

ANNUAL FINANCIAL REPORT

of the

CITY OF NASSAU BAY, TEXAS

For the Year Ended
September 30, 2015

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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, 2015

<u>City Officials</u>	<u>Elective Position</u>	<u>Term Expires</u>
Mark Denman	Mayor	05/2016
Sandra Mossman	Council Member	05/2016
Harry Dollar	Council Member	05/2017
John Mahon	Council Member	05/2017
Bryce Klug	Council Member	05/2016
Jonathan Amdur	Council Member	05/2017
Bob Warters	Council Member	05/2016

<u>Key Staff</u>	<u>Position</u>
Jason Reynolds	City Manager
Csilla Stiles	Director of Finance
Marisela Garcia	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, 2015, 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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.

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, 2015, 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.

Emphasis of Matter

Change in Accounting Principle

In 2015, the City adopted new accounting guidance, Government Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions*, and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date – an amendment of GASB Statement No. 68*. Our opinion is not modified with respect to this matter.

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, schedule of changes in net pension liability and related ratios, and the schedule of contributions, 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.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated March 7, 2016 on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.

BELT HARRIS PECHACEK, LLLP

Belt Harris Pechacek, LLLP
Certified Public Accountants
Houston, Texas
March 7, 2016

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

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CITY OF NASSAU BAY, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
For the Year Ended September 30, 2015

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, 2015

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 special revenue and grants 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, redevelopment authority (RDA) fund, 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, RDA fund, and the special revenue and grants fund, as well as a schedule of changes in net pension liability and related ratios, and schedule of contributions 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 and deferred inflows by \$13,800,623 as of year end in the primary government.

The largest portion of the City's net position, 83 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, 2015

Statement of Net Position:

The following table reflects the condensed Statement of Net Position:

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2015	2014	2015	2014	2015	2014
Current and other assets	\$ 6,735,206	\$ 3,560,968	\$ 1,546,559	\$ 2,094,356	\$ 8,281,765	\$ 5,655,324
Capital assets, net	13,171,254	13,251,616	6,081,272	5,660,503	19,252,526	18,912,119
Total Assets	<u>19,906,460</u>	<u>16,812,584</u>	<u>7,627,831</u>	<u>7,754,859</u>	<u>27,534,291</u>	<u>24,567,443</u>
Deferred outflows - pension	251,400	177,683	90,138	63,707	341,538	241,390
Long-term liabilities	9,189,107	8,379,359	2,781,974	2,843,162	11,971,081	11,222,521
Other liabilities	1,725,732	320,824	322,684	352,707	2,048,416	673,531
Total Liabilities	<u>10,914,839</u>	<u>8,700,183</u>	<u>3,104,658</u>	<u>3,195,869</u>	<u>14,019,497</u>	<u>11,896,052</u>
Deferred inflows -pension	41,006	-	14,703	-	55,709	-
Net Position:						
Net investment in capital assets	7,291,614	6,831,355	4,195,001	3,684,228	11,486,615	10,515,583
Restricted	2,857,782	1,395,857	-	-	2,857,782	1,395,857
Unrestricted	(947,381)	62,872	403,607	938,469	(543,774)	1,001,341
Total Net Position	<u>\$ 9,202,015</u>	<u>\$ 8,290,084</u>	<u>\$ 4,598,608</u>	<u>\$ 4,622,697</u>	<u>\$ 13,800,623</u>	<u>\$ 12,912,781</u>

A portion of the primary government's net position, \$2,857,782 or 21 percent, represents resources that are subject to restrictions on how they may be used. The remaining balance is a deficit unrestricted net position balance of \$543,774. Net position increased by \$887,842 compared to the prior year.

There was a decrease in beginning net position of \$1,581,664 for governmental activities and \$567,094 for business-type activities due to the implementation of Government Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions* and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date – an amendment of GASB Statement No. 68*. More detailed information about this restatement is presented in note III. G. to the financial statements.

In the current fiscal year, GASB Statement No. 68 and No. 71 requires the City to recognize a net pension liability and deferred outflows/inflows of resources as discussed in note IV. C. to the financial statements. The net change in the pension liability increased by \$45,473 for the governmental activities and \$16,304 for the business-type activities during the fiscal year. The net change in deferred outflows/inflows increased the net position by \$32,711 for governmental activities and \$11,728 for business-type activities.

CITY OF NASSAU BAY, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
For the Year Ended September 30, 2015

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	
	2015	2014	2015	2014	2015	2014
Revenues						
Program revenues:						
Charges for services	\$ 830,489	\$ 566,988	\$ 2,211,244	\$ 2,210,220	\$ 3,041,733	\$ 2,777,208
Operating grants and contributions	2,807,265	62,619	-	-	2,807,265	62,619
Capital grants and contributions	-	1,236,165	-	-	-	1,236,165
General revenues:						
Property taxes	3,781,172	3,630,690	-	-	3,781,172	3,630,690
Sales taxes	706,251	654,575	-	-	706,251	654,575
Other taxes	1,142,027	1,127,827	-	-	1,142,027	1,127,827
Investment earnings	7,601	11,696	1,999	5,172	9,600	16,868
Other revenues	22,929	257,804	-	-	22,929	257,804
Gain on sale of capital assets	58,078	-	-	-	58,078	-
Total Revenues	<u>9,355,812</u>	<u>7,548,364</u>	<u>2,213,243</u>	<u>2,215,392</u>	<u>11,569,055</u>	<u>9,763,756</u>
Expenses						
General government	1,024,855	1,215,114	-	-	1,024,855	1,215,114
Public safety	2,304,147	1,998,147	-	-	2,304,147	1,998,147
Public works	1,219,340	1,040,699	-	-	1,219,340	1,040,699
Public services	2,943,891	445,293	-	-	2,943,891	445,293
Economic development/ tourism	879,909	1,144,305	-	-	879,909	1,144,305
Interest on long-term debt	236,349	251,585	-	-	236,349	251,585
Water and sewer	-	-	2,072,722	1,934,791	2,072,722	1,934,791
Total Expenses	<u>8,608,491</u>	<u>6,095,143</u>	<u>2,072,722</u>	<u>1,934,791</u>	<u>10,681,213</u>	<u>8,029,934</u>
Increase in Net Position Before Transfers	747,321	1,453,221	140,521	280,601	887,842	1,733,822
Transfers	164,610	197,170	(164,610)	(197,170)	-	-
Change in Net Position	911,931	1,650,391	(24,089)	83,431	887,842	1,733,822
Beginning net position	8,290,084	6,639,693	4,622,697	4,539,266	12,912,781	11,178,959
Ending Net Position	<u>\$ 9,202,015</u>	<u>\$ 8,290,084</u>	<u>\$ 4,598,608</u>	<u>\$ 4,622,697</u>	<u>\$ 13,800,623</u>	<u>\$ 12,912,781</u>

CITY OF NASSAU BAY, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
For the Year Ended September 30, 2015

For the year ended September 30, 2015, revenues from governmental activities totaled \$9,355,812. Revenues experienced a net increase of 24 percent in total. This increase was the result of an increase in property tax revenues resulting from an increase in the assessed values of the properties combined with an effective decrease in the tax rate, an increase in charges for services from leasing out a conference center, and an increase in operating grants and contributions from a FEMA elevation grant. These increases were partially offset by a decrease in capital grants and developer contributions received in the prior year.

For the year ended September 30, 2015, expenses for governmental activities totaled \$8,608,491. Total expenses increased 41 percent from the prior year, which can be attributed primarily to the FEMA elevation grant.

Business-type activities net position decreased by \$24,089. Current year revenues were comparable to prior year revenues, which decreased by less than one percent. Expenses increased seven percent compared to the prior year due to an increase in personnel costs, cost of water purchased from the Clear Lake City Water Authority, and utilities.

