

ANNUAL FINANCIAL REPORT

of the

CITY OF NASSAU BAY, TEXAS

For the Year Ended
September 30, 2014

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CITY OF NASSAU BAY, TEXAS

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INTRODUCTORY SECTION

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CITY OF NASSAU BAY, TEXAS

PRINCIPAL OFFICIALS

September 30, 2014

City Officials	Elective Position	Term Expires
Mark Denman	Mayor	05/2016
David Braun	Council Member	05/2015
Sandra Mossman	Council Member	05/2016
John Mahon	Council Member	05/2015
Bryce Klug	Council Member	05/2016
Jonathan Amdur	Council Member	05/2015
Bob Warters	Council Member	05/2016

Key Staff	Position
Chris Reed	City Manager
Csilla Stiles	Director of Finance
Pat Jones	City Secretary

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FINANCIAL SECTION

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INDEPENDENT AUDITORS' REPORT

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

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, 2014, 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.

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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, 2014, and the respective changes in financial position and, where applicable, cash flows 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
March 3, 2015

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

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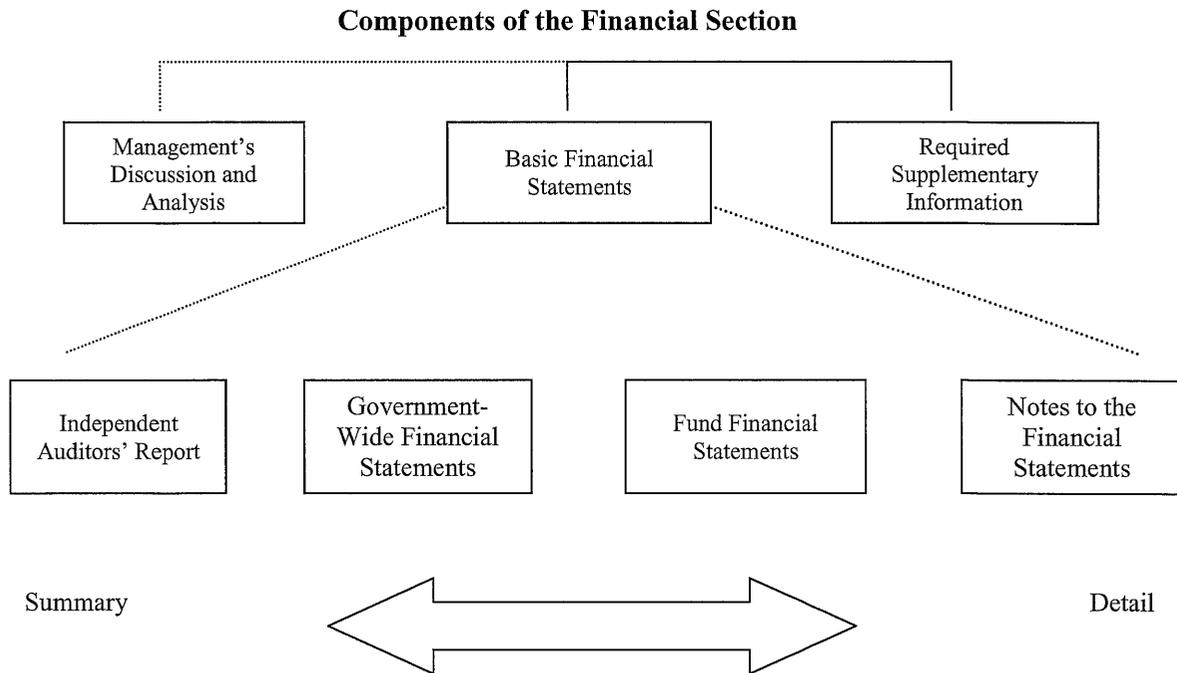
CITY OF NASSAU BAY, TEXAS

MANAGEMENT'S DISCUSSION AND ANALYSIS

For the Year Ended September 30, 2014

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, 2014. 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, 2014

The Statement of Net Position presents information on all of the City's assets, liabilities, and deferred inflows/outflows of resources, 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, and a legally separate management district, the NASA Area Management 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 and the Nassau Bay Redevelopment 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 the long-term impact of the government's near-term financing decisions. Both the governmental fund balance

CITY OF NASSAU BAY, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
For the Year Ended September 30, 2014

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), the redevelopment authority fund, the tourism fund, and the capital projects fund, which are considered to be major funds. Data from the other three 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 operations. 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 budgetary comparison schedules for the general fund and tourism fund, as well as a schedule of funding progress for the Texas Municipal Retirement System. 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 and deferred outflows of resources exceed liabilities by \$15,061,539 as of year end in the primary government.

The largest portion of the City's net position, 70 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, 2014

Statement of Net Position:

The following table reflects the condensed Statement of Net Position:

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2014	2013	2014	2013	2014	2013
Current and other assets	\$ 3,560,968	\$ 4,681,548	\$ 2,094,356	\$ 3,666,646	\$ 5,655,324	\$ 8,348,194
Capital assets, net	13,251,616	9,375,751	5,660,503	3,931,725	18,912,119	13,307,476
Total Assets	16,812,584	14,057,299	7,754,859	7,598,371	24,567,443	21,655,670
Long-term liabilities	6,620,012	5,542,477	2,212,361	2,304,769	8,832,373	7,847,246
Other liabilities	320,824	293,465	352,707	187,242	673,531	480,707
Total Liabilities	6,940,836	5,835,942	2,565,068	2,492,011	9,505,904	8,327,953
Net Position:						
Net investment in capital assets	6,831,355	4,512,805	3,684,228	1,865,447	10,515,583	6,378,252
Restricted	1,395,857	2,354,949	-	-	1,395,857	2,354,949
Unrestricted	1,644,536	1,353,603	1,505,563	3,240,913	3,150,099	4,594,516
Total Net Position	\$ 9,871,748	\$ 8,221,357	\$ 5,189,791	\$ 5,106,360	\$ 15,061,539	\$ 13,327,717

A portion of the primary government's net position, \$1,395,857 or nine percent, represents resources that are subject to restrictions on how they may be used. The remaining balance of unrestricted net position, \$3,150,099, may be used to meet the City's ongoing obligation to citizens and creditors. Net position increased by \$1,733,822 compared to the prior year.

