	<u>\$ 4,503,904</u>	<u>\$ 4,503,904</u>	<u>\$ 10,520,204</u>

CITY OF NASSAU BAY, TEXAS
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended September 30, 2013

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.

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.

CITY OF NASSAU BAY, TEXAS
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended September 30, 2013

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>2013</u>	<u>2012</u>
Employee deposit rate	7.00%	7.00%
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, 0/20
Updated service credit	50% Repeating, Transfers	50% Repeating, Transfers
Annuity increase (to retirees)	70% of CPI Repeating	70% of CPI Repeating

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 percentage 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>
2011	\$ 242,960	\$ 242,960	100.00%	\$ -
2012	\$ 277,066	\$ 277,066	100.00%	\$ -
2013	\$ 314,989	\$ 314,989	100.00%	\$ -

CITY OF NASSAU BAY, TEXAS
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended September 30, 2013

The required contribution rates for fiscal year 2013 were determined as part of the December 31, 2010 and 2011 actuarial valuation. Additional information as of the latest actuarial valuation, December 31, 2012, also follows:

	<u>2013</u>	<u>2012</u>	<u>2011</u>
Actuarial Valuation Date	12/31/2012	12/31/2011	12/31/2010
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	26.4 Years - Closed period	27.6 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%	7.0%
Projected Salary Increases	Varies by age and service	Varies by age and service	Varies by age and service
Includes Inflation at	3.00%	3.00%	3.00%
Cost of Living Adjustments	2.1%	2.1%	2.1%

Funded Status and Funding Progress

The funded status as of December 31, 2012, the most recent actuarial valuation date, is presented as follows:

	<u>2013</u>
Actuarial Valuation Date	12/31/2012
Actuarial Value of Assets	\$ 3,919,711
Actuarial Accrued Liability	6,848,499
Percentage Funded	57.2%
Unfunded Actuarial Accrued Liability (UAAL)	\$ 2,928,788
Annual Covered Payroll	\$ 2,431,325
UAAL as a Percentage of Covered Payroll	120.5%

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 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

CITY OF NASSAU BAY, TEXAS
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended September 30, 2013

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, 2013, 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 2013, 2012, and 2011 were \$254, \$246, and \$233, respectively. The City's contribution rates for the past three years are shown below:

	<u>2013</u>	<u>2012</u>	<u>2011</u>
Annual Req. Contrib. (Rate)	0.01%	0.01%	0.01%
Actual Contribution Made	0.01%	0.01%	0.01%
Percentage of ARC Contrib.	100.64%	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 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.

CITY OF NASSAU BAY, TEXAS
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended September 30, 2013

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, 2013, the City's total investment in SEWPP totaled \$2,154,164. The net investment reported is \$1,222,041, which includes accumulated depreciation of \$932,123.

G. Subsequent Event

On November 26, 2013, the City issued certificates of obligation, series 2013 in the amount of \$2,000,000. The interest rate will be 2.64 percent. The proceeds will be used for the construction of a new City hall.

REQUIRED SUPPLEMENTARY INFORMATION

(This page intentionally left blank.)

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, 2013

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original Budget</u>	<u>Budget as Amended</u>		
<u>Revenues</u>				
Property taxes	\$ 2,781,106	\$ 2,799,406	\$ 2,810,166	\$ 10,760
Sales taxes	435,000	491,000	492,397	1,397
Other taxes	448,000	448,000	451,584	3,584
Licenses and permits	124,050	59,050	59,642	592
Fines and forfeitures	163,050	163,050	163,636	586
Charges for services	305,700	305,700	321,083	15,383
Investment income	3,000	3,000	6,319	3,319
Other revenues	96,520	96,520	120,622	24,102
Total Revenues	<u>4,356,426</u>	<u>4,365,726</u>	<u>4,425,449</u>	<u>59,723</u>
<u>Expenditures</u>				
Current:				
General government	968,220	1,036,540	916,990	119,550
Public safety	2,086,620	2,015,645	1,908,045	107,600
Public works	904,920	1,025,440	842,564	182,876
Public services	449,710	449,710	421,890	27,820
Debt service:				
Principal	-	91,949	91,949	-
Interest and fiscal charges	-	47,916	21,916	26,000
Total Expenditures	<u>4,409,470</u>	<u>4,667,200</u>	<u>4,203,354</u>	<u>463,846</u>
Revenues Over (Under) Expenditures	<u>(53,044)</u>	<u>(301,474)</u>	<u>222,095</u>	<u>523,569</u>
<u>Other Financing Sources</u>				
Sale of capital assets	-	-	9,323	9,323
Transfer in	-	26,000	-	(26,000)
Total Other Financing Sources	<u>-</u>	<u>26,000</u>	<u>9,323</u>	<u>(16,677)</u>
Net Change in Fund Balance	<u>\$ (53,044)</u>	<u>\$ (275,474)</u>	<u>231,418</u>	<u>\$ 506,892</u>
Beginning fund balance			<u>1,662,907</u>	
Ending Fund Balance			<u>\$ 1,894,325</u>	

Notes to Required Supplementary Information:

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

(This page intentionally left blank.)