FINANCIAL ANALYSIS OF THE CITY'S FUNDS

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

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

The City's governmental funds reflect a combined fund balance of \$4,874,775. Of this, \$1,784 is nonspendable in the form of prepaids, \$186,554 is restricted for debt service, \$630,722 is restricted for enabling legislation, \$2,040,506 is restricted for various projects, and \$2,015,209 is unassigned.

The general fund had an increase in fund balance of \$286,917 for the year. Compared to the prior year, revenues increased \$211,553 mainly due to increases in property tax revenues resulting from an increase in the assessed values of the properties combined with an effective decrease in the tax rate, sales tax revenue from improved economic conditions within the City, and lease revenues from a conference center. Expenditures increased \$186,686 compared to the prior year due to an increase in personnel costs, capital purchases, and contracted services.

The debt service fund had an increase in fund balance of \$23,956 as a result of an increase in property tax revenues and transfers in from other funds for debt service payments.

The RDA fund had a decrease in fund balance of \$87,337. Revenues and expenditures for the fund were \$1,454 and \$656,095, respectively.

The special revenue and grants fund had a decrease in fund balance of \$2,638. The majority of the fund's revenues and expenditures are related to a FEMA elevation grant. This grant funds flood mitigation projects to reduce or eliminate the long-term risk of flood damage to properties insured under the National Flood Insurance Program. This grant was specifically awarded to the City to fund the elevation of various structures within the City.

The capital projects fund had an increase in fund balance of \$1,247,960 as a result of a new bond issuance.

CITY OF NASSAU BAY, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
For the Year Ended September 30, 2015

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

GENERAL FUND BUDGETARY HIGHLIGHTS

Actual revenues exceeded final budgeted revenues by \$6,325 during the year due to higher than expected revenues from property taxes, sales taxes, and charges for services. These positive revenue variances were partially offset by lower than expected revenues for other taxes and fines and forfeitures. General fund expenditures were under the final budget by \$462,669 during the year due to lower than expected expenditures across all functions.

CAPITAL ASSETS

At the end of the year, the City had invested \$19,252,526 in a variety of capital assets. This represents a net increase of \$340,407.

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

- TWDB improvements for a total of \$420,609
- Queens Court water line replacement project for a total of \$173,424
- Pierce Enforcer pumper for a total of \$408,492

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, contracted revenue bonds, and capital leases outstanding of \$9,243,317. Of this amount, \$6,080,000 represents certificates of obligation, \$510,000 represents general obligation debt, \$2,500,000 represents contracted revenue bonds, and \$153,317 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 \$14.4 million budget for the 2015-2016 fiscal year. This is a 13.6 percent increase from the prior year. The tax rate adopted for the fiscal year 2015-2016 budget remained unchanged at \$0.742120. The budgeted taxable assessed valuations increased by 2.6 percent to \$441 million. Budgeted property tax receipts comprise 23 percent of all City-wide revenue sources and 53 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, 2015

	Primary Government			Component Unit
	Governmental Activities	Business-Type Activities	Total	Nassau Bay Economic Dev. Corp.
Assets				
Cash and cash equivalents	\$ 5,957,157	\$ 1,035,597	\$ 6,992,754	\$ 385,161
Receivables, net	769,201	302,723	1,071,924	49,074
Due from component units	6,574	-	6,574	-
Internal balances	490	(490)	-	-
Prepays	1,784	-	1,784	-
Restricted assets:				
Temporarily restricted cash and cash equivalents	-	208,729	208,729	-
Capital assets:				
Non-depreciable	1,390,259	2,543,961	3,934,220	-
Net depreciable	11,780,995	3,537,311	15,318,306	-
Total Assets	19,906,460	7,627,831	27,534,291	434,235
Deferred Outflows of Resources				
Deferred outflows - pension	251,400	90,138	341,538	-
Liabilities				
Accounts payable and accrued liabilities	1,688,945	235,596	1,924,541	-
Customer deposits	-	70,948	70,948	-
Accrued interest payable	36,787	16,140	52,927	-
Due to primary government	-	-	-	6,574
Noncurrent liabilities:				
Long-term liabilities due within one year	1,217,019	109,445	1,326,464	-
Long-term liabilities due in more than one year	7,972,088	2,672,529	10,644,617	-
Total Liabilities	10,914,839	3,104,658	14,019,497	6,574
Deferred Inflows of Resources				
Deferred inflows - pension	41,006	14,703	55,709	-
Net Position				
Net investment in capital assets	7,291,614	4,195,001	11,486,615	-
Restricted for:				
Debt service	186,554	-	186,554	-
Enabling legislation	630,722	-	630,722	-
Special projects	770,252	-	770,252	-
Capital projects	1,270,254	-	1,270,254	-
Nassau Bay Economic Development	-	-	-	427,661
NASA Area Management District	-	-	-	-
Unrestricted	(947,381)	403,607	(543,774)	-
Total Net Position	\$ 9,202,015	\$ 4,598,608	\$ 13,800,623	\$ 427,661

See Notes to Financial Statements.

CITY OF NASSAU BAY, TEXAS

STATEMENT OF ACTIVITIES

For the Year Ended September 30, 2015

Functions/Programs	Expenses	Program Revenues	
		Charges for Services	Operating Grants and Contributions
Primary Government			
Governmental Activities			
General government	\$ 1,024,855	\$ 617,453	\$ 31,220
Public safety	2,304,147	96,551	301,459
Public works	1,219,340	116,485	-
Public services	2,943,891	-	2,474,586
Economic development/tourism	879,909	-	-
Interest and fiscal agent fees on long-term debt	236,349	-	-
Total Governmental Activities	8,608,491	830,489	2,807,265
Business-Type Activities			
Water and sewer	2,072,722	2,211,244	-
Total Business-Type Activities	2,072,722	2,211,244	-
Total Primary Government	\$ 10,681,213	\$ 3,041,733	\$ 2,807,265
Component Units			
Nassau Bay Economic Development Corp.	\$ 172,129	\$ -	\$ -
NASA Area Management District	46,412	-	-
Total Component Units	\$ 218,541	\$ -	\$ -

General Revenues:

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

Total General Revenues and Transfers

Change in Net Position

Beginning net position

Ending Net Position

See Notes to Financial Statements.

<u>Net (Expense) Revenue and Changes in Net Position</u>			<u>Component Units</u>	
<u>Primary Government</u>			<u>Nassau Bay</u>	<u>NASA Area</u>
<u>Governmental</u>	<u>Business-Type</u>		<u>Economic</u>	<u>Management</u>
<u>Activities</u>	<u>Activities</u>	<u>Total</u>	<u>Dev. Corp.</u>	<u>District</u>
\$ (376,182)	\$ -	\$ (376,182)	\$ -	\$ -
(1,906,137)	-	(1,906,137)	-	-
(1,102,855)	-	(1,102,855)	-	-
(469,305)	-	(469,305)	-	-
(879,909)	-	(879,909)	-	-
<u>(236,349)</u>	<u>-</u>	<u>(236,349)</u>	<u>-</u>	<u>-</u>
<u>(4,970,737)</u>	<u>-</u>	<u>(4,970,737)</u>	<u>-</u>	<u>-</u>
-	138,522	138,522	-	-
-	138,522	138,522	-	-
<u>(4,970,737)</u>	<u>138,522</u>	<u>(4,832,215)</u>	<u>-</u>	<u>-</u>
-	-	-	(172,129)	-
-	-	-	-	(46,412)
-	-	-	<u>(172,129)</u>	<u>(46,412)</u>
3,781,172	-	3,781,172	-	-
706,251	-	706,251	282,500	106,600
1,142,027	-	1,142,027	-	-
7,601	1,999	9,600	915	-
22,929	-	22,929	-	-
58,078	-	58,078	-	-
164,610	(164,610)	-	-	-
<u>5,882,668</u>	<u>(162,611)</u>	<u>5,720,057</u>	<u>283,415</u>	<u>106,600</u>
911,931	(24,089)	887,842	111,286	60,188
8,290,084	4,622,697	12,912,781	316,375	168,667
<u>\$ 9,202,015</u>	<u>\$ 4,598,608</u>	<u>\$ 13,800,623</u>	<u>\$ 427,661</u>	<u>\$ 228,855</u>