CITY OF NASSAU BAY, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
For the Year Ended September 30, 2014

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	
	2014	2013	2014	2013	2014	2013
Revenues						
Program revenues:						
Charges for services	\$ 566,988	\$ 522,189	\$ 2,210,220	\$ 2,230,644	\$ 2,777,208	\$ 2,752,833
Operating grants and contributions	62,619	71,480	-	-	62,619	71,480
Capital grants and contributions	1,236,165	575,438	-	-	1,236,165	575,438
General revenues:						
Property taxes	3,630,690	3,374,678	-	-	3,630,690	3,374,678
Sales taxes	654,575	615,496	-	-	654,575	615,496
Other taxes	1,127,827	1,058,250	-	-	1,127,827	1,058,250
Investment earnings	11,696	11,838	5,172	7,733	16,868	19,571
Other revenues	257,804	121,652	-	-	257,804	121,652
Total Revenues	7,548,364	6,351,021	2,215,392	2,238,377	9,763,756	8,589,398
Expenses						
General government	1,215,114	1,100,756	-	-	1,215,114	1,100,756
Public safety	1,998,147	1,546,368	-	-	1,998,147	1,546,368
Public works	1,040,699	1,486,490	-	-	1,040,699	1,486,490
Public services	445,293	497,859	-	-	445,293	497,859
Economic development/ tourism	1,144,305	3,549,936	-	-	1,144,305	3,549,936
Interest on long-term debt	251,585	262,400	-	-	251,585	262,400
Water and sewer	-	-	1,934,791	1,851,303	1,934,791	1,851,303
Total Expenses	6,095,143	8,443,809	1,934,791	1,851,303	8,029,934	10,295,112
Increase (Decrease) in Net Position Before Transfers	1,453,221	(2,092,788)	280,601	387,074	1,733,822	(1,705,714)
Gain (loss) on sale of capital assets	-	9,323	-	-	-	9,323
Transfers	197,170	(215,382)	(197,170)	215,382	-	-
Change in Net Position	1,650,391	(2,298,847)	83,431	602,456	1,733,822	(1,696,391)
Beginning net position	8,221,357	10,520,204	5,106,360	4,503,904	13,327,717	15,024,108
Ending Net Position	\$ 9,871,748	\$ 8,221,357	\$ 5,189,791	\$ 5,106,360	\$ 15,061,539	\$ 13,327,717

CITY OF NASSAU BAY, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
For the Year Ended September 30, 2014

For the year ended September 30, 2014, revenues from governmental activities totaled \$7,548,364. Revenues experienced a net increase of 19 percent in total. Although operating grants decreased; capital grants as well as property, sales, and other taxes all increased over the prior year as a result of continued economic development in the City.

For the year ended, expenses for governmental activities totaled \$6,095,143. Total expenses decreased 28 percent from the prior year, which can be attributed primarily to a decrease in economic development/tourism expenses related to a developer reimbursement paid in the prior year.

Business-type activities net position increased by \$83,431. Current year revenues were comparable to prior year revenues, which decreased by one percent. Expenses increased five percent compared to the prior year due to an increase in administrative and maintenance expenses.

FINANCIAL ANALYSIS OF THE CITY'S FUNDS

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

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

The City's governmental funds reflect a combined fund balance of \$3,124,149. Of this, \$162,598 is restricted for debt service, \$478,315 is restricted for enabling legislation, \$754,944 is restricted for various projects, and \$1,728,292 is unassigned.

The general fund had decrease in fund balance of \$166,033 for the year. Compared to the prior year, revenues increased \$122,228 mainly due to an increase in sales tax revenue and permit revenue from an increase in commercial activity. Expenditures remained consistent with prior year amounts increasing \$46,541.

The debt service fund had a decrease in fund balance of \$19,281 as a result of an increase in debt service payments.

The RDA fund had a decrease in fund balance of \$389,222. Revenues and expenditures for the fund were \$1,499 and \$982,808, respectively.

The tourism fund had an increase in fund balance of \$165,694 as a result of an increase in hotel tax revenue. Revenues and expenditures for the fund were \$670,837 and \$446,673, respectively.

The capital projects fund had a decrease in fund balance of \$429,135 as a result of additional capital improvements during the year.

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

CITY OF NASSAU BAY, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
For the Year Ended September 30, 2014

GENERAL FUND BUDGETARY HIGHLIGHTS

Actual revenues exceeded original and final budgeted revenues by \$33,152 during the year due to higher than expected revenues for licenses and permits, charges for services, and other tax revenues. General fund expenditures were under the final budget by \$451,996 during the year due to lower than expected expenditures across all functions.

CAPITAL ASSETS

At the end of the year, the City had invested \$18,912,119 in a variety of capital assets. This represents a net increase of \$5,604,643.

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

- City hall and conference center for \$3,742,147
- Drainage rehabilitation and replacement for \$106,969
- Pavement repair project for \$311,830
- City hall furniture and surveillance for a total of \$149,313

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 outstanding of \$8,605,261. Of this amount, \$5,015,000 represents certificates of obligation, \$610,000 represents general obligation debt, and \$210,261 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 a \$12.6 million budget for the 2014-2015 fiscal year. This is a 12.5 percent increase from the prior year. The tax rate adopted for the fiscal year 2014-2015 budget will change to \$0.742120. The budgeted taxable assessed valuations increased by 3.87 percent to \$429 million. Budgeted property tax receipts comprise 25.4 percent of all City-wide revenue sources and 56 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, 1800 Space Park Drive, Suite 200, Nassau Bay, Texas, 77058; by telephone at 281.333.4211; or by email at finance.office@nassaubay.com.

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BASIC FINANCIAL STATEMENTS

CITY OF NASSAU BAY, TEXAS

STATEMENT OF NET POSITION

September 30, 2014

	Primary Government			Component Unit
	Governmental Activities	Business-Type Activities	Total	Nassau Bay Economic Dev. Corp.
Assets				
Cash and cash equivalents	\$ 2,627,589	\$ 1,604,729	\$ 4,232,318	\$ 274,739
Receivables, net	549,220	280,902	830,122	42,734
Due from component units	2,481	-	2,481	-
Restricted assets:				
Temporarily restricted cash and cash equivalents	381,678	208,725	590,403	-
Capital assets:				
Non-depreciable	961,057	2,119,061	3,080,118	-
Net depreciable	12,290,559	3,541,442	15,832,001	-
Total Assets	16,812,584	7,754,859	24,567,443	317,473
Liabilities				
Accounts payable and accrued liabilities	282,953	266,018	548,971	-
Customer deposits	-	70,123	70,123	-
Accrued interest payable	37,871	16,566	54,437	-
Due to primary government	-	-	-	1,098
Noncurrent liabilities:				
Long-term liabilities due within one year	1,097,098	114,624	1,211,722	-
Long-term liabilities due in more than one year	5,522,914	2,097,737	7,620,651	-
Total Liabilities	6,940,836	2,565,068	9,505,904	1,098
Net Position				
Net investment in capital assets	6,831,355	3,684,228	10,515,583	-
Restricted for:				
Debt service	162,598	-	162,598	-
Enabling legislation	478,315	-	478,315	-
Special projects	732,650	-	732,650	-
Capital projects	22,294	-	22,294	-
Nassau Bay Economic Development	-	-	-	316,375
NASA Area Management District	-	-	-	-
Unrestricted	1,644,536	1,505,563	3,150,099	-
Total Net Position	\$ 9,871,748	\$ 5,189,791	\$ 15,061,539	\$ 316,375

See Notes to Financial Statements.