CITY OF NASSAU BAY, TEXAS

SCHEDULE OF FUNDING PROGRESS

TEXAS MUNICIPAL RETIREMENT SYSTEM

For the Year Ended September 30, 2013

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	2013	2012	2011
Actuarial Valuation Date	12/31/2012	12/31/2011	12/31/2010
Actuarial Value of Assets	\$ 3,919,711	\$ 3,376,136	\$ 2,913,782
Actuarial Accrued Liability	\$ 6,848,499	\$ 6,368,898	\$ 5,722,206
Percentage Funded	57.2%	53.0%	50.9%
Unfunded Actuarial			
Accrued Liability (UAAL)	\$ 2,928,788	\$ 2,992,762	\$ 2,808,424
Annual Covered Payroll	\$ 2,431,325	\$ 2,398,970	\$ 2,315,948
UAAL % of Covered Payroll	120.5%	124.8%	121.3%
Net Pension Obligation (NPO)			
at the Beginning of Period	\$ -	\$ -	\$ -
Annual Req. Contrib. (ARC)	314,989	277,066	242,960
Contributions Made	314,989	277,066	242,960
NPO at the End of Period	\$ -	\$ -	\$ -

(This page intentionally left blank.)

COMBINING STATEMENTS AND SCHEDULES

(This page intentionally left blank.)

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, 2013

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original Budget</u>	<u>Budget as Amended</u>		
<u>Revenues</u>				
Property taxes	\$ 196,710	\$ 169,010	\$ 168,141	\$ (869)
Intergovernmental	71,480	71,480	71,480	-
Investment earnings	330	330	563	233
Total Revenues	<u>268,520</u>	<u>240,820</u>	<u>240,184</u>	<u>(636)</u>
<u>Expenditures</u>				
Current:				
Principal	409,980	409,980	409,978	2
Interest and fiscal charges	56,180	56,180	55,892	288
Total Expenditures	<u>466,160</u>	<u>466,160</u>	<u>465,870</u>	<u>290</u>
Revenues (Under) Expenditures	<u>(197,640)</u>	<u>(225,340)</u>	<u>(225,686)</u>	<u>(346)</u>
<u>Other Financing Sources</u>				
Transfers in	198,630	198,630	198,630	-
Total Other Financing Sources	<u>198,630</u>	<u>198,630</u>	<u>198,630</u>	<u>-</u>
Net Change in Fund Balance	<u>\$ 990</u>	<u>\$ (26,710)</u>	<u>(27,056)</u>	<u>\$ (346)</u>
Beginning fund balance			<u>208,935</u>	
		Ending Fund Balance	<u>\$ 181,879</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, 2013

Special Revenue Funds

	Tourism	Streets	TIRZ #1	Special Revenue and Grants
Assets				
Cash	\$ 167,645	\$ 404,322	\$ -	\$ 122,930
Receivables, net	162,166	20,924	-	51,010
Due from other funds	-	-	-	42,200
Total Assets	\$ 329,811	\$ 425,246	\$ -	\$ 216,140
Liabilities				
Accounts payable and accrued liabilities	\$ 17,190	\$ 1,511	\$ -	\$ 724
Total Liabilities	17,190	1,511	-	724
Fund Balances				
Restricted for:				
Enabling legislation	312,621	-	-	-
Capital projects	-	-	-	-
Special projects	-	423,735	-	215,416
Total Fund Balances	312,621	423,735	-	215,416
Total Liabilities and Fund Balances	\$ 329,811	\$ 425,246	\$ -	\$ 216,140

<u>Capital Projects</u>	<u>Total Nonmajor Governmental Funds</u>
\$ 451,429	\$ 1,146,326
-	234,100
-	42,200
\$ 451,429	\$ 1,422,626
\$ -	\$ 19,425
-	19,425
-	312,621
451,429	451,429
-	639,151
451,429	1,403,201
\$ 451,429	\$ 1,422,626

CITY OF NASSAU BAY, TEXAS
COMBINING STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
For the Year Ended September 30, 2013