CITY OF NASSAU BAY, TEXAS

BALANCE SHEET

GOVERNMENTAL FUNDS

September 30, 2015

	General	Debt Service	RDA	Special Revenue and Grants
<u>Assets</u>				
Cash and cash equivalents	\$ 2,037,537	\$ 204,427	\$ 655,495	\$ 898,316
Receivables, net	363,751	573	-	210,258
Due from other funds	103,661	-	-	-
Due from component units	6,574	-	-	-
Prepays	-	-	1,784	-
Total Assets	\$ 2,511,523	\$ 205,000	\$ 657,279	\$ 1,108,574
<u>Liabilities</u>				
Accounts payable and accrued liabilities	\$ 325,401	\$ 4,432	\$ 277,485	\$ 1,004,511
Due to other funds	-	13,441	67,468	22,262
Total Liabilities	325,401	17,873	344,953	1,026,773
<u>Deferred Inflows of Resources</u>				
Unavailable revenue - ambulance	166,919	-	-	-
Unavailable revenue - property taxes	3,994	573	-	-
Total Deferred Inflows of Resources	170,913	573	-	-
<u>Fund Balances</u>				
Nonspendable:				
Prepays	-	-	1,784	-
Restricted for:				
Debt service	-	186,554	-	-
Enabling legislation	-	-	-	-
Capital projects	-	-	-	-
Special projects	-	-	310,542	81,801
Unassigned	2,015,209	-	-	-
Total Fund Balances	2,015,209	186,554	312,326	81,801
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	\$ 2,511,523	\$ 205,000	\$ 657,279	\$ 1,108,574

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 and net pension liability, are not reported as liabilities in the governmental funds.

Accrued interest payable

Deferred inflows - pensions

Deferred outflows - pensions

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>
\$ 1,318,458	\$ 842,924	\$ 5,957,157
-	194,619	769,201
-	-	103,661
-	-	6,574
-	-	1,784
<u>\$ 1,318,458</u>	<u>\$ 1,037,543</u>	<u>\$ 6,838,377</u>
\$ 48,204	\$ 28,912	\$ 1,688,945
-	-	103,171
<u>48,204</u>	<u>28,912</u>	<u>1,792,116</u>
-	-	166,919
-	-	4,567
-	-	171,486
-	-	1,784
-	-	186,554
-	630,722	630,722
1,270,254	-	1,270,254
-	377,909	770,252
-	-	2,015,209
<u>1,270,254</u>	<u>1,008,631</u>	<u>4,874,775</u>
<u>\$ 1,318,458</u>	<u>\$ 1,037,543</u>	
	1,390,259	
	<u>11,780,995</u>	13,171,254
	4,567	
	<u>166,919</u>	171,486
	(36,787)	
	(41,006)	
	251,400	
	(1,217,019)	
	<u>(7,972,088)</u>	
		(9,015,500)
		<u>\$ 9,202,015</u>

CITY OF NASSAU BAY, TEXAS

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

For the Year Ended September 30, 2015

	General	Debt Service	RDA	Special Revenue and Grants
Revenues				
Property taxes	\$ 2,883,878	\$ 338,656	\$ -	\$ -
Sales taxes	565,001	-	-	-
Other taxes	465,254	-	-	-
Licenses and permits	116,485	-	-	-
Fines and forfeitures	96,551	-	-	-
Charges for services	591,167	-	-	-
Intergovernmental	31,220	-	-	2,776,045
Investment earnings	3,572	229	1,454	68
Other revenues	15,617	-	-	7,312
Total Revenues	4,768,745	338,885	1,454	2,783,425
Expenditures				
Current:				
General government	955,682	-	-	-
Public safety	2,039,850	-	-	240,945
Public works	931,751	-	-	-
Public services	390,983	-	-	2,545,118
Economic development/tourism	-	-	294,892	-
Capital outlay	-	-	-	-
Debt service:				
Principal	106,119	545,000	270,000	-
Interest and fiscal charges	12,196	98,139	91,203	-
Issuance costs	-	-	-	-
Total Expenditures	4,436,581	643,139	656,095	2,786,063
Excess (Deficiency) of Revenues Over (Under) Expenditures	332,164	(304,254)	(654,641)	(2,638)
Other Financing Sources (Uses)				
Transfers in	-	328,210	567,304	-
Transfers (out)	(152,500)	-	-	-
Sale of capital assets	58,078	-	-	-
Debt issued	-	-	-	-
Capital lease	49,175	-	-	-
Total Other Financing Sources (Uses)	(45,247)	328,210	567,304	-
Net Change in Fund Balances	286,917	23,956	(87,337)	(2,638)
Beginning fund balances	1,728,292	162,598	399,663	84,439
Ending Fund Balances	\$ 2,015,209	\$ 186,554	\$ 312,326	\$ 81,801

See Notes to Financial Statements.

<u>Capital Projects</u>	<u>Nonmajor Governmental</u>	<u>Total Governmental Funds</u>
\$ -	\$ 567,304	\$ 3,789,838
-	141,250	706,251
-	676,773	1,142,027
-	-	116,485
-	-	96,551
-	-	591,167
-	-	2,807,265
878	1,400	7,601
-	-	22,929
<u>878</u>	<u>1,386,727</u>	<u>9,280,114</u>
-	-	955,682
-	-	2,280,795
-	12,443	944,194
-	-	2,936,101
-	514,112	809,004
317,023	-	317,023
-	-	921,119
-	-	201,538
35,895	-	35,895
<u>352,918</u>	<u>526,555</u>	<u>9,401,351</u>
<u>(352,040)</u>	<u>860,172</u>	<u>(121,237)</u>
-	-	895,514
-	(578,404)	(730,904)
-	-	58,078
1,600,000	-	1,600,000
-	-	49,175
<u>1,600,000</u>	<u>(578,404)</u>	<u>1,871,863</u>
1,247,960	281,768	1,750,626
22,294	726,863	3,124,149
<u>\$ 1,270,254</u>	<u>\$ 1,008,631</u>	<u>\$ 4,874,775</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, 2015

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

Net changes in fund balances - total governmental funds	\$ 1,750,626
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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	611,744
Depreciation expense	(692,106)

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

Property taxes	(8,666)
Ambulance services	26,286

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.

Capital leases	(49,175)
Principal expenditures	921,119
Debt issued	(1,600,000)
Net pension liability	(45,473)
Deferred inflows - pensions	(41,006)
Deferred outflows - pensions	73,717

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	1,084
Compensated absences	(36,219)

Change in Net Position of Governmental Activities	\$ 911,931
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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, 2015

	Business-Type Activities Enterprise
<u>Assets</u>	
Current assets:	
Cash and cash equivalents	\$ 1,035,597
Receivables, net	302,723
Current restricted assets:	
Cash and cash equivalents	208,729
Total Current Assets	1,547,049
Noncurrent assets:	
Capital assets:	
Land	43,459
Construction in progress	2,500,502
Water and sewer system	7,462,377
Water rights, SEWPP	2,201,880
Machinery and equipment	382,842
Less: accumulated depreciation	(6,509,788)
Total Capital Assets, Net of Accumulated Depreciation	6,081,272
Total Noncurrent Assets	6,081,272
Total Assets	7,628,321
<u>Deferred Outflows of Resources</u>	
Deferred outflows - pension	90,138
Total Deferred Outflows of Resources	90,138
<u>Liabilities</u>	
Current liabilities:	
Accounts payable and accrued liabilities	235,596
Accrued interest payable	16,140
Due to other funds	490
Customer deposits	70,948
Bond payable, due in one year	95,000
Compensated absences due in one year	14,445
Total Current Liabilities	432,619
Noncurrent liabilities:	
Bond payable due in more than one year	2,000,000
Compensated absences due in more than one year	25,424
Net pension liability	647,105
Total Noncurrent Liabilities	2,672,529
Total Liabilities	3,105,148
<u>Deferred Inflows of Resources</u>	
Deferred inflows - pension	14,703
Total Deferred Inflows of Resources	14,703
<u>Net Position</u>	
Net investment in capital assets	4,195,001
Unrestricted	403,607
Total Net Position	\$ 4,598,608

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, 2015

	Business-Type Activities
	Enterprise
<u>Operating Revenues</u>	
Water charges	\$ 1,113,386
Sewer charges	1,071,689
Penalties and reconnect fees	25,299
Other revenues	870
Total Operating Revenues	2,211,244
 <u>Operating Expenses</u>	
General and administrative	1,118,355
Water expenses	264,649
Sewer expenses	289,221
Depreciation	302,055
Total Operating Expenses	1,974,280
Operating Income	236,964
 <u>Nonoperating Revenues (Expenses)</u>	
Investment earnings	1,999
Interest expense	(98,442)
Total Nonoperating (Expenses)	(96,443)
Income Before Transfers	140,521
Transfers (out)	(164,610)
Change in Net Position	(24,089)
Beginning net position	4,622,697
Ending Net Position	\$ 4,598,608

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, 2015

	<u>Business-Type Activities</u>
	<u>Enterprise</u>
<u>Cash Flows from Operating Activities</u>	
Receipts from customers	\$ 2,190,248
Payments to suppliers	(668,434)
Payments to employees	(1,017,065)
Net Cash Provided by Operating Activities	<u>504,749</u>
<u>Cash Flows from Noncapital Financing Activities</u>	
Transfers (out) to other funds	(164,610)
Net Cash (Used) by Noncapital Financing Activities	<u>(164,610)</u>
<u>Cash Flows from Capital and Related Financing Activities</u>	
Acquisition and construction of capital assets	(722,824)
Principal paid on debt	(90,000)
Interest and fiscal charges	(98,442)
Net Cash (Used) by Capital and Related Financing Activities	<u>(911,266)</u>
<u>Cash Flows from Investing Activities</u>	
Interest on investments	1,999
Net Cash Provided by Investing Activities	<u>1,999</u>
Net (Decrease) in Cash and Cash Equivalents	(569,128)
Beginning cash and cash equivalents	<u>1,813,454</u>
Ending Cash and Cash Equivalents	<u>\$ 1,244,326</u>
Ending Cash and Cash Equivalents:	
Unrestricted cash and cash equivalents	\$ 1,035,597
Restricted cash and cash equivalents	<u>208,729</u>
	<u>\$ 1,244,326</u>

CITY OF NASSAU BAY, TEXAS

STATEMENT OF CASH FLOWS PROPRIETARY FUND (Page 2 of 2) For the Year Ended September 30, 2015

	<u>Business-Type</u> <u>Activities</u> <u>Enterprise</u>
<u>Reconciliation of Operating Income</u>	
<u>to Net Cash Provided by Operating Activities</u>	
Operating income	\$ 236,964
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:	
Depreciation	302,055
Changes in Operating Assets and Liabilities:	
(Increase) Decrease in:	
Accounts receivable	(21,821)
Deferred outflows - pensions	(26,431)
Increase (Decrease) in:	
Accounts payable and accrued liabilities	(30,848)
Due to other funds	490
Compensated absences	12,508
Customer deposits	825
Net pension liability	16,304
Deferred inflows - pensions	14,703
Net Cash Provided by Operating Activities	\$ 504,749

See Notes to Financial Statements.

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CITY OF NASSAU BAY, TEXAS

NOTES TO FINANCIAL STATEMENTS

For the Year Ended September 30, 2015

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, 2015

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 RDA) has been included in the reporting entity as a blended component unit. The RDA 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 RDA, and the TIRZ in which the RDA 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 RDA but only after consent of the City Council. Efforts of the RDA 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 RDA 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. *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, 2015

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 and special revenue and grants funds are considered major funds for reporting purposes while the tourism, streets, and TIRZ #1 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 major fund for reporting purposes.

CITY OF NASSAU BAY, TEXAS
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended September 30, 2015

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, 2015

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, 2015

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.

Asset Description	Estimated Useful Life
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 two items that qualify for reporting in this category on the government-wide Statement of Net Position. A deferred charge has been recognized for employer pension plan contributions that were made subsequent to the measurement date through the end of the City's fiscal year. This amount is deferred and recognized as a reduction to the net pension liability during the measurement period in which the contributions were made. A deferred charge has also been recognized for the difference

CITY OF NASSAU BAY, TEXAS
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended September 30, 2015

between the projected and actual investment earnings on the pension plan assets. This amount is deferred and amortized over a period of five years.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period(s) and so will *not* be recognized as an inflow of resources (revenue) until that time. The City has one item that qualifies for reporting in this category in the government-wide Statement of Net Position. Deferred inflows have been recognized as a result of differences between the actuarial expectations and the actual economic experience related to the City's defined benefit pension plan. This amount is deferred and amortized over the average of the expected service lives of pension plan members. At the fund level, 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 services. These amounts are deferred and recognized as inflows of resources in the period that the amounts 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

In the government-wide financial statements and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported 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

CITY OF NASSAU BAY, TEXAS
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended September 30, 2015

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.

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).

Amounts that cannot be spent because they are either not in spendable form or legally or contractually required to be maintained intact are classified as nonspendable fund balance. Amounts that are externally imposed by creditors, grantors, contributors, or laws or regulations of other governments or imposed by law through constitutional provisions are classified as restricted.

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.

CITY OF NASSAU BAY, TEXAS
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended September 30, 2015

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.

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.

13. Pensions

For the purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Texas Municipal Retirement System (TMRS) and additions to/deductions from TMRS's fiduciary net position have been determined on the same basis as they are reported by TMRS. For this purpose, plan contributions are recognized in the period that compensation is reported for the employee, which is when contributions are legally due. Benefit payments and refunds are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

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.

CITY OF NASSAU BAY, TEXAS
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended September 30, 2015

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.

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	\$ 208,729	0.00
LOGIC	1,564,389	0.00
TexPool	1,110,274	0.00
Certificate of deposit	150,344	0.90
Total Fair Value	\$ 3,033,736	
Portfolio weighted average maturity		0.04

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, 2015, 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, 2015, 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, 2015, the bank balances

CITY OF NASSAU BAY, TEXAS
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended September 30, 2015

were \$4,269,613, of which \$652,987 was insured by FDIC. The market value of pledged securities was \$4,126,565.

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 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.

CITY OF NASSAU BAY, TEXAS
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended September 30, 2015

B. Receivables

The following comprise receivable balances at year end:

	<u>Governmental Funds</u>				<u>Proprietary Fund</u>
	<u>General</u>	<u>Debt Service</u>	<u>Special Revenue and Grants</u>	<u>Nonmajor Governmental</u>	<u>Enterprise</u>
Accounts	\$ 2,946	\$ -	\$ -	\$ -	\$ 349,964
Property taxes	79,874	11,463	-	-	-
Sales taxes	98,147	-	-	24,537	-
Other taxes	83,940	-	-	170,082	-
Grants	7,805	-	210,258	-	-
Ambulance billing	1,077,974	-	-	-	-
Less:					
Allowances	(986,935)	(10,890)	-	-	(47,241)
	<u>\$ 363,751</u>	<u>\$ 573</u>	<u>\$ 210,258</u>	<u>\$ 194,619</u>	<u>\$ 302,723</u>
	<u>Component Units</u>				
	<u>Nassau Bay Economic Dev. Corp.</u>	<u>NASA Area Management District</u>			
Sales taxes	<u>\$ 49,074</u>	<u>\$ 18,251</u>			

CITY OF NASSAU BAY, TEXAS
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended September 30, 2015

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	-	429,202	-	429,202
	961,057	429,202	-	1,390,259
Other capital assets:				
Buildings	4,876,165	17,993	-	4,894,158
Improvements other than buildings	9,946,625	30,690	-	9,977,315
Machinery and equipment	3,287,311	133,859	(320,682)	3,100,488
Total other capital assets	18,110,101	182,542	(320,682)	17,971,961
Total capital assets	19,071,158	611,744	(320,682)	19,362,220
Less accumulated depreciation for:				
Buildings	(324,287)	(118,124)	-	(442,411)
Improvements other than buildings	(3,375,408)	(374,684)	-	(3,750,092)
Machinery and equipment	(2,119,847)	(199,298)	320,682	(1,998,463)
Total accumulated depreciation	(5,819,542)	(692,106)	320,682	(6,190,966)
Other capital assets, net	12,290,559	(509,564)	-	11,780,995
Governmental Activities Capital Assets, Net	\$ 13,251,616	\$ (80,362)	\$ -	13,171,254
			Less associated debt	(7,148,317)
			Plus unspent bond proceeds	1,268,677
			Net Investment in Capital Assets	\$ 7,291,614

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	\$ 182,304
Public safety	157,092
Public works	279,584
Public services	3,417
Economic development	69,709
Total Governmental Activities Depreciation Expense	\$ 692,106

CITY OF NASSAU BAY, TEXAS
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended September 30, 2015

The following is a summary of changes in capital assets for business-type activities for the year ended September 30, 2015:

	Beginning Balance	Increases	(Decreases)	Ending Balance
Business-Type Activities:				
Capital assets not being depreciated:				
Land	\$ 43,459	\$ -	\$ -	\$ 43,459
Construction in progress	2,075,602	598,324	(173,424)	2,500,502
	2,119,061	598,324	(173,424)	2,543,961
Other capital assets:				
Water and sewer system	7,288,953	173,424	-	7,462,377
Water rights, SEWPP	2,178,085	23,795	-	2,201,880
Machinery and equipment	282,137	100,705	-	382,842
Total other capital assets	9,749,175	297,924	-	10,047,099
Less accumulated depreciation for:				
Water and sewer system	(4,973,006)	(230,036)	-	(5,203,042)
Water rights, SEWPP	(985,280)	(54,108)	-	(1,039,388)
Machinery and equipment	(249,447)	(17,911)	-	(267,358)
Total accumulated depreciation	(6,207,733)	(302,055)	-	(6,509,788)
Total capital assets, being depreciated, net	3,541,442	(4,131)	-	3,537,311
Business-Type Activities Capital Assets, Net	\$ 5,660,503	\$ 594,193	\$ (173,424)	6,081,272
			Less associated debt	(2,095,000)
			Plus unspent bond proceeds	208,729
			Net Investment in Capital Assets	\$ 4,195,001

Depreciation was charged to business-type functions as follows:

Water and sewer	\$ 302,055
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The City has an active business-type activities construction project as follows:

Project Description	Authorized Contract	Contract Expenditures	Remaining Commitment
Wastewater improvements	\$ 2,159,323	\$ 2,127,623	\$ 31,700

CITY OF NASSAU BAY, TEXAS
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended September 30, 2015

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, 2015. 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:					
Bonds, notes, and other payables:					
Certificates of obligation	\$ 2,830,000	\$ 1,600,000	\$ 445,000	\$ 3,985,000 **	\$ 505,000
General obligation bonds	610,000	-	100,000	510,000 **	100,000
Contract revenue bonds	2,770,000	-	270,000	2,500,000 **	280,000
Total	<u>6,210,000</u>	<u>1,600,000</u>	<u>815,000</u>	<u>6,995,000</u>	<u>885,000</u>
Capital leases	210,261	49,175	106,119	153,317 **	119,647
Net pension liability	1,759,347	45,473	-	1,804,820	-
Compensated absences	199,751	217,653	181,434	235,970	212,372
Total	<u>2,169,359</u>	<u>312,301</u>	<u>287,553</u>	<u>2,194,107</u>	<u>332,019</u>
Total Governmental Activities	<u>\$ 8,379,359</u>	<u>\$ 1,912,301</u>	<u>\$ 1,102,553</u>	<u>\$ 9,189,107</u>	<u>\$ 1,217,019</u>
				<u>Long-Term Liabilities Due In More Than One Year</u>	<u>\$ 7,972,088</u>
				<u>**Debt Associated with Capital Assets</u>	<u>\$ 7,148,317</u>
Business-Type Activities:					
Certificates of obligation	\$ 2,185,000	\$ -	\$ 90,000	\$ 2,095,000 *	\$ 95,000
Net pension liability	630,801	16,304	-	647,105	-
Compensated absences	27,361	14,279	1,771	39,869	14,445
Total Business-Type Activities	<u>\$ 2,843,162</u>	<u>\$ 30,583</u>	<u>\$ 91,771</u>	<u>\$ 2,781,974</u>	<u>\$ 109,445</u>
				<u>Long-Term Liabilities Due In More Than One Year</u>	<u>\$ 2,672,529</u>
				<u>*Debt Associated with Capital Assets</u>	<u>\$ 2,095,000</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, 2015

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	4.33	\$ 85,000
Series 2007	5.20-5.25	220,000
Series 2008	3.09	295,000
Series 2013	2.64	1,785,000
Series 2015	2.44	1,600,000
Total Certificates of Obligation		3,985,000
Tax Notes, Series 2013	1.62	510,000
Total General Obligation		510,000
RDA Tax Increment Contract Revenue Bonds	3.30	2,500,000
Total Contract Revenue Bonds		2,500,000
Oshkosh Capital	5.49	107,939
2015 Tahoe	4.00	24,704
2015 Police Interceptor	4.00	20,674
Total Capital Leases		153,317
Total Governmental Activities Long-Term Debt		\$ 7,148,317

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
2016	\$ 505,000	\$ 99,390	\$ 100,000	\$ 7,452	\$ 280,000	\$ 82,726
2017	430,000	84,218	100,000	5,832	290,000	73,260
2018	275,000	74,001	100,000	4,212	295,000	63,690
2019	275,000	67,045	105,000	2,552	305,000	53,955
2020	280,000	60,022	105,000	851	315,000	44,010
2021-2025	1,455,000	191,209	-	-	1,015,000	67,815
2026-2030	765,000	25,980	-	-	-	-
Total	\$ 3,985,000	\$ 601,865	\$ 510,000	\$ 20,899	\$ 2,500,000	\$ 385,456

Year Ending Sept. 30	Capital Leases		Total
	Principal	Interest	
2016	\$ 119,647	\$ 7,568	\$ 1,201,783
2017	12,197	1,153	996,660
2018	12,707	643	825,253
2019	8,766	135	817,453
2020	-	-	804,883
2021-2025	-	-	2,729,024
2026-2030	-	-	790,980
Total	\$ 153,317	\$ 9,499	\$ 8,166,036

CITY OF NASSAU BAY, TEXAS
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended September 30, 2015

In July 2013, the RDA 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 RDA, payable solely from pledged revenues. The pledged revenues consist of tax increments from the TIRZ payable to the RDA as specified in a tri-party agreement between the City, the TIRZ, and the RDA. The City is not obligated to make payments on the series 2013 bonds. The RDA 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	3.09-5.29	\$ 2,095,000
Total Certificates of Obligation		\$ 2,095,000

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

Year Ending Sept. 30	Certificates of Obligation		
	Principal	Interest	Total
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	110,000	81,038	191,038
2021-2025	620,000	326,327	946,327
2026-2030	785,000	155,033	940,033
2031	185,000	4,893	189,893
Total	\$ 2,095,000	\$ 929,249	\$ 3,024,249

Vehicles, machinery, and equipment acquired under current capital lease obligations totaled \$719,930, with accumulated depreciation of \$238,862. This includes a purchase of a fire truck, a 2015 Tahoe, and a 2015 Police Interceptor this year.

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, 2015

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>
Enterprise	Debt service	\$ 164,610
General	Debt service	152,500
Nonmajor governmental	Debt service	11,100
Nonmajor governmental	RDA	567,304
		<u>\$ 895,514</u>

Amounts transferred between the enterprise fund, general fund, and nonmajor governmental funds and the debt service fund relate to amounts collected by the enterprise and other funds 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	Enterprise	\$ 490
General	RDA	67,468
General	Special revenues and grants	22,262
General	Debt service	13,441
		<u>\$ 103,661</u>

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

F. Fund Equity

As of September 30, 2015, \$630,722 of the City's total fund balance is restricted by enabling legislation.

G. Restatement of Net Position

The City implemented Government Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions* and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date – an amendment of GASB Statement No. 68*. As a result, the City has restated beginning net position to account for the net pension liability as of measurement date, December 31, 2013. In addition, the City has restated beginning net position to record a deferred outflow for contributions made to the pension plan between the initial measurement date and the end of the prior fiscal year, September 30, 2014.

CITY OF NASSAU BAY, TEXAS
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended September 30, 2015

Beginning net position was restated as follows:

	Enterprise Fund	Business-Type Activities	Governmental Activities
Prior year ending net position as reported	\$ 5,189,791	\$ 5,189,791	\$ 9,871,748
Net pension liability	(630,801)	(630,801)	(1,759,347)
Deferred outflows - contributions after measurement date	63,707	63,707	177,683
Restated Beginning Net Position	\$ 4,622,697	\$ 4,622,697	\$ 8,290,084

IV. OTHER INFORMATION

A. Risk Management

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

B. Contingent Liabilities

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

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

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

C. Pension Plans

Texas Municipal Retirement System

Plan Description

The City participates as one of 860 plans in the nontraditional, joint contributory, hybrid defined benefit pension plan administered by the Texas Municipal Retirement System (TMRS). TMRS is an agency created by the State of Texas and administered in accordance with the TMRS Act, Subtitle G, Title 8, Texas Government Code (the “TMRS Act”) as an agent multiple-employer retirement system for municipal employees in the State of Texas. The TMRS Act places the general

CITY OF NASSAU BAY, TEXAS
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended September 30, 2015

administration and management of TMRS with a six-member Board of Trustees (the “Board”). Although the Governor, with the advice and consent of the Senate, appoints the Board, TMRS is not fiscally dependent on the State of Texas. TMRS’s defined benefit pension plan is a tax-qualified plan under Section 401(a) of the Internal Revenue Code. TMRS issues a publicly available comprehensive annual financial report that can be obtained at www.tmr.com.

All eligible employees of the City are required to participate in TMRS.

Benefits Provided

TMRS provides retirement, disability, and death benefits. Benefit provisions are adopted by the governing body of the City, within the options available in the state statutes governing TMRS.

At retirement, the benefit is calculated as if the sum of the employee’s contributions, with interest, and the City-financed monetary credits, with interest, were used to purchase an annuity. Members may choose to receive their retirement benefit in one of seven payment options. Members may also choose to receive a portion of their benefit as a partial lump sum distribution in an amount equal to 12, 24, or 36 monthly payments, which cannot exceed 75 percent of the member’s deposits and interest.

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:

	2015	2014
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	100% Repeating, Transfers	100% Repeating, Transfers
Annuity increase (to retirees)	50% of CPI	50% of CPI

Employees Covered by Benefit Terms

At the December 31, 2014 valuation and measurement date, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefits	15
Inactive employees entitled to but not yet receiving benefits	25
Active employees	44
Total	84

Contributions

The contribution rates for employees in TMRS are either five percent, six percent, or seven percent of employee gross earnings, and the City-matching percentages are either 100 percent, 150 percent, or 200 percent, both as adopted by the governing body of the City. Under the state law governing TMRS, the contribution rate for each city is determined annually by the actuary, using the Entry Age Normal (EAN) actuarial cost method. The actuarially determined rate is the estimated amount

CITY OF NASSAU BAY, TEXAS
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended September 30, 2015

necessary to finance the cost of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability.

Employees for the City were required to contribute seven percent of their annual gross earnings during the fiscal. The contribution rates for the City were 13.29 percent and 15.21 percent in calendar years 2014 and 2015, respectively. The City's contributions to TMRS for the fiscal year ended September 30, 2015 were \$389,470 and were equal to the required contributions.

Net Pension Liability

The City's Net Pension Liability (NPL) was measured as of December 31, 2014, and the Total Pension Liability (TPL) used to calculate the NPL was determined by an actuarial valuation as of that date.

Actuarial Assumptions

The TPL in the December 31, 2014 actuarial valuation was determined using the following actuarial assumptions:

Inflation	3.0% per year
Overall payroll growth	3.0% per year
Investment rate of return	7.0%, net of pension plan investment expense, including inflation

Salary increases were based on a service-related table. Mortality rates for active members, retirees, and beneficiaries were based on the gender-distinct RP2000 Combined Healthy Mortality Table, with male rates multiplied by 109 percent and female rates multiplied by 103 percent. The rates are projected on a fully generational basis by scale BB to account for future mortality improvements. For disabled annuitants, the gender-distinct RP2000 Disabled Retiree Mortality Table is used, with slight adjustments.

Actuarial assumptions used in the December 31, 2014 valuation were based on the results of actuarial experience studies. The experience study in TMRS was for the period January 1, 2006 through December 31, 2009, first used in the December 31, 2010 valuation. Healthy post-retirement mortality rates and annuity purchase rates were updated based on a Mortality Experience Investigation Study covering 2009 through 2011, and dated December 31, 2013. These assumptions were first used in the December 31, 2013 valuation, along with a change to the EAN actuarial cost method. Assumptions are reviewed annually. No additional changes were made for the 2014 valuation.

The long-term expected rate of return on pension plan investments is seven percent. The pension plan's policy in regard to the allocation of invested assets is established and may be amended by the TMRS Board of Trustees. Plan assets are managed on a total return basis with an emphasis on both capital appreciation, as well as the production of income, in order to satisfy the short-term and long-term funding needs of TMRS.

CITY OF NASSAU BAY, TEXAS
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended September 30, 2015

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return (Arithmetic)
Domestic Equity	17.5%	4.80%
International Equity	17.5%	6.05%
Core Fixed Income	30.0%	1.50%
Non-Core Fixed Income	10.0%	3.50%
Real Return	5.0%	1.75%
Real Estate	10.0%	5.25%
Absolute Return	5.0%	4.25%
Private Equity	5.0%	8.50%
Total	100.0%	

Discount Rate

The discount rate used to measure the TPL was seven percent. The projection of cash flows used to determine the discount rate assumed that employee and employer contributions will be made at the rates specified in statute. Based on that assumption, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the TPL.

CITY OF NASSAU BAY, TEXAS
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended September 30, 2015

Changes in the NPL

	Increase (Decrease)		
	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability
	(A)	(B)	(A) - (B)
Changes for the year:			
Service cost	\$ 406,337	\$ -	\$ 406,337
Interest	512,438	-	512,438
Difference between expected and actual experience	(68,726)	-	(68,726)
Contributions - employer	-	338,342	(338,342)
Contributions - employee	-	178,209	(178,209)
Net investment income	-	274,825	(274,825)
Benefit payments, including refunds of employee contributions	(150,030)	(150,030)	-
Administrative expense	-	(2,868)	2,868
Other changes	-	(236)	236
Net Changes	700,019	638,242	61,777
Balance at December 31, 2013	7,192,395	4,802,247	2,390,148
Balance at December 31, 2014	\$ 7,892,414	\$ 5,440,489	\$ 2,451,925

Sensitivity of the NPL to Changes in the Discount Rate

The following presents the NPL of the City, calculated using the discount rate of seven percent, as well as what the City's NPL would be if it were calculated using a discount rate that is one percentage point lower (6.0%) or one percentage point higher (8.0%) than the current rate:

	1% Decrease in Discount Rate (6.0%)	Discount Rate (7.0%)	1% Increase in Discount Rate (8.0%)
City's Net Pension Liability	\$ 3,693,274	\$ 2,451,925	\$ 1,440,398

Pension Plan Fiduciary Net Position

Detailed information about the pension plan's fiduciary net position is available in a separately-issued TMRS financial report. That report may be obtained on the Internet at www.tmrs.com.

Pension Expense and Deferred Outflows/Deferred Inflows of Resources Related to Pensions

For the fiscal year ended September 30, 2015, the City recognized pension expense of \$406,762.

CITY OF NASSAU BAY, TEXAS
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended September 30, 2015

At September 30, 2015, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$ -	\$ 55,709
Difference between projected and actual investment earnings	49,067	-
Contributions subsequent to the measurement date	292,471	-
Total	\$ 341,538	\$ 55,709

\$292,471 reported as deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date will be recognized as a reduction of the NPL for the fiscal year ending September 30, 2016. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ended September 30	Pension Expense Amount
2016	\$ (751)
2017	(751)
2018	(751)
2019	(749)
2020	(3,641)
Total	\$ (6,643)

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, 2015, 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

CITY OF NASSAU BAY, TEXAS
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended September 30, 2015

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 2015, 2014, and 2013 were \$531, \$433, and \$254, respectively. The City's contribution rates for the past three years are shown below:

	2015	2014	2013
Annual Req. Contrib. (Rate)	0.02%	0.02%	0.01%
Actual Contribution Made	0.02%	0.02%	0.01%
Percentage of ARC Contrib.	100.00%	100.00%	100.00%

E. Deferred Compensation Plan

The City offers its employees a deferred compensation plan (the "Plan") created in accordance with the Internal Revenue Code Section 457. The Plan, available to all City employees, permits them to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death, or an unforeseeable emergency. The Plan's trust arrangements are established to protect deferred compensation amounts of employees under the Plan from any other use than intended under the Plan (eventual payment to employees deferring the 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, 2015, the City's investment in SEWPP totaled \$2,201,880. The net investment reported is \$1,162,492, which includes accumulated depreciation of \$1,039,388.

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REQUIRED SUPPLEMENTARY INFORMATION

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

For the Year Ended September 30, 2015

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original Budget	Budget as Amended		
Revenues				
Property taxes	\$ 2,855,970	\$ 2,855,970	\$ 2,883,878	\$ 27,908
Sales taxes	500,000	500,000	565,001	65,001
Other taxes	512,000	512,000	465,254	(46,746)
Licenses and permits	126,000	126,000	116,485	(9,515)
Fines and forfeitures	151,550	151,550	96,551	(54,999)
Charges for services	560,900	560,900	591,167	30,267
Intergovernmental	27,000	27,000	31,220	4,220
Investment income	5,000	5,000	3,572	(1,428)
Other revenues	14,000	24,000	15,617	(8,383)
Total Revenues	<u>4,752,420</u>	<u>4,762,420</u>	<u>4,768,745</u>	<u>6,325</u>
Expenditures				
Current:				
General government	1,077,370	1,077,370	955,682	121,688
Public safety	2,144,455	2,194,455	2,039,850	154,605
Public works	990,640	1,009,220	931,751	77,469
Public services	499,040	499,890	390,983	108,907
Debt service:				
Principal	106,119	106,119	106,119	-
Interest and fiscal charges	12,196	12,196	12,196	-
Total Expenditures	<u>4,829,820</u>	<u>4,899,250</u>	<u>4,436,581</u>	<u>462,669</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>(77,400)</u>	<u>(136,830)</u>	<u>332,164</u>	<u>468,994</u>
Other Financing Sources (Uses)				
Sale of capital assets	60,000	118,000	58,078	(59,922)
Capital lease	-	-	49,175	49,175
Transfers (out)	(152,500)	(152,500)	(152,500)	-
Total Other Financing (Uses)	<u>(92,500)</u>	<u>(34,500)</u>	<u>(45,247)</u>	<u>(10,747)</u>
Net Change in Fund Balance	<u>\$ (169,900)</u>	<u>\$ (171,330)</u>	286,917	<u>\$ 458,247</u>
Beginning fund balance			1,728,292	
Ending Fund Balance			<u>\$ 2,015,209</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
REDEVELOPMENT AUTHORITY
For the Year Ended September 30, 2015

	<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				
Investment earnings	\$ 1,200	\$ 1,200	\$ 1,454	\$ 254
Total Revenues	<u>1,200</u>	<u>1,200</u>	<u>1,454</u>	<u>254</u>
Expenditures				
Current:				
Economic development/tourism	330,000	330,000	294,892	35,108
Debt service:				
Principal	270,000	270,000	270,000	-
Interest and fiscal charges	91,410	91,410	91,203	207
Total Expenditures	<u>691,410</u>	<u>691,410</u>	<u>656,095</u>	<u>35,315</u>
(Deficiency) of Revenues (Under) Expenditures	<u>(690,210)</u>	<u>(690,210)</u>	<u>(654,641)</u>	<u>35,569</u>
Other Financing Sources				
Transfers in	690,000	690,000	567,304	(122,696)
Total Other Financing Sources	<u>690,000</u>	<u>690,000</u>	<u>567,304</u>	<u>(122,696)</u>
Net Change in Fund Balance	<u>\$ (210)</u>	<u>\$ (210)</u>	<u>(87,337)</u>	<u>\$ (87,127)</u>
Beginning fund balance			<u>399,663</u>	
Ending Fund Balance			<u>\$ 312,326</u>	

Notes to Required Supplementary Information:

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

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CITY OF NASSAU BAY, TEXAS
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL
SPECIAL REVENUE AND GRANTS
For the Year Ended September 30, 2015

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original Budget	Budget as Amended		
Revenues				
Intergovernmental	\$ 3,093,800	\$ 3,650,645	\$ 2,776,045	\$ (874,600)
Investment earnings	100	100	68	(32)
Other revenues	2,300	7,952	7,312	(640)
Total Revenues	3,096,200	3,658,697	2,783,425	(875,272)
Expenditures				
Current:				
Public safety	27,300	249,067	240,945	8,122
Public services	3,070,500	3,086,900	2,545,118	541,782
Total Expenditures	3,097,800	3,335,967	2,786,063	549,904
Net Change in Fund Balance	\$ (1,600)	\$ 322,730	(2,638)	\$ (325,368)
Beginning fund balance			84,439	
Ending Fund Balance			\$ 81,801	

Notes to Required Supplementary Information:

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

CITY OF NASSAU BAY, TEXAS
SCHEDULE OF CHANGES IN NET PENSION LIABILITY AND RELATED RATIOS
TEXAS MUNICIPAL RETIREMENT SYSTEM
For the Year Ended September 30, 2015

	Measurement Year
	2015*
Total Pension Liability	
Service cost	\$ 406,337
Interest (on the total pension liability)	512,438
Difference between expected and actual experience	(68,726)
Benefit payments, including refunds of employee contributions	(150,030)
Net Change in Total Pension Liability	700,019
Beginning total pension liability	7,192,395
Ending Total Pension Liability	\$ 7,892,414
Plan Fiduciary Net Position	
Contributions - employer	\$ 338,342
Contributions - employee	178,209
Net investment income	274,825
Benefit payments, including refunds of employee contributions	(150,030)
Administrative expense	(2,868)
Other	(236)
Net Change in Plan Fiduciary Net Position	638,242
Beginning plan fiduciary net position	4,802,247
Ending Plan Fiduciary Net Position	\$ 5,440,489
Net Pension Liability	\$ 2,451,925
Plan Fiduciary Net Position as a Percentage of Total Pension Liability	68.93%
Covered Employee Payroll	\$ 2,545,847
Net Pension Liability as a Percentage of Covered Employee Payroll	96.31%

*Only one year of information is currently available. The City will build this schedule over the next nine-year period.

CITY OF NASSAU BAY, TEXAS
SCHEDULE OF CONTRIBUTIONS
TEXAS MUNICIPAL RETIREMENT SYSTEM
For the Year Ended September 30, 2015

	Fiscal Year	
	2014*	2015
Actuarially determined contribution	\$ 329,869	\$ 389,470
Contributions in relation to the actuarially determined contribution	329,869	389,470
Contribution deficiency (excess)	\$ -	\$ -
 Covered employee payroll	 \$ 2,509,737	 \$ 2,652,708
 Contributions as a percentage of covered employee payroll	 13.14%	 14.68%

*Only two years of information is currently available. The City will build this schedule over the next eight-year period.

Notes to Required Supplementary Information:

1. Valuation Date:

Actuarially determined contribution rates are calculated as of December 31 and become effective in January, 13 months later.

2. Methods and Assumptions Used to Determine Contribution Rates:

Actuarial cost method	Entry age normal
Amortization method	Level percentage of payroll, closed
Remaining amortization period	29 years
Asset valuation method	10 year smoothed market; 15% soft corridor
Inflation	3.0%
Salary increases	3.50% to 12.0% including inflation
Investment rate of return	7.0%
Retirement age	

Experience-based table of rates that are specific to the City's plan of benefits. Last updated for the 2010 valuation pursuant to an experience study of the period 2005-2009.

Mortality

RP2000 Combined Mortality Table with Blue Collar Adjustment with male rates multiplied by 109% and female rates multiplied by 103% and projected on a fully generational basis with scale BB.

3. Other Information:

There were no benefit changes during the year.

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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, 2015

	Budgeted Amounts			Variance with Final Budget Positive (Negative)
	Original Budget	Budget as Amended	Actual	
Revenues				
Property taxes	\$ 361,000	\$ 361,000	\$ 338,656	\$ (22,344)
Investment earnings	300	300	229	(71)
Total Revenues	361,300	361,300	338,885	(22,415)
Expenditures				
Current:				
Principal	545,000	545,000	545,000	-
Interest and fiscal charges	86,270	98,420	98,139	281
Total Expenditures	631,270	643,420	643,139	281
(Deficiency) of Revenues (Under) Expenditures	(269,970)	(282,120)	(304,254)	(22,134)
Other Financing Sources				
Transfers in	328,210	328,210	328,210	-
Total Other Financing Sources	328,210	328,210	328,210	-
Net Change in Fund Balance	\$ 58,240	\$ 46,090	23,956	\$ (22,134)
Beginning fund balance			162,598	
Ending Fund Balance			\$ 186,554	

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, 2015

	Special Revenue Funds			Total Nonmajor Governmental Funds
	Tourism	Streets	TIRZ #1	
<u>Assets</u>				
Cash	\$ 489,552	\$ 353,372	\$ -	\$ 842,924
Receivables, net	170,082	24,537	-	194,619
Total Assets	\$ 659,634	\$ 377,909	\$ -	\$ 1,037,543
<u>Liabilities</u>				
Accounts payable and accrued liabilities	\$ 28,912	\$ -	\$ -	\$ 28,912
Total Liabilities	28,912	-	-	28,912
<u>Fund Balances</u>				
Restricted for:				
Enabling legislation	630,722	-	-	630,722
Special projects	-	377,909	-	377,909
Total Fund Balances	630,722	377,909	-	1,008,631
Total Liabilities and Fund Balances	\$ 659,634	\$ 377,909	\$ -	\$ 1,037,543

CITY OF NASSAU BAY, TEXAS
COMBINING STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
For the Year Ended September 30, 2015

	Special Revenue Funds			Total Nonmajor Governmental Funds
	Tourism	Streets	TIRZ #1	
Revenues				
Property taxes	\$ -	\$ -	\$ 567,304	\$ 567,304
Sales taxes	-	141,250	-	141,250
Other taxes	676,773	-	-	676,773
Investment earnings	846	554	-	1,400
Total Revenues	677,619	141,804	567,304	1,386,727
Expenditures				
Public works	-	12,443	-	12,443
Economic development/tourism	514,112	-	-	514,112
Total Expenditures	514,112	12,443	-	526,555
Excess of Revenues Over Expenditures	163,507	129,361	567,304	860,172
Other Financing (Uses)				
Transfers (out)	(11,100)	-	(567,304)	(578,404)
Total Other Financing (Uses)	(11,100)	-	(567,304)	(578,404)
Net Change in Fund Balances	152,407	129,361	-	281,768
Beginning fund balances	478,315	248,548	-	726,863
Ending Fund Balances	\$ 630,722	\$ 377,909	\$ -	\$ 1,008,631

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, 2015

Streets Fund				
	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original Budget	Budget as Amended		
Revenues				
Sales Taxes	\$ 126,500	\$ 126,500	\$ 141,250	\$ 14,750
Investment earnings	500	500	554	54
Total Revenues	<u>127,000</u>	<u>127,000</u>	<u>141,804</u>	<u>14,804</u>
Expenditures				
Current:				
Public works	30,000	80,000	12,443	67,557
Total Expenditures	<u>30,000</u>	<u>80,000</u>	<u>12,443</u>	<u>67,557</u>
Net Change in Fund Balance	<u>\$ 97,000</u>	<u>\$ 47,000</u>	129,361	<u>\$ 82,361</u>
Beginning fund balance			<u>248,548</u>	
Ending Fund Balance			<u>\$ 377,909</u>	

Tourism Fund				
	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original Budget	Budget as Amended		
Revenues				
Other taxes	\$ 610,000	\$ 610,000	\$ 676,773	\$ 66,773
Investment earnings	600	600	846	246
Total Revenues	<u>610,600</u>	<u>610,600</u>	<u>677,619</u>	<u>67,019</u>
Expenditures				
Current:				
Economic development/tourism	545,130	545,130	514,112	31,018
Total Expenditures	<u>545,130</u>	<u>545,130</u>	<u>514,112</u>	<u>31,018</u>
Excess of Revenues Over Expenditures	<u>65,470</u>	<u>65,470</u>	<u>163,507</u>	<u>98,037</u>
Other Financing (Uses)				
Transfer out	(16,600)	(16,600)	(11,100)	5,500
Net Change in Fund Balance	<u>\$ 48,870</u>	<u>\$ 48,870</u>	152,407	<u>\$ 103,537</u>
Beginning fund balance			<u>478,315</u>	
Ending Fund Balance			<u>\$ 630,722</u>	

Notes to Supplementary Information:

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