CITY OF NASSAU BAY, TEXAS

STATEMENT OF ACTIVITIES

For the Year Ended September 30, 2014

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary Government				
Governmental Activities				
General government	\$ 1,215,114	\$ 320,750	\$ -	\$ 1,236,165
Public safety	1,998,147	137,943	62,619	-
Public works	1,040,699	108,295	-	-
Public services	445,293	-	-	-
Economic development/tourism	1,144,305	-	-	-
Interest and fiscal agent fees on long-term debt	251,585	-	-	-
Total Governmental Activities	6,095,143	566,988	62,619	1,236,165
Business-Type Activities				
Water and sewer	1,934,791	2,210,220	-	-
Total Business-Type Activities	1,934,791	2,210,220	-	-
Total Primary Government	\$ 8,029,934	\$ 2,777,208	\$ 62,619	\$ 1,236,165
Component Units				
Nassau Bay Economic Development Corp.	\$ 135,038	\$ -	\$ -	\$ -
NASA Area Management District	77,857	-	-	-
Total Component Units	\$ 212,895	\$ -	\$ -	\$ -

General Revenues:

- Taxes
 - Property taxes
 - Sales taxes
 - Other taxes
- Investment earnings
- Other revenues
- 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
\$ 341,801	\$ -	\$ 341,801	\$ -	\$ -
(1,797,585)	-	(1,797,585)	-	-
(932,404)	-	(932,404)	-	-
(445,293)	-	(445,293)	-	-
(1,144,305)	-	(1,144,305)	-	-
(251,585)	-	(251,585)	-	-
(4,229,371)	-	(4,229,371)	-	-
-	275,429	275,429	-	-
-	275,429	275,429	-	-
(4,229,371)	275,429	(3,953,942)	-	-
-	-	-	(135,038)	-
-	-	-	-	(77,857)
-	-	-	(135,038)	(77,857)
3,630,690	-	3,630,690	-	-
654,575	-	654,575	261,830	91,903
1,127,827	-	1,127,827	-	-
11,696	5,172	16,868	253	-
257,804	-	257,804	-	-
197,170	(197,170)	-	-	-
5,879,762	(191,998)	5,687,764	262,083	91,903
1,650,391	83,431	1,733,822	127,045	14,046
8,221,357	5,106,360	13,327,717	189,330	154,621
\$ 9,871,748	\$ 5,189,791	\$ 15,061,539	\$ 316,375	\$ 168,667

CITY OF NASSAU BAY, TEXAS

BALANCE SHEET

GOVERNMENTAL FUNDS

September 30, 2014

	General	Debt Service	RDA	Tourism
<u>Assets</u>				
Cash and cash equivalents	\$ 1,765,861	\$ 162,598	\$ 20,389	341,050
Receivables, net	356,126	1,554	-	165,751
Due from other funds	2,404	-	-	-
Due from component units	2,481	-	-	-
Restricted assets	-	-	381,678	-
Total Assets	\$ 2,126,872	\$ 164,152	\$ 402,067	\$ 506,801
<u>Liabilities</u>				
Accounts payable and accrued liabilities	\$ 246,268	\$ -	\$ -	\$ 28,486
Due to other funds	-	-	2,404	-
Total Liabilities	246,268	-	2,404	28,486
<u>Deferred Inflows of Resources</u>				
Unavailable revenue - ambulance	140,633	-	-	-
Unavailable revenue - property taxes	11,679	1,554	-	-
Total Deferred Inflows of Resources	152,312	1,554	-	-
<u>Fund Balances</u>				
Restricted for:				
Debt service	-	162,598	-	-
Enabling legislation	-	-	-	478,315
Capital projects	-	-	-	-
Special projects	-	-	399,663	-
Unassigned	1,728,292	-	-	-
Total Fund Balances	1,728,292	162,598	399,663	478,315
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	\$ 2,126,872	\$ 164,152	\$ 402,067	\$ 506,801

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

 Capital assets - net depreciable

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

 Property taxes

 Ambulance services

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

 Accrued interest payable

 Non-current liabilities due in one year

 Non-current liabilities due in more than one year

Net Position of Governmental Activities

See Notes to Financial Statements.

<u>Capital Projects</u>	<u>Nonmajor Governmental</u>	<u>Total Governmental Funds</u>
22,294	\$ 315,397	\$ 2,627,589
-	25,789	549,220
-	-	2,404
-	-	2,481
-	-	381,678
<u>\$ 22,294</u>	<u>\$ 341,186</u>	<u>\$ 3,563,372</u>
\$ -	\$ 8,199	\$ 282,953
-	-	2,404
<u>-</u>	<u>8,199</u>	<u>285,357</u>
-	-	140,633
-	-	13,233
<u>-</u>	<u>-</u>	<u>153,866</u>
-	-	162,598
-	-	478,315
22,294	-	22,294
-	332,987	732,650
-	-	1,728,292
<u>22,294</u>	<u>332,987</u>	<u>3,124,149</u>
<u>\$ 22,294</u>	<u>\$ 341,186</u>	
	961,057	
	<u>12,290,559</u>	13,251,616
	13,233	
	<u>140,633</u>	153,866
	(37,871)	
	(1,097,098)	
	<u>(5,522,914)</u>	
		<u>(6,657,883)</u>
		<u>\$ 9,871,748</u>

CITY OF NASSAU BAY, TEXAS

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

For the Year Ended September 30, 2014

	General	Debt Service	RDA	Tourism
Revenues				
Property taxes	\$ 2,740,046	\$ 297,459	\$ -	\$ -
Sales taxes	523,660	-	-	-
Other taxes	458,116	-	-	669,711
Licenses and permits	108,295	-	-	-
Fines and forfeitures	137,943	-	-	-
Charges for services	328,314	-	-	-
Intergovernmental	-	-	-	-
Investment earnings	6,274	366	1,499	1,126
Other revenues	254,544	-	-	-
Total Revenues	4,557,192	297,825	1,499	670,837
Expenditures				
Current:				
General government	904,097	-	-	-
Public safety	1,867,198	-	-	-
Public works	947,559	-	-	-
Public services	417,176	-	-	-
Economic development/tourism	-	-	622,240	446,673
Capital outlay	-	-	-	-
Debt service:				
Principal	96,997	541,698	255,000	-
Interest and fiscal charges	16,868	88,878	105,568	-
Total Expenditures	4,249,895	630,576	982,808	446,673
Excess (Deficiency) of Revenues Over (Under) Expenditures	307,297	(332,751)	(981,309)	224,164
Other Financing Sources (Uses)				
Transfers in	-	313,470	592,087	-
Transfers (out)	(473,830)	-	-	(58,470)
Sale of capital assets	500	-	-	-
Debt issued	-	-	-	-
Total Other Financing Sources (Uses)	(473,330)	313,470	592,087	(58,470)
Net Change in Fund Balances	(166,033)	(19,281)	(389,222)	165,694
Beginning fund balances	1,894,325	181,879	788,885	312,621
Ending Fund Balances	\$ 1,728,292	\$ 162,598	\$ 399,663	\$ 478,315

See Notes to Financial Statements.

<u>Capital Projects</u>	<u>Nonmajor Governmental</u>	<u>Total Governmental Funds</u>
\$ -	\$ 592,087	\$ 3,629,592
-	130,915	654,575
-	-	1,127,827
-	-	108,295
-	-	137,943
-	-	328,314
-	62,619	62,619
595	1,836	11,696
-	3,260	257,804
<u>595</u>	<u>790,717</u>	<u>6,318,665</u>
-	-	904,097
-	92,248	1,959,446
-	307,147	1,254,706
-	105,399	522,575
-	-	1,068,913
2,802,791	-	2,802,791
-	-	893,695
42,939	-	254,253
<u>2,845,730</u>	<u>504,794</u>	<u>9,660,476</u>
<u>(2,845,135)</u>	<u>285,923</u>	<u>(3,341,811)</u>
416,000	-	1,321,557
-	(592,087)	(1,124,387)
-	-	500
2,000,000	-	2,000,000
<u>2,416,000</u>	<u>(592,087)</u>	<u>2,197,670</u>
(429,135)	(306,164)	(1,144,141)
451,429	639,151	4,268,290
<u>\$ 22,294</u>	<u>\$ 332,987</u>	<u>\$ 3,124,149</u>

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CITY OF NASSAU BAY, TEXAS
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE
STATEMENT OF ACTIVITIES
For the Year Ended September 30, 2014

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

Net changes in fund balances - total governmental funds	\$	(1,144,141)
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Governmental funds report capital outlays as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.

Capital outlay		4,545,068
Depreciation expense		(608,798)
Net effect of miscellaneous transactions involving capital outlay		(60,405)

Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds.

Property taxes		1,098
Ambulance services		(7,564)

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.

Principal expenditures		893,695
Debt issued		(2,000,000)

Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds.

Accrued interest		2,668
Compensated absences		28,770

Change in Net Position of Governmental Activities	\$	1,650,391
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See Notes to Financial Statements.

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CITY OF NASSAU BAY, TEXAS

STATEMENT OF NET POSITION

PROPRIETARY FUND

September 30, 2014

		<u>Business-Type Activities</u>
		<u>Enterprise</u>
<u>Assets</u>		
Current assets:		
Cash and cash equivalents	\$	1,604,729
Receivables, net		280,902
Current restricted assets:		
Cash and cash equivalents		208,725
Total Current Assets		<u>2,094,356</u>
Noncurrent assets:		
Capital assets:		
Land		43,459
Construction in progress		2,075,602
Water and sewer system		7,288,953
Water rights, SEWPP		2,178,085
Machinery and equipment		282,137
Less: accumulated depreciation		<u>(6,207,733)</u>
Total Capital Assets, Net of Accumulated Depreciation		<u>5,660,503</u>
Total Noncurrent Assets		<u>5,660,503</u>
Total Assets		<u>7,754,859</u>
<u>Liabilities</u>		
Current liabilities:		
Accounts payable and accrued liabilities		266,018
Accrued interest payable		16,566
Customer deposits		70,123
Bond payable, due in one year		90,000
Compensated absences due in one year		24,624
Total Current Liabilities		<u>467,331</u>
Noncurrent liabilities:		
Bond payable due in more than one year		2,095,000
Compensated absences due in more than one year		2,737
Total Noncurrent Liabilities		<u>2,097,737</u>
Total Liabilities		<u>2,565,068</u>
<u>Net Position</u>		
Net investment in capital assets		3,684,228
Unrestricted		1,505,563
Total Net Position	\$	<u>5,189,791</u>

See Notes to Financial Statements.

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CITY OF NASSAU BAY, TEXAS

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

For the Year Ended September 30, 2014

	<u>Business-Type Activities</u>
	<u>Enterprise</u>
<u>Operating Revenues</u>	
Water charges	\$ 1,094,617
Sewer charges	1,050,905
Penalties and reconnect fees	33,158
Other revenues	31,540
Total Operating Revenues	<u>2,210,220</u>
<u>Operating Expenses</u>	
General and administrative	1,096,972
Water expenses	197,630
Sewer expenses	253,970
Depreciation	285,340
Total Operating Expenses	<u>1,833,912</u>
Operating Income	<u>376,308</u>
<u>Nonoperating Revenues (Expenses)</u>	
Investment earnings	5,172
Interest expense	(100,879)
Total Nonoperating (Expenses)	<u>(95,707)</u>
Income Before Transfers	<u>280,601</u>
Transfers (out)	(197,170)
Total Transfers	<u>(197,170)</u>
Change in Net Position	83,431
Beginning net position	<u>5,106,360</u>
Ending Net Position	<u>\$ 5,189,791</u>

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, 2014

	Business-Type Activities
	Enterprise
<u>Cash Flows from Operating Activities</u>	
Receipts from customers	\$ 2,275,655
Payments to suppliers	(475,782)
Payments to employees	(962,533)
Net Cash Provided by Operating Activities	837,340
<u>Cash Flows from Noncapital Financing Activities</u>	
Transfers (out) to other funds	(197,170)
Net Cash (Used) by Noncapital Financing Activities	(197,170)
<u>Cash Flows from Capital and Related Financing Activities</u>	
Acquisition and construction of capital assets	(2,014,118)
Principal paid on debt	(90,000)
Interest and fiscal charges	(100,879)
Net Cash (Used) by Capital and Related Financing Activities	(2,204,997)
<u>Cash Flows from Investing Activities</u>	
Interest on investments	5,172
Net Cash Provided by Investing Activities	5,172
Net (Decrease) in Cash and Cash Equivalents	(1,559,655)
Beginning cash and cash equivalents	3,373,109
Ending Cash and Cash Equivalents	\$ 1,813,454
Ending Cash and Cash Equivalents:	
Unrestricted cash and cash equivalents	\$ 1,604,729
Restricted cash and cash equivalents	208,725
	\$ 1,813,454

CITY OF NASSAU BAY, TEXAS

STATEMENT OF CASH FLOWS PROPRIETARY FUND (Page 2 of 2) For the Year Ended September 30, 2014

	<u>Business-Type Activities</u> <u>Enterprise</u>
<u>Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities</u>	
Operating income	\$ 376,308
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:	
Depreciation	285,340
Changes in Operating Assets and Liabilities:	
(Increase) Decrease in:	
Accounts receivable	54,835
Increase (Decrease) in:	
Accounts payable and accrued liabilities	154,865
Due to other funds	(42,200)
Compensated absences	(2,408)
Customer deposits	10,600
Net Cash Provided by Operating Activities	<u><u>\$ 837,340</u></u>

See Notes to Financial Statements.

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CITY OF NASSAU BAY, TEXAS

NOTES TO FINANCIAL STATEMENTS

For the Year Ended September 30, 2014

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, 2014

dissolution, net position of the Corporation shall be conveyed to the City. 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 government is reported separately from certain legally separate component units for which the primary government is financially accountable.

CITY OF NASSAU BAY, TEXAS
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended September 30, 2014

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:

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.

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.

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, TIRZ #1, Nassau Bay redevelopment authority (RDA), and special revenue and grants. The RDA fund is considered a major fund for reporting purposes while the tourism, streets, TIRZ #1, and special revenue and grants funds are considered nonmajor funds.

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.

CITY OF NASSAU BAY, TEXAS
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended September 30, 2014

The City reports the following enterprise fund:

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

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.

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

CITY OF NASSAU BAY, TEXAS
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended September 30, 2014

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.

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

CITY OF NASSAU BAY, TEXAS
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended September 30, 2014

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. Restricted Assets

Certain proceeds of bonds, as well as other resources set aside for specific purposes, are classified as restricted assets on the balance sheet because their use is limited by applicable bond covenants or contractual agreements. Restricted assets of the enterprise fund are restricted by bond covenants for repayment of debt and to finance construction projects.

5. 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

6. 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.

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*

CITY OF NASSAU BAY, TEXAS
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended September 30, 2014

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 and ambulance fees. This amount is deferred and recognized as an inflow of resources in the period that the amount becomes available.

7. 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.

8. Long-Term Obligations

The government-wide financial statement and proprietary fund type financial statements report long-term debt and other long-term obligations as liabilities in the applicable governmental activities, business-type activities or proprietary fund type Statement of Net Position. Bond premiums and discounts are deferred and amortized over the life of the bonds using the straight-line method. Bonds payable are reported net of applicable bond premium or discount.

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

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

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

CITY OF NASSAU BAY, TEXAS
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended September 30, 2014

9. 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.

10. 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.

11. 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).

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 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.

CITY OF NASSAU BAY, TEXAS
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended September 30, 2014

12. 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 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.

CITY OF NASSAU BAY, TEXAS
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended September 30, 2014

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	\$ 208,725	0.14
LOGIC	425,607	0.00
TexPool	143,058	0.00
Certificate of Deposit	150,000	0.89
Total Fair Value	\$ 927,390	
Portfolio weighted average maturity		0.18

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, 2014, 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, 2014, 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, 2014, the bank balances were \$4,083,744, of which \$651,716 was insured by FDIC. The market values of pledged securities were \$4,066,225.

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.

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

CITY OF NASSAU BAY, TEXAS
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended September 30, 2014

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:

	<u>Governmental Funds</u>				<u>Proprietary Fund</u>
	<u>General</u>	<u>Debt Service</u>	<u>Tourism</u>	<u>Nonmajor Governmental</u>	<u>Enterprise</u>
Accounts	\$ 3,862	\$ -	\$ -	\$ 4,422	\$ 327,993
Property taxes	233,573	31,093	-	-	-
Sales taxes	85,467	-	-	21,367	-
Other taxes	82,162	-	165,751	-	-
Grants	31,851	-	-	-	-
Ambulance billing	790,793	-	-	-	-
Returned checks	472	-	-	-	-
Less:					
Allowances	(872,054)	(29,539)	-	-	(47,091)
	<u>\$ 356,126</u>	<u>\$ 1,554</u>	<u>\$ 165,751</u>	<u>\$ 25,789</u>	<u>\$ 280,902</u>

	<u>Component Units</u>	
	<u>Nassau Bay Economic Dev. Corp.</u>	<u>NASA Area Management District</u>
Sales taxes	<u>\$ 42,734</u>	<u>\$ 15,144</u>

CITY OF NASSAU BAY, TEXAS
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended September 30, 2014

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	22,087	289,744	(311,831)	-
	983,144	289,744	(311,831)	961,057
Other capital assets:				
Buildings	1,202,660	3,742,147	(68,642)	4,876,165
Improvements other than buildings	9,440,725	505,900	-	9,946,625
Machinery and equipment	3,038,412	319,108	(70,209)	3,287,311
Total other capital assets	13,681,797	4,567,155	(138,851)	18,110,101
Total capital assets	14,664,941	4,856,899	(450,682)	19,071,158
Less accumulated depreciation for:				
Buildings	(268,362)	(64,162)	8,237	(324,287)
Improvements other than buildings	(3,003,570)	(371,838)	-	(3,375,408)
Machinery and equipment	(2,017,258)	(172,798)	70,209	(2,119,847)
Total accumulated depreciation	(5,289,190)	(608,798)	78,446	(5,819,542)
Other capital assets, net	8,392,607	3,958,357	(60,405)	12,290,559
Governmental Activities Capital Assets, Net	\$ 9,375,751	\$ 4,248,101	\$ (372,236)	13,251,616
			Less associated debt	(6,420,261)
			Net Investment in Capital Assets	\$ 6,831,355

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	\$ 91,063
Public safety	158,745
Public works	280,181
Public services	3,417
Economic development	75,392
Total Governmental Activities Depreciation Expense	\$ 608,798

CITY OF NASSAU BAY, TEXAS
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended September 30, 2014

The following is a summary of changes in capital assets for business-type activities for the year ended September 30, 2014:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>(Decreases)</u>	<u>Ending Balance</u>
Business-Type Activities:				
Capital assets not being depreciated:				
Land	\$ 43,459	\$ -	\$ -	\$ 43,459
Construction in progress	285,911	1,932,002	(142,311)	2,075,602
	<u>329,370</u>	<u>1,932,002</u>	<u>(142,311)</u>	<u>2,119,061</u>
Other capital assets:				
Water and sewer system	7,088,448	200,505	-	7,288,953
Water rights, SEWPP	2,154,163	23,922	-	2,178,085
Machinery and equipment	302,710	-	(20,573)	282,137
Total other capital assets	<u>9,545,321</u>	<u>224,427</u>	<u>(20,573)</u>	<u>9,749,175</u>
Less accumulated depreciation for:				
Water and sewer system	(4,752,227)	(220,779)	-	(4,973,006)
Water rights, SEWPP	(932,123)	(53,157)	-	(985,280)
Machinery and equipment	(258,616)	(11,404)	20,573	(249,447)
Total accumulated depreciation	<u>(5,942,966)</u>	<u>(285,340)</u>	<u>20,573</u>	<u>(6,207,733)</u>
Total capital assets, being depreciated, net	<u>3,602,355</u>	<u>(60,913)</u>	<u>-</u>	<u>3,541,442</u>
Business-Type Activities Capital Assets, Net	<u>\$ 3,931,725</u>	<u>\$ 1,871,089</u>	<u>\$ (142,311)</u>	<u>5,660,503</u>
			Less associated debt	(2,185,000)
			Plus unspent bond proceeds	<u>208,725</u>
			Net Investment in Capital Assets	<u>\$ 3,684,228</u>

Depreciation was charged to business-type functions as follows:

Water and sewer	<u>\$ 285,340</u>
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CITY OF NASSAU BAY, TEXAS
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended September 30, 2014

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, 2014. 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	\$ 228,521	\$ 184,003	\$ 212,773	\$ 199,751	\$ 179,776
Bonds, notes, and other payables:					
Certificates of obligation	1,281,698	2,000,000	451,698	2,830,000	* * 445,000
General obligation	700,000	-	90,000	610,000	* * 100,000
Contract revenue bonds	3,025,000	-	255,000	2,770,000	* * 270,000
Total	<u>5,235,219</u>	<u>2,184,003</u>	<u>1,009,471</u>	<u>6,409,751</u>	<u>994,776</u>
Capital leases	307,258	-	96,997	210,261	* * 102,322
Total	<u>307,258</u>	<u>-</u>	<u>96,997</u>	<u>210,261</u>	<u>102,322</u>
Total Governmental Activities	<u>\$ 5,542,477</u>	<u>\$ 2,184,003</u>	<u>\$ 1,106,468</u>	<u>\$ 6,620,012</u>	<u>\$ 1,097,098</u>
Long-Term Liabilities Due In More Than One Year				<u>\$ 5,522,914</u>	
**Debt Associated with Capital Assets				<u>\$ 6,420,261</u>	
Business-Type Activities:					
Certificates of obligation	\$ 2,275,000	\$ -	\$ 90,000	\$ 2,185,000	** \$ 90,000
Compensated absences	29,769	16,319	18,727	27,361	* 24,624
Total Business-Type Activities	<u>\$ 2,304,769</u>	<u>\$ 16,319</u>	<u>\$ 108,727</u>	<u>\$ 2,212,361</u>	<u>\$ 114,624</u>
Long-Term Liabilities Due In More Than One Year				<u>\$ 2,097,737</u>	
*Debt Associated with Capital Assets				<u>\$ 2,185,000</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, 2014

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 2006	4.31-4.33	\$ 170,000
Series 2007	5.15-5.25	325,000
Series 2008	3.09	435,000
Series 2013	2.64	1,900,000
Total Certificates of Obligation		<u>2,830,000</u>
General obligation		
Tax Notes, Series 2013	1.62	610,000
Total General Obligation		<u>610,000</u>
Contract revenue bonds		
RDA Tax Increment Contract Revenue Bonds	3.30	2,770,000
Total Contract Revenue Bonds		<u>2,770,000</u>
Capital leases		
Oshkosh Capital	5.49	210,261
Total Capital Leases		<u>210,261</u>
Total Governmental Activities Long-Term Debt		<u><u>\$ 6,420,261</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
2015	\$ 445,000	\$ 76,422	\$ 100,000	\$ 9,072	\$ 270,000	\$ 91,410
2016	455,000	60,960	100,000	7,452	280,000	82,726
2017	380,000	47,008	100,000	5,832	290,000	73,260
2018	125,000	39,231	100,000	4,212	295,000	63,690
2019	125,000	35,935	105,000	2,552	305,000	53,955
2020-2024	685,000	127,189	105,000	851	1,330,000	111,825
2025-2029	615,000	32,902	-	-	-	-
Total	<u>\$ 2,830,000</u>	<u>\$ 419,647</u>	<u>\$ 610,000</u>	<u>\$ 29,971</u>	<u>\$ 2,770,000</u>	<u>\$ 476,866</u>

Year Ending Sept. 30	Capital Leases		Total
	Principal	Interest	
2015	\$ 102,322	\$ 11,543	\$ 1,105,769
2016	107,939	5,926	1,100,003
2017	-	-	896,100
2018	-	-	627,133
2019	-	-	627,442
2020-2024	-	-	2,359,865
2025-2029	-	-	647,902
Total	<u>\$ 210,261</u>	<u>\$ 17,469</u>	<u>\$ 7,364,214</u>

CITY OF NASSAU BAY, TEXAS
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended September 30, 2014

In July 2013, 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	2.84-5.29	\$ 2,185,000
Total Certificates of Obligation		\$ 2,185,000

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

Year Ending Sept. 30	Certificates of Obligation		
	Principal	Interest	Total
2015	\$ 90,000	\$ 98,119	\$ 188,119
2016	95,000	95,373	190,373
2017	95,000	92,319	187,319
2018	100,000	88,987	188,987
2019	105,000	85,279	190,279
2020-2024	595,000	353,956	948,956
2025-2029	745,000	194,070	939,070
2030-2031	360,000	19,265	379,265
Total	\$ 2,185,000	\$ 1,027,368	\$ 3,212,368

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 \$201,227 and a net value of \$469,529.

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, 2014

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	\$ 592,087
Enterprise	Debt service	197,170
General fund	Debt service	57,830
General fund	Capital projects	416,000
Tourism	Debt service	58,470
		<u>\$ 1,321,557</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	\$ 2,404
		<u>\$ 2,404</u>

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

IV. OTHER INFORMATION

A. Risk Management

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

B. Contingent Liabilities

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

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

CITY OF NASSAU BAY, TEXAS
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended September 30, 2014

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.

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>2014</u>	<u>2013</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 Entry Age Normal (EAN) cost method (EAN was first used in the December 31, 2013 valuation; previously, the Projected Unit Credit actuarial cost method had been used). 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 for an employee is the contribution rate which, if applied to a member's compensation throughout their period of anticipated covered service with the municipality, would be sufficient to meet all benefits payable on their behalf. The salary-weighted average of the individual rates is the total normal cost rate. The prior service contribution rate amortizes the unfunded (overfunded) actuarial liability (asset) over the applicable period for that city. Both the normal cost and prior service contribution rates include recognition of the projects impact of annually repeating benefits, such as Updated Service Credits and Annuity Increases.

CITY OF NASSAU BAY, TEXAS
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended September 30, 2014

The City contributes to the TMRS plan at an actuarially determined rate. Both the employees and the City make contributions monthly. Since the City needs to know its contribution rate in advance for budgetary purposes, there is a one year delay between the actuarial valuation that serves as the basis for the rate and the calendar year when the rate goes into effect.

The annual pension cost and the net pension obligation (asset) are as follows:

Annual required contribution (ARC)	\$	329,869
Interest on net pension obligation (NPO)		-
Adjustment to the ARC		-
Annual pension cost (APC)		329,869
Contributions made		(329,869)
Increase in NPO		-
NPO-beginning of year		-
NPO-end of year	\$	-

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

Fiscal Year	Annual Pension Cost (APC)	Actual Contribution Made	Percentage of APC Contributed	Net Pension Obligation
2011	\$ 277,066	\$ 277,066	100.00%	\$ -
2012	\$ 314,989	\$ 314,989	100.00%	\$ -
2013	\$ 329,869	\$ 329,869	100.00%	\$ -

CITY OF NASSAU BAY, TEXAS
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended September 30, 2014

The required contribution rates for fiscal year 2014 were determined as part of the December 31, 2011 and 2012 actuarial valuation. Additional information as of the latest actuarial valuation, December 31, 2013, also follows:

	<u>2014</u>	<u>2013</u>	<u>2012</u>
Actuarial Valuation Date	12/31/2013	12/31/2012	12/31/2011
Actuarial Cost Method	Entry Age Normal	Projected Unit Credit	Projected Unit Credit
Amortization Method	Level % of Payroll	Level % of Payroll	Level % of Payroll
Remaining Amortization Period	30.0 Years - Closed period	26.4 Years - Closed period	27.6 Years - Closed period
Amortization Period for New Gains/Losses	24 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

In October 2013, the TMRS Board approved actuarial changes in (a) the funding method from Projected Unit Credit to Entry Age Normal, (b) the post-retirement mortality assumptions used in calculating liabilities and contribution rates and in the development of the Annuity Purchase Rate factors, and (c) the amortization policy. These actuarial changes were effective with the December 31, 2013 actuarial valuation. For a complete description of the new actuarial cost method and assumptions, please see the December 31, 2013 TMRS Comprehensive Annual Financial Report (CAFR).

The funded status as of December 31, 2013, the most recent actuarial valuation date, is presented as follows:

	<u>2014</u>
Actuarial Valuation Date	12/31/2013
Actuarial Value of Assets	\$ 4,555,270
Actuarial Accrued Liability	7,192,395
Percentage Funded	63.3%
Unfunded Actuarial Accrued Liability (UAAL)	\$ 2,637,125
Annual Covered Payroll	\$ 2,545,257
UAAL as a Percentage of Covered Payroll	103.6%

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

CITY OF NASSAU BAY, TEXAS
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended September 30, 2014

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 RSI following the notes to the financial statements, presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability of benefits.

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, 2014, 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 2014, 2013, and 2012 were \$251, \$254, and \$246, respectively. The City's contribution rates for the past three years are shown below:

	<u>2014</u>	<u>2013</u>	<u>2012</u>
Annual Req. Contrib. (Rate)	0.02%	0.01%	0.01%
Actual Contribution Made	0.02%	0.01%	0.01%
Percentage of ARC Contrib.	100.00%	100.00%	100.00%

CITY OF NASSAU BAY, TEXAS
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended September 30, 2014

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. 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 SEWPP’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, 2014, the City’s investment in SEWPP totaled \$2,178,085. The net investment reported is \$1,192,805, which includes accumulated depreciation of \$985,280.

REQUIRED SUPPLEMENTARY INFORMATION

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

GENERAL FUND

For the Year Ended September 30, 2014

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original Budget</u>	<u>Budget as Amended</u>		
Revenues				
Property taxes	\$ 2,747,400	\$ 2,737,000	\$ 2,740,046	\$ 3,046
Sales taxes	450,000	523,600	523,660	60
Other taxes	448,000	448,000	458,116	10,116
Licenses and permits	98,100	98,100	108,295	10,195
Fines and forfeitures	166,230	139,730	137,943	(1,787)
Charges for services	302,210	319,910	328,314	8,404
Investment income	5,000	5,000	6,274	1,274
Other revenues	338,180	252,700	254,544	1,844
Total Revenues	<u>4,555,120</u>	<u>4,524,040</u>	<u>4,557,192</u>	<u>33,152</u>
Expenditures				
Current:				
General government	1,053,561	1,040,201	904,097	136,104
Public safety	2,053,955	2,077,175	1,867,198	209,977
Public works	982,650	993,950	947,559	46,391
Public services	476,700	476,700	417,176	59,524
Debt service:				
Principal	96,997	96,997	96,997	-
Interest and fiscal charges	16,868	16,868	16,868	-
Total Expenditures	<u>4,680,731</u>	<u>4,701,891</u>	<u>4,249,895</u>	<u>451,996</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>(125,611)</u>	<u>(177,851)</u>	<u>307,297</u>	<u>485,148</u>
Other Financing Sources (Uses)				
Sale of capital assets	-	-	500	500
Transfers (out)	(193,500)	(473,830)	(473,830)	-
Total Other Financing (Uses)	<u>(193,500)</u>	<u>(473,830)</u>	<u>(473,330)</u>	<u>500</u>
Net Change in Fund Balance	<u>\$ (319,111)</u>	<u>\$ (651,681)</u>	<u>(166,033)</u>	<u>\$ 485,648</u>
Beginning fund balance			<u>1,894,325</u>	
Ending Fund Balance			<u>\$ 1,728,292</u>	

Notes to Required Supplementary Information:

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

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

For the Year Ended September 30, 2014

	Budgeted Amounts			Variance with Final Budget Positive (Negative)
	Original Budget	Budget as Amended	Actual	
Revenues				
Other taxes	\$ 520,000	\$ 669,000	\$ 669,711	\$ 711
Investment earnings	400	400	1,126	726
Total Revenues	520,400	669,400	670,837	1,437
Expenditures				
Current:				
Economic development/tourism	461,720	466,220	446,673	19,547
Total Expenditures	461,720	466,220	446,673	19,547
(Under) Expenditures	58,680	203,180	224,164	20,984
Other Financing Sources (Uses)				
Transfer out	(58,470)	(58,470)	(58,470)	-
Net Change in Fund Balance	\$ 210	\$ 144,710	165,694	\$ 20,984
Beginning fund balance			312,621	
		Ending Fund Balance	\$ 478,315	

Notes to Required Supplementary Information:

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

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CITY OF NASSAU BAY, TEXAS

SCHEDULE OF FUNDING PROGRESS

TEXAS MUNICIPAL RETIREMENT SYSTEM

For the Year Ended September 30, 2014

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	2014	2013	2012
Actuarial Valuation Date	12/31/2013	12/31/2012	12/31/2011
Actuarial Value of Assets	\$ 4,555,270	\$ 3,919,711	\$ 3,376,136
Actuarial Accrued Liability	\$ 7,192,395	\$ 6,848,499	\$ 6,368,898
Percentage Funded	63.3%	57.2%	53.0%
Unfunded Actuarial			
Accrued Liability (UAAL)	\$ 2,637,125	\$ 2,928,788	\$ 2,992,762
Annual Covered Payroll	\$ 2,545,257	\$ 2,431,325	\$ 2,398,970
UAAL % of Covered Payroll	103.6%	120.5%	124.8%
Net Pension Obligation (NPO)			
at the Beginning of Period	\$ -	\$ -	\$ -
Annual Req. Contrib. (ARC)	329,869	314,989	277,066
Contributions Made	329,869	314,989	277,066
NPO at the End of Period	\$ -	\$ -	\$ -

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COMBINING STATEMENTS AND SCHEDULES

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

For the Year Ended September 30, 2014

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original Budget	Budget as Amended		
Revenues				
Property taxes	\$ 299,520	\$ 299,520	\$ 297,459	\$ (2,061)
Investment earnings	600	600	366	(234)
Total Revenues	300,120	300,120	297,825	(2,295)
Expenditures				
Current:				
Principal	576,700	541,700	541,698	2
Interest and fiscal charges	123,540	89,140	88,878	262
Total Expenditures	700,240	630,840	630,576	264
(Deficiency) of Revenues (Under) Expenditures	(400,120)	(330,720)	(332,751)	(2,031)
Other Financing Sources (Uses)				
Transfers in	353,140	313,470	313,470	-
Total Other Financing Sources	353,140	313,470	313,470	-
Net Change in Fund Balance	\$ (46,980)	\$ (17,250)	(19,281)	\$ (2,031)
Beginning fund balance			181,879	
		Ending Fund Balance	\$ 162,598	

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, 2014

	Special Revenue Funds			Total Nonmajor Governmental Funds
	Streets	TIRZ #1	Special Revenue and Grants	
<u>Assets</u>				
Cash	\$ 227,181	\$ -	\$ 88,216	\$ 315,397
Receivables, net	21,367	-	4,422	25,789
Total Assets	\$ 248,548	\$ -	\$ 92,638	\$ 341,186
<u>Liabilities</u>				
Accounts payable and accrued liabilities	\$ -	\$ -	\$ 8,199	\$ 8,199
Total Liabilities	-	-	8,199	8,199
<u>Fund Balances</u>				
Restricted for:				
Special projects	248,548	-	84,439	332,987
Total Fund Balances	248,548	-	84,439	332,987
Total Liabilities and Fund Balances	\$ 248,548	\$ -	\$ 92,638	\$ 341,186

CITY OF NASSAU BAY, TEXAS
COMBINING STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
For the Year Ended September 30, 2014

	<u>Special Revenue Funds</u>			Total Nonmajor Governmental Funds
	<u>Streets</u>	<u>TIRZ #1</u>	<u>Special Revenue and Grants</u>	
<u>Revenues</u>				
Property taxes	\$ -	\$ 592,087	\$ -	\$ 592,087
Sales taxes	130,915	-	-	130,915
Intergovernmental	-	-	62,619	62,619
Investment earnings	1,045	-	791	1,836
Other revenues	-	-	3,260	3,260
Total Revenues	<u>131,960</u>	<u>592,087</u>	<u>66,670</u>	<u>790,717</u>
<u>Expenditures</u>				
Public safety	-	-	92,248	92,248
Public works	307,147	-	-	307,147
Public services	-	-	105,399	105,399
Total Expenditures	<u>307,147</u>	<u>-</u>	<u>197,647</u>	<u>504,794</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>(175,187)</u>	<u>592,087</u>	<u>(130,977)</u>	<u>285,923</u>
<u>Other Financing (Uses)</u>				
Transfers (out)	-	(592,087)	-	(592,087)
Total Other Financing (Uses)	<u>-</u>	<u>(592,087)</u>	<u>-</u>	<u>(592,087)</u>
Net Change in Fund Balances	<u>(175,187)</u>	<u>-</u>	<u>(130,977)</u>	<u>(306,164)</u>
Beginning fund balances	423,735	-	215,416	639,151
Ending Fund Balances	<u>\$ 248,548</u>	<u>\$ -</u>	<u>\$ 84,439</u>	<u>\$ 332,987</u>

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, 2014

		Streets Fund			
		Budgeted Amounts			Variance with Final Budget Positive (Negative)
		Original Budget	Budget as Amended	Actual	
Revenues					
	Sales Taxes	\$ 115,000	\$ 130,000	\$ 130,915	\$ 915
	Investment earnings	500	500	1,045	545
	Total Revenues	<u>115,500</u>	<u>130,500</u>	<u>131,960</u>	<u>1,460</u>
Expenditures					
Current:					
	Public works	235,370	392,550	307,147	85,403
	Total Expenditures	<u>235,370</u>	<u>392,550</u>	<u>307,147</u>	<u>85,403</u>
	Net Change in Fund Balance	<u>\$ (119,870)</u>	<u>\$ (262,050)</u>	(175,187)	<u>\$ 86,863</u>
	Beginning fund balance			<u>423,735</u>	
	Ending Fund Balance			<u>\$ 248,548</u>	

		Special Revenue and Grants Fund			
		Budgeted Amounts			Variance with Final Budget Positive (Negative)
		Original Budget	Budget as Amended	Actual	
Revenues					
	Intergovernmental	\$ 37,400	\$ 61,550	\$ 62,619	\$ 1,069
	Investment earnings	100	100	791	691
	Other revenues	-	2,000	3,260	1,260
	Total Revenues	<u>37,500</u>	<u>63,650</u>	<u>66,670</u>	<u>3,020</u>
Expenditures					
Current:					
	Public safety	74,500	123,400	92,248	31,152
	Public services	143,250	124,140	105,399	18,741
	Total Expenditures	<u>217,750</u>	<u>247,540</u>	<u>197,647</u>	<u>49,893</u>
	Net Change in Fund Balance	<u>\$ (180,250)</u>	<u>\$ (183,890)</u>	(130,977)	<u>\$ 52,913</u>
	Beginning fund balance			<u>215,416</u>	
	Ending Fund Balance			<u>\$ 84,439</u>	

Notes to Supplementary Information:

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