	Special Revenue Funds			Special Revenue and Grants
	Tourism	Streets	TIRZ #1	
Revenues				
Property taxes	\$ -	\$ -	\$ 392,166	\$ -
Sales taxes	-	123,099	-	-
Other taxes	606,666	-	-	-
Intergovernmental	-	-	-	575,438
Investment earnings	583	1,580	-	571
Other revenues	-	-	-	1,030
Total Revenues	607,249	124,679	392,166	577,039
Expenditures				
Public safety	-	-	-	84,918
Public works	-	32,186	-	459,252
Public services	-	-	-	116,986
Economic development/tourism	544,507	-	-	-
Capital outlay	-	-	-	-
Debt service:				
Interest and fiscal charges	-	-	-	-
Total Expenditures	544,507	32,186	-	661,156
Excess (Deficiency) of Revenues Over (Under) Expenditures	62,742	92,493	392,166	(84,117)
Other Financing Sources (Uses)				
Transfers out	-	-	(392,166)	-
Debt issued	-	-	-	-
Total Other Financing Sources (Uses)	-	-	(392,166)	-
Net Change in Fund Balances	62,742	92,493	-	(84,117)
Beginning fund balances	249,879	331,242	-	299,533
Ending Fund Balances	\$ 312,621	\$ 423,735	\$ -	\$ 215,416

<u>Capital Projects</u>	<u>Total Nonmajor Governmental Funds</u>
\$ -	\$ 392,166
-	123,099
-	606,666
-	575,438
301	3,035
-	1,030
301	1,701,434
-	84,918
-	491,438
-	116,986
-	544,507
223,382	223,382
25,908	25,908
249,290	1,487,139
(248,989)	214,295
-	(392,166)
700,000	700,000
700,000	307,834
451,011	522,129
418	881,072
\$ 451,429	\$ 1,403,201

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, 2013

		Tourism Fund			Variance with Final Budget Positive (Negative)
		Budgeted Amounts		Actual	
		Original Budget	Budget as Amended		
Revenues					
	Other taxes	\$ 502,000	\$ 606,000	\$ 606,666	\$ 666
	Investment earnings	350	350	583	233
	Total Revenues	<u>502,350</u>	<u>606,350</u>	<u>607,249</u>	<u>899</u>
Expenditures					
Current:					
	Economic development/tourism	512,940	544,540	544,507	33
	Total Expenditures	<u>512,940</u>	<u>544,540</u>	<u>544,507</u>	<u>33</u>
	Net Change in Fund Balance	<u>\$ (10,590)</u>	<u>\$ 61,810</u>	62,742	<u>\$ 932</u>
	Beginning fund balance			<u>249,879</u>	
	Ending Fund Balance			<u>\$ 312,621</u>	

		Streets Fund			Variance with Final Budget Positive (Negative)
		Budgeted Amounts		Actual	
		Original Budget	Budget as Amended		
Revenues					
	Sales taxes	\$ 106,100	\$ 106,100	\$ 123,099	\$ 16,999
	Investment earnings	500	500	1,580	1,080
	Total Revenues	<u>106,600</u>	<u>106,600</u>	<u>124,679</u>	<u>18,079</u>
Expenditures					
Current:					
	Public works	288,380	288,380	32,186	256,194
	Total Expenditures	<u>288,380</u>	<u>288,380</u>	<u>32,186</u>	<u>256,194</u>
	Net Change in Fund Balance	<u>\$ (181,780)</u>	<u>\$ (181,780)</u>	92,493	<u>\$ 274,273</u>
	Beginning fund balance			<u>331,242</u>	
	Ending Fund Balance			<u>\$ 423,735</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
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL
NONMAJOR SPECIAL REVENUE FUNDS
For the Year Ended September 30, 2013

		Special Revenue and Grants Fund			
		Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
		Original Budget	Budget as Amended		
Revenues					
Intergovernmental		\$ 1,067,400	\$ 1,117,400	\$ 575,438	\$ (541,962)
Investment earnings		100	100	571	471
Other revenues		-	-	1,030	1,030
Total Revenues		1,067,500	1,117,500	577,039	(540,461)
Expenditures					
Current:					
Public safety		376,290	426,290	84,918	341,372
Public works		665,240	665,240	459,252	205,988
Public services		250,250	250,250	116,986	133,264
Total Expenditures		1,291,780	1,341,780	661,156	680,624
Net Change in Fund Balance		\$ (224,280)	\$ (224,280)	(84,117)	\$ 140,163
Beginning fund balance				299,533	
			Ending Fund Balance	\$ 215,416	

Notes to Supplementary Information:

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

(This page intentionally left blank